ROUTLEDGE COMPANIONS

The Routledge Companion to Corporate Social Responsibility

Edited by Thomas Maak, Nicola M. Pless, Marc Orlitzky, and Sukhbir Sandhu

THE ROUTLEDGE COMPANION TO CORPORATE SOCIAL RESPONSIBILITY

While the concept and domain of Corporate Social Responsibility (CSR) are not new—its beginnings can be traced back to the 1960s—its scope, urgency, and relevance have shifted dramatically in recent years. CEO responses show that the majority of business leaders understand that they operate in an environment of contested values and that stakeholders expect companies to do better and more. However, many corporate incentive systems are not in sync with societal norms and expectations. Moreover, "grand challenges" such as climate change and global pandemics and growing interconnectedness shed light on the fault lines of value creation through complex supply chain systems, exposing unacceptable working conditions, modern slavery, and the environmental consequences of highly distributed production at any cost.

As a consequence, corporate social responsibility has become a widely accepted common denominator of the role and responsibilities of business in society, ranging from core functions such as health, safety, and environmental standards, to governance and recognition of stakeholders, supply chain design, and corporations' stand on climate change and their responsibility to future generations. This volume assembles state-of-the-art scholarship from leading scholars in the field and enables a "full range view" of CSR, from its roots, normative foundations, and institutional perspectives to matters of stakeholding, the global value chain, social innovation, and future directions.

The Routledge Companion to Corporate Social Responsibility represents a prestige reference work providing an overview of the subject area of CSR for academics, researchers, and postgraduate students, as well as reflective practitioners.

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ADP	Accenture Development Partnerships
BOP	base of the pyramid
CC	Creative Commons
CEMAG	community and environment monitoring and advocacy group
CEO	chief executive officer/chief ethics officer
CEPIL	Centre for Public Interest Law (Ghana)
CFP	corporate financial performance
CMS	critical management studies
COP	communication on progress
CSI	corporate social innovation
CSO	civil society organization
CSP	corporate social performance
CSR	corporate social responsibility
CST	Catholic social teaching
CSV	creating shared value
DDT	dichlorodiphenyltrichloroethane
DFID	Department for International Development (UK)
DJSI	Dow Jones Sustainability Index
DNA	deoxyribonucleic acid
EITI	Extractive Industries Transparency Initiative
ESG	environmental, social, and governance
EU	European Union
FASB	Financial Accounting Standards Board (US)
FSC	Forest Stewardship Council
GDP	gross domestic product
GNPC	Ghana National Petroleum Corporation
GV	Gram Vikas
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HPB	high-performance building
HR	human resources
IASB	International Accounting Standards Board
ICMM	International Council on Mining and Metals

ICT	information and communications technology
ILO	International Labour Organization
IMF	International Monetary Fund
IT	information technology
LED	light-emitting diode
LEED	Leadership in Energy and Environmental Design
MANTRA	Movement for Action Network for Transformation of Rural Areas (India)
MBA	master of business administration
METI	Ministry of Economy, Trade and Industry (Japan)
MNC	multinational corporation
MP	Member of Parliament
MSC	Marine Stewardship Council
MSI	multi-stakeholder initiative
MWRN	Migrant Workers Rights Network (Thailand)
NDC	National Democratic Congress (Ghana)
NGO	non-government organization
NNPC	Nigerian National Petroleum Corporation
NORAD	Norwegian Agency for Development Cooperation
NPO	non-profit organization
NPP	New Patriotic Party (Ghana)
NRG	natural-resource governance
OM	operations management
OPEC	Organization of the Petroleum Exporting Countries
PC	Petroleum Commission (Ghana)
PCSR	political corporate social responsibility
PIAC	Public Interest and Accounts Committee
PMED	planning, monitoring, evaluation, and documentation
PPE	personal protective equipment
PPP	purchasing power parity
R&D	research and development
REMM	Resourceful, Evaluative Maximizing Model
SAIL	Steel Authority of India Limited
SASB	Sustainability Accounting Standards Board
SCM	supply chain management
SCR	strategic corporate responsibility
SDG	Sustainable Development Goal
SE	social entrepreneurship
SHG	self-help group
SOM	sustainable operations management
SPDC	Shell Petroleum Development Company
SRI	Stanford Research Institute
SSCM	sustainable supply chain management
SVP	senior vice-president
TAI	transparency and accountability initiatives
TBL	triple bottom line
TFT	TABLE FOR TWO International
TVA	Tennessee Valley Authority
UK	United Kingdom
UMS	uncritical management studies
UN	United Nations

UNAIDS	Joint United Nations Programme on HIV/AIDS
UNGC	UN Global Compact
UNICEF	United Nations Children's Fund
US	United States
USAID	United States Agency for International Development
VEB	virtue ethics in business
VEC	village executive committee
VGB	village general body
VP	vice-president
WWF	World Wide Fund for Nature

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CORPORATE SOCIAL RESPONSIBILITY (CSR)

Bringing Society Back In

Thomas Maak and Nicola M. Pless

What is the purpose of business? What is it responsible for? If we asked this question to students or academic colleagues their answers would probably revolve around some notion of value creation, including but not limited to the traditional notion of creating value for shareholders. We would also hear statements pertaining to value creation for customers and society at large and some may add that businesses are good at solving problems through innovation. If we were to ask a follow-up question—for what, and to whom, are businesses responsible?—we may start to enter contested space. Some may insist that businesses are primarily or even exclusively responsible to owners and shareholders; others may object and argue that multiple stakeholders are involved in, and affected by, an organization's actions and, as a consequence, a business is responsible to all of them, including the natural environment and future generations. Hence, the social purpose and responsibility of a corporation is not the same concept in the minds of all—different views exist, and these are influenced by individual values, societal preferences, corporate scandals, and misconduct, as well as different cultural and country-specific traditions.

Corporate social responsibility, or CSR, has been used as an umbrella term since the 1960s to describe not only the social but the *societal* responsibilities of businesses and their decision-makers. Over the course of the past two decades, it has taken center stage in both academic and practitioner debates to the extent that some consider it a "tortured concept" (Godfrey & Hatch, 2007), a label depicting everything and nothing. That skepticism is partly rooted in different origins of the debate. As we will briefly point out in the following, the term CSR originated in the United States and, as such, has initially shaped the debate in North America. In contrast, European scholars have long indicated that: (a) there are more implicit forms of corporate responsibility in European countries (Matten & Moon, 2008), and (b) the continental discourse initially centered around *business ethics*, as opposed to CSR, and the latter has only gained momentum in the past 20 years or so, as countries and academies globalized and became more intertwined. Indeed, corporate scandals on both sides of the Atlantic also led to some alignment in the debates, partly triggered by the increased interest from governments and industry alike. CSR, while not ideal, was considered a fitting, all-encompassing label—less "normative" (and, thus, less contested) than business ethics, and pragmatic and broad enough to also include stakeholder theory or more outcome-related discussions such as those pertaining to the environmental footprint of an organization, corporate social performance, or corporate reputation.

More specifically, the global financial crisis of 2008, previous corporate scandals such as Enron, Worldcom, Parmalat, and the more recent "Dieselgate" caused by Volkswagen, and concomitantly the blatant failure and arrogance of key decision-makers at the upper echelon of organizations, has led to widespread agreement among stakeholders that companies and their executives *must do better*. These incidents also revealed that many corporate incentive systems are not in sync with societal norms and expectations. Moreover, the rapidly globalizing economy and growing interconnectedness shed light on the *fault lines of value creation* through complex supply chain systems, exposing unacceptable working conditions, modern slavery, and the environmental consequences of highly distributed production at any cost. Most recently, the global debate on climate change and the global uprising of students has caught many executives off guard. The actions and rage of Sweden's Greta Thunberg and the following she has created have made a lasting impression. Prior to that, worker suicides at Apple supplier Foxconn and the collapse of the Rana Plaza tower in Bangladesh, which killed more than 1,100 workers, were two high-profile cases that led to increased scrutiny and criticism of global production modes and supply chains—such that stakeholders around the world expect businesses *to do better and more*.

Hence, while perhaps not the ideal umbrella term, *corporate social responsibility* has become a widely accepted common denominator of the role and responsibilities of *business in society*, ranging from core functions such as health, safety, and environmental standards, to governance and recognition of stakeholders, supply chain design, and corporations' stand on climate change and its responsibility to future generations. Furthermore, in light of high-level individual failure in organizations the *micro-foundations* of CSR (Aguinis & Glavas, 2012; Maak, Pless, & Voegtlin, 2016) have garnered particular attention in recent years.

In light of the growing and persistent interest in the concept and domain of CSR, and with a view to mirror its relevance and complexity, we have assembled a wide array of distinguished contributions that shed light on the origins of CSR, its normative foundations, the humane and political dimensions of the concept, institutional perspectives and domain-related issues pertaining to stakeholding, partnering, responsibility in the supply chain, social innovation, sustainability, as well as critical perspectives. Our aim here is not to provide a comprehensive overview of a crowded field; rather, we aim to create a go-to collection of state-of-the-art perspectives on the multiplex concept called CSR—a collection that is both thought-provoking and provides orienting knowledge for academics and practitioners alike. In this introductory chapter, we will first provide an overview of the history of CSR; we will then describe how CSR is used in strategic positioning as a result of increased attention by stakeholders; we will then briefly highlight emerging and underrepresented areas of research, before we introduce the contributions to this volume.

From Bowen to Business with Purpose: A Very Short History of CSR[1]

The beginning of the debate on CSR is commonly marked by a study commissioned by the Federal Council of Churches of Christ in America, entitled *The Social Responsibilities of the Businessman*, authored by Howard Bowen (1953). However, two years earlier, in May 1951, Frank Abrams, then a top executive with Standard Oil, published a remarkable paper called "Management's Responsibilities in a Complex World" in the *Harvard Business Review*. Fast forward 70 years and the title seems as topical as ever. Back then, Abrams urged his fellow managers at the upper echelons to think of themselves as professionals with an explicit sense of duty not just to shareholders, employees, and customers, but also to the public in general: "[Modern] management must understand that the general public—men and women everywhere—have a very deep interest in, and are affected by, what is going on" (1951: 32). He thus introduced an early stakeholder perspective, a concept later shaped by R. Edward Freeman (1984).

Bowen's study from 1953, in contrast, is concerned with fleshing out the specific social responsibilities of *businessmen*. Hence, what are now considered the "micro-foundations" of CSR were, at the beginning of the debate, its core focus and locus. Bowen argues that businessmen must assume "a large measure of responsibility if the economic system of free enterprise is to continue and prosper" (1953: 5), stressing both values and notions of enlightened self-interest. And although Bowen addresses questions such as: What constitutes good citizenship for a business enterprise? How does a moral enterprise behave? What kinds of business decisions promote the ends of modern society and what kinds detract?, his contribution focuses on the responsibilities of *individuals* within an enterprise rather than the corporation as such. The beginning of the debate on CSR is therefore marked by arguments pertaining to the individual responsibilities of managers *vis-à-vis* their key constituencies, and society at large. Hence, the emergence of CSR was triggered by reflective practitioners who appealed to their peers to embrace responsibilities beyond their fiduciary duties; social responsibilities aligned with values of "modern society" and a changing business landscape which was shaping the demand for good citizenship, as individuals and as organizations. As such, CSR was inextricably bound up with the responsibilities of executives.

Interestingly enough, it was not until the late 1960s that academics took serious notice of the emerging interest in CSR. When they did, the level of analysis continued to be focused on the individual manager, or "businessman," as there were hardly any women in leadership positions. For example, Davis refers to social responsibility as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (1960: 70). He later argues that "the substance of social responsibility arises from the concern for the ethical consequences of one's acts as they might affect the interests of others" (1967: 46).

The social and political revolution of the late 1960s, in particular rising social awareness and ecological concerns, perhaps best exemplified by Rachel Carson's (1962) book *Silent Spring*, triggered an intensification of the debate throughout the 1970s. Milton Friedman's contribution in the *New York Times Magazine* in 1970 cast the longest shadow. Nobel laureate Friedman famously claimed "that the social responsibility of business is to increase its profits." He argues that businesses and corporations in fact have no responsibilities (1970: 51), in contrast to managers and corporate executives. As a businessperson and "an agent serving the interests of his principal" (1970: 53), the executive has direct responsibility to the principal (also called owner, employer, or stockholder), namely "to conduct business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom" (1970: 51). Friedman's argument has since often been reduced to the profit section and has been the go-to quotation for generations of economists. And indeed, it is often implicit in comments by students who favor a limited shareholder focus for the corporation. Yet, as Friedman's comments show, he does not suggest an *amoral* position. While being vague on the term "ethical custom," he acknowledges ethical standards as important guideposts for executives and, hence, the fact that, while the executive's core responsibility must be geared towards the principle(s), any such endeavor should be in line with ethical custom. As customs shift in society, so do stakeholder expectations, and an executive is expected to comply with formal responsibilities and act in accordance with both legal and moral standards in society. Still, Friedman's much-cited argument marks a key reference point for those warning against "too much" CSR, mostly driven by concerns about the redistribution of profits which "are not the managers' to give away" (Crook, 2005: 17).

But the 1970s were also marked by attempts to define CSR more broadly. The Committee for Economic Development (1971), for example, suggested a multi-level perspective: the inner circle consisting of a corporation's basic economic responsibilities; the middle circle of "current social and environmental concerns"; and the outer circle depicting "emerging responsibilities." The Committee for Economic Development's basic framework was one of the first attempts to reflect the growing complexity of CSR issues in the 1970s, but also its increasingly dynamic nature. Moreover, CSR was defined as "enlightened self-interest" (Steiner, 1971), as what goes beyond obeying the law in terms of "what every good citizen does" (Davis, 1973), absorbing the emerging idea of "good corporate citizenship." Eels and Walton (1974), in a key contribution, define CSR as "concerns with the needs and goals of society," broadening the scope quite substantially. Their contribution lays the groundwork for a more comprehensive view of businesses' role *in* society. But there are also other sources that define CSR more narrowly: for example, we find multiple references to the legal responsibility of a corporation, to being ethical, making charitable actions, or ensuring legitimacy. Finally, the 1970s were also marked by an increasing interest in the measurement of CSR and, thus, the actual social performance of corporations (Carroll, 1979; Sethi, 1975).

Throughout the 1980s, the discussion on CSR became more diverse and, as more academics engaged in it, also more theory focused: scholars inquired about the ethical foundations of corporate responsibility and the moral status of the corporation. This was, in part, a response to Friedman's argument that corporations cannot be held morally accountable, only persons (managers), and, therefore, social responsibility has to be conceived of as an individual concept. However, Friedman was also adamant that shareholders' money is not the managers to give away. His argument was both legal and ideological, and a reflection of the time. Friedman, like many of his economist peers, held strong views about the threat of socialism (the Eastern Communist Bloc still existed), and CSR was considered a first step in that direction. As for the legal argument, diverting corporate funds to social causes, in his view, was illegal given that the corporation was in principle responsible to owners and shareholders only. To counteract the orthodox views, and open the discussion to more contemporary considerations and concerns pertaining to corporate responsibility, scholars, therefore, asked: Can we hold corporations morally accountable for what they do? And if yes, does this require treating them as moral persons?

After all, our moral categories are designed by human individuals for human individuals. Can we or should we even apply these moral categories to "corporate organizations and their 'acts'" (Velasquez, 2002: 17)? This discussion on corporate moral agency (Donaldson, 1982; French, 1984; Velasquez, 1983) was an important steppingstone in the (mainly North American) debate and also marked the emergence of business ethics as an academic discipline. What became clear from the scholarly debate was that corporations can be considered moral agents because they have specific intentions and decision structures and thus the capacity to engage in moral decision making, to control their policies, rules, and actions, and even to respond to ethical criticism (Donaldson, 1982; French, 1995). And as moral agents, they are accountable for their actions and must consider their responsibilities *vis-à-vis* their constituencies and society at large.

At the same time stakeholder theory was introduced and had a lasting impact on both academia and business practice (Freeman, 1984). Freeman's theory, initially developed as a contribution to strategic management, provided a highly useful heuristic to inform the debate on corporate constituencies and subsequently the responsibility of a corporation to the same. Stakeholder theory shows that multiple parties contribute to a business's success and that companies can only flourish in collaboration with, and not in exploitation of, their stakeholders. Hence, they must consider the impact they have on their stakeholders, above and beyond owners and financiers.

In the late 1970s and early 1980s, we also saw an intensifying debate in Europe—a debate fueled by "dark cases" such as the Nestlé infant formula scandal and boycott in 1977, the Bhopal disaster in India (Union Carbide), and the oil spill caused by Exxon Valdez in Alaska. Corporate negligence and malpractice became a focal point of public debate. Moreover, global warming and environmental concerns shifted attention to issues of sustainable development and toward "triple-bottom-line" performance (Elkington, 1998)—economic, social, and environmental—a distinction that nowadays is widely accepted and has changed the way publicly listed companies are reporting. Moreover, unleashed market forces following the crumbling of the Soviet block and widespread liberalization following the fall of the Berlin Wall, and, subsequently, the speed and scope of market globalization, lead to increasing concerns about global business ethics (De George, 1993; Donaldson, 1989; Maak & Lunau, 1998).

We also saw the emergence of influential theories: Donaldson and Dunfee (1994, 1999) put forward an "integrative social contract theory," Ulrich (1997, 2008) a theory of "integrative business ethics," Bowie (1998) "a Kantian perspective" on business ethics, and the late Bob Solomon (1999) an Aristotelian or "virtue ethics" perspective. In a review of the field, Frederick (1998) divided the first 50 or so years of CSR into four phases: CSR 1 (1960s/1970s) as doing the right thing; CSR 2 (1980s), according to Frederick, is marked by more responsive corporate behavior toward social responsibilities, that is, corporate social responsiveness; CSR 3 (1990s) is marked by compliance; and Frederick imagines that CSR 4 (since then) will bring more focus on "cosmological and spiritual aspects." It remains to be seen whether or not CSR will indeed become more holistic in nature. As it stands, it is a stretched but important construct and umbrella term, now widely accepted in business practice and in light of current challenges more relevant than ever, even in countries where there was traditional resistance to the American "import."

And while the term CSR was not used as frequently in the 1980s and 1990s, a period when we witnessed specialization and diversification toward other fields of interest, this changed with Enron and other high-profile cases of corporate misconduct. Ever since the fallout of Enron and the subsequent discussion as to what should be done to prevent another Enron from happening, CSR has become the key common denominator for the global discussion on corporate responsibility. For practitioners, it appeals as a useful umbrella term, free from moralizing about the proper role of business and free from ethical heavy lifting, which by nature dominates the academic discourse in business ethics. Another reason for the term's renaissance was the emergence of multi-stakeholder initiatives such as CSR Europe, the Academy of Business in Society (ABiS), and the UN Global Compact.

The Shift from CSR to SCR: Strategic Corporate Responsibility

Throughout the 2000s and as a result of widespread and increased attention, companies started to pour more resources into CSR initiatives and reporting, to the extent that CSR has morphed, to some extent, into SCR—strategic corporate responsibility. By *strategic* corporate responsibility, we mean the increasingly instrumental use of CSR as a strategic positioning device in the *market for virtue* (Vogel, 2006). In order to succeed in an environment of contested values (Diermeier, 2006), CSR is used for reputational gains. CSR strategy is seen as a means to gain competitive advantage not just with customers, but with stakeholders at large. As a consequence, the number of elaborate but glossy CSR reports has risen exponentially in recent years. With the rise in "doing good reporting" one can also observe a change in language: as most reports are now done by specialized PR agencies, often offshoots of large marketing agencies, the reporting is now highly attuned to what experts think stakeholders want to hear. In other words, they are meant to demonstrate that CSR is taken seriously, that the CEO is the Chief *Ethics* Officer, and that in light of the company's responsible actions it should be trusted as a good citizen around the world.

This is not to say that what gets published in these reports is without substance. On the contrary, there are many corporations that take the CSR challenge seriously and are aware that it is a challenge to their ethical legitimacy. Yet, the way CSR has been transformed into SCR since the beginning of the millennium leaves the door wide open for moral hypocrisy (Bateson, Collins, & Powell, 2006): some corporations want to appear moral (by way of CSR) without bearing the costs (and consequences) of actually being moral. In other words, they lack authenticity. Practically speaking, CSR is instrumentalized to benefit the corporation; theoretically speaking, as "instrumental theory" (Donaldson & Preston, 1995), it sets out to describe what will happen if a firm uses CSR as a strategic tool. Thus, CSR as strategic corporate responsibility ranges from risk and reputation management (Jackson, 2004) and measures to enhance client focus and benefits (Kotler & Lee, 2005) to initiatives in which "social and business benefits are large and distinctive" (Porter & Kramer, 2006: 88). Consequently, Burke and Logsdon (1996: 496) define CSR as strategic "when it yields substantial business-related benefits to the firm." Moreover, Porter and Kramer (2006: 84) argue that "the essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value." Corporations should engage in truly strategic

CSR; "it's about choosing a unique position—doing things differently from competitors" (2006: 88), not so much about doing the right thing. In other words, CSR is no longer considered a social or even a moral obligation of a corporation to society at large, but a mere market opportunity to achieve competitive advantage. Porter's and Kramer's instrumentalism has come under increased criticism in recent years (Crane et al., 2014).

To a certain extent, the pitfalls of *CSR pretense* have been pre-empted by the rapid rise of *benefit corporations (B-corps)* over the past decade. For B-corps, CSR is part of their DNA. Indeed, their main goal is to "meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose" (B Corps, 2020). Their rapid rise in number and, concomitantly, the rise of the purpose economy (Kempster, Maak, & Parry, 2019) are a strong signal that CSR is here to stay. In fact, many B-corps strongly espouse their values and it could be argued that their certification efforts have not only shifted the competitive dynamics on the "market for virtue," but also created fertile ground for new ways to reconcile profit and purpose.

Another, and arguably an under-researched, battleground for some time now has been the domain of *global CSR*. Differences in ethical customs, differences in social and economic development, and a rapidly globalizing world economy—"super-charged" by digital technology—have created both economic opportunities and profound CSR challenges. Digitally enabled outsourcing and in-time production, competition for cost rather than quality, and surges in global demand before the COVID-19 crisis of 2020 have not only accelerated global warming but also created non-transparent supply chains and inadequate working conditions in emerging countries. As a result of the unfolding ethical tragedy of climate change (Maak & Pless, 2019) and the oppressive design of global supply chains, which has led to modern slavery conditions in many industries, global CSR issues are amongst the most urgent ones.

In a global stakeholder society, moral dilemmas are almost inevitable. The question is how actors set out to resolve or even reconcile them. For example, how can one adhere to basic moral principles while respecting cultural differences and different developmental standards? When is "different" different, and when is different wrong (De George, 1993; Donaldson, 1996)? What needs to be done to secure one's integrity while leaving leeway for discretion in matters of particular corporate values and culture-specific decision making? In meeting these moral challenges firms have to make sure that their actions are ethically sound. Moreover, balancing different stakeholder claims, including those of the natural environment, future generations, and less privileged groups "at the bottom of the pyramid" (Prahalad, 2005) creates social, environmental, and humanitarian challenges.

To this day, few corporations have taken on humanitarian challenges such as poverty, hunger, or the prevalent challenges of modern slavery. Only when these grand challenges are tackled will we see an inclusive global economy. At the level of CSR, the challenge is twofold: on the one hand to ensure active global corporate citizenship, meeting the political challenges inherent to the 21st-century corporation; on the other hand to actively engage in less privileged regions of the world by building and supporting human capabilities (Nussbaum & Sen, 1993) and by assisting in eradicating world poverty. Eliminating the conditions of modern slavery might be a good starting point. Research on the role of business as an agent of world benefit and business solutions to poverty (Lodge & Wilson, 2006; Prahalad, 2005; Rangan et al., 2007) is focusing on the humanitarian challenges and proposing strategies to eliminate poverty. Moreover, research on global business citizenship (Wood et al., 2006) can be considered a subset of CSR and is concerned with the role of the corporation and its executives as political actors (Scherer & Palazzo, 2007; Maak, Pless, & Voegtlin, 2016), and, thus, the political challenges in today's market environment.

What We Do Not Know: Emergent Research on CSR

Research on CSR is both sketchy and comprehensive. As our brief overview has shown, despite a much longer history the field has only recently seen significant growth. Indeed, until 2012, according to Aguinis and Glavas (2012), there have been only 180 articles in leading management journals, which is an indication that CSR, in the beginning, was not considered a core activity, nor was there sufficient interest from mainstream research. This has changed quite dramatically in the past twenty years, partly driven by corporate irresponsibility, and partly by stakeholder pressure and new regulations to govern the social and environmental impact of corporations. A significant driver was arguably the revised UN Sustainable Development Goals (SDGs) and the above-mentioned new multi-stakeholder initiatives. In other words, CSR has become more institutionalized and nowadays it ranks high on the agenda of executives. As a consequence, research interest has increased but there is a lot we still do not know about CSR. This relates to *content dimensions and domains* of CSR—its foundations, functions, variations, and applications—and its *theoretical dimensions and interaction effects*—predictors, mediators, moderators, and outcomes (Aguinis & Glavas, 2012: 952).

In this companion we focus primarily on the former, the *nature of CSR*, as the latter, the theoretical structure and effects of CSR, is the domain of academic journals. Here, we would like to remind ourselves where we come from, explore the typology and normative foundations of CSR, its political nature, the human side of CSR, strategic and institutional issues, CSR in the supply chain, and questions of social innovation and sustainability, while providing a critical outlook on the field.

According to Aguinis and Glavas (2012: 952), the knowledge gap in CSR theory pertains to four areas: (1) the need for integration of normative and institutional theories of CSR with the objective of generating meaningful multi-level research; (2) a better understanding of the mediating effects of stakeholder relations, organizational identity, or corporate mindset, and thus research that can help us understand the processes and underlying mechanisms through which CSR actions and policies lead to particular outcomes; (3) the individual drivers of CSR, or micro-foundations; and finally (4) cross-level interaction effects of CSR and the need for multi-level analysis such as, for example, how higher-level predictors like institutional regulation affect lower-level outcomes at the firm level.

As for the nature and domains of CSR, we contend that more research is needed in the following areas and hope that the chapters in this volume will provide useful steppingstones:

(1) Given the longstanding divide between CSR and business ethics, questions of *normative foundations* were previously limited to business ethics. CSR was widely seen as "instrumental" and what companies actually did; the normative drivers of CSR and its moral foundations have remained opaque. Hence, we need more insights into the questions we asked in the very beginning: What is a business for? How do values and virtues influence CSR? What is the role of a humane orientation, or humanism, in CSR? And can corporations, like individuals, have character?
(2) Moreover, what is the role of stakeholder management and stakeholder relations in CSR and how do stakeholders influence corporate social strategy? How does CSR *as a strategy* differ from strategic CSR?
(3) Global supply chains have become the Achilles heel of CSR. What is good supply chain management through the lens of CSR? How can corporations fight modern slavery and other potential blind spots, such as animal welfare?
(4) We argued that stakeholders expect businesses to do more. What, if any, role do companies have in social innovation and the alleviation of poverty? And what can be done to step up corporate action significantly in line with the SDGs and to avoid the ethical tragedy of climate change (Gardiner, 2011)?
(5) In recent years we have witnessed the rise of a purpose economy. What is the role of purpose in business? How are B-corps different from traditional corporations? What is the role of social entrepreneurs in addressing unmet social needs with business acumen? Or more broadly, what is the relationship between CSR and corporate social innovation?

(6) How can we make CSR more relevant by expanding its scope to include rich and informed notions of social innovation, inclusion, and political responsibility? What is the political responsibility of a corporation? And should corporate citizenship be based on a clear set of political responsibilities in addition to the traditional understanding of being a "good neighbor" and "giving back to the community"?
(7) How can critical perspectives on CSR help to develop the field away from instrumentalism to more substantial forms of CSR? What theories should inform these perspectives? What have we missed so far?

About the Chapters in the Companion to Corporate Social Responsibility

The contributions in this companion address many of these areas in an attempt to connect the past, present, and future of CSR. It was our objective to curate contributions that provide insights into the complex history of CSR, its normative foundations, current challenges, and new vistas. More specifically, Part 1 comprises contributions that speak to the development of CSR, corporate social performance, and the purpose of business. Archie Carroll and Jill Brown describe in Chapter 2 how the CSR construct evolved through an emphasis on responsibility, responsiveness, and performance; and how it subsequently helped to spawn competing and complementary notions such as business ethics, stakeholder management, corporate citizenship, and sustainability. In Chapter 3, Elisabet Garriga extends the review and findings from her influential review paper (Garriga & Melé, 2004) to new theories and approaches such as shared value and political CSR. She reflects more broadly on the evolution of the business and society field. Diane Swanson, a key author in the study of corporate social performance, elaborates in Chapter 4 on CSR discovery leadership. In doing so, she integrates the levels of analysis and topics addressed in CSR research to underscore that executives can direct values-driven corporate cultures to provide society with triple-bottom-line benefits. In other words, she looks into some of the micro-foundations of CSR. In Chapter 5, Thomas Donaldson and James Walsh revisit and reiterate their argument that it is time to overcome the empirical blindfold of the theory of the firm in favor of an actual *theory of business*, that is to say, a theory that is both empirical and normative and enables us to answer the essential question: "What is the purpose of business?" Their argument centers around the need to reassess the purpose, value, control, and accountability in and of a business organization.

Part 2 is dedicated to the normative foundations of CSR and features several contributions on the relationships between character, virtue ethics, spirituality, Catholic social teaching, and humanistic management with CSR. In Chapter 6, Geoff Moore uses the concept of corporate character as an alternative approach to CSR, noting the feasibility of the concept as a metaphor, and setting out the key elements of a virtue ethics approach to business ethics. The concept of corporate character is then developed more fully including a taxonomy of corporate virtues, and how corporate character may be developed. In Chapter 7, Germán Scalzo, Javier Pinto-Garay, and Kleio Akrivou probe the social responsibility of firms from a virtue ethics approach and against the backdrop of the concept of the common good. They discuss the contrasting assumptions of mainstream approaches and the common good of the firm approach to explaining how the latter—rooted in Aristotelian virtue ethics—provides an original conception of corporate social responsibility. Next, Chapter 8 reflects on the relationship between spirituality and CSR, and more specifically leadership and workplace spirituality. Josep Lozano argues that the current crisis we face is not only ecological and social (CSR topics), but also cultural-spiritual, and that this dimension is missing in the CSR debate. In the next chapter, Chapter 9, Domènec Melé explores the link between, and the rich tradition of, Catholic social teaching and CSR. In the tradition of Catholic social teaching, the social responsibility of business is based on person-centered ethics, with two key ethical values: justice and solidarity. Moreover, a business is seen as a mediating institution between individuals and society, and the social responsibility of business is seen as inherent to the business itself and related to all its activities and relationships, not as an add-on. The contribution to the common good takes center stage as a superior principle of social responsibility. Ideas from the Catholic social tradition have seen a renaissance in recent years with the ascent of a humanistic management movement. Michael Pirson, a key proponent of the movement, investigates in Chapter 10 the links between humanistic management and CSR. He suggests an alternative, humanistic narrative for responsible management and investigates the ontological foundations of responsible management. Moreover, he argues that the humanistic perspective helps to create balanced outcomes for stakeholder well-being and is, therefore, more suitable for socially desirable outcomes.

Part 3 addresses the growing debate about political CSR and strategic and institutional perspectives. In Chapter 11, Bobby Banerjee provides a critical analysis of the politics of CSR. He contends that CSR is a strategy that enables multinational corporations to exercise power in the global political economy. Using the global extractive industries as a context, he analyses the role of political CSR and multi-stakeholder initiatives in managing conflicts and argues that these initiatives cannot take into account the needs of vulnerable stakeholders. In Chapter 12, Christian Voegtlin and Nicola Pless look at the role of the UN Global Compact and how it has influenced the global governance of CSR. More specifically, they discuss the effectiveness and legitimacy of the UNGC in light of arguments for and against the supranational organization's body of work. In doing so, they focus on three perspectives—economic, socio-historical, and normative views—and stress the research needs in regard to influence mechanisms, legitimacy, effectiveness, local networks, and responsible leadership (Maak & Pless, 2006a, 2006b). Next, in Chapter 13, Sébastian Mena, Valeria Cavotta, and Alessandro Tirapani discuss how institutional theory bears on CSR research. While providing an overview of diverse institutional studies of CSR, the authors show how institutional theory has moved from being used as an explanation for the (non-)adoption of and variation in CSR practices to an overarching framework where CSR is understood as an institution and the role different actors and institutional processes play in the process of change is examined. In Chapter 14, Debbie Haski-Leventhal discusses the notion of strategic CSR and how it can play an important part in a company's strategy. She reflects on the shift in the perceptions of business responsibility: from a narrow view (focusing on profits only), to an instrumental view (CSR as the means to achieve corporate benefits), and, finally, a strategic view (companies have a social responsibility toward society and the environment). Based on the latter, she deliberates on the concept of strategic CSR and offers a new definition, which includes five different aspects (or frontiers) of business responsibility. Part 3 concludes with Chapter 15, in which Esther Hennchen reflects on the case of Shell Nigeria. Her analysis of the events which escalated in 1995 addresses the following question: Which challenges does a multinational company like Shell face when engaging in traditional government activities in developing countries? The focus of this case is on how and why Shell has engaged in political CSR strategies in Nigeria. More specifically, the case examines the challenges the company faced with regard to its politicized role, the sustainability of its controversial industry practices, and corporate complicity in a context of a public responsibility deficit.

Part 4 is focused on issues pertaining to stakeholding, partnering, and inclusion in the context of CSR. In Chapter 16 Edward Freeman and Rama Velamuri suggest rethinking and reframing CSR as company stakeholder responsibility, at once broadening the scope of CSR thinking and questioning the ontological foundations of CSR. "Social" has always been a contested term and a more pronounced focus on stakeholder needs and interests can clarify both the purpose and direction of CSR. In Chapter 17, Sally Curtis and Andrew Bradly focus on inclusive business, that is to say, a business that proactively engages the poor in the value chain. Despite increased interest in inclusive business, scholarly attention focusing on understanding and developing the concept is still lacking. The authors draw on Nobel laureate Amartya Sen's view of poverty as capability deprivation to develop the inclusive business concept. When conceptualized in this way, inclusive business can provide decent work opportunities and products and services that improve the capabilities of the poor. In Chapter 18, Nicola Pless and Jenny Appel focus on a very specific form of inclusive organizing in a developing country context. They present and discuss the approach the award-winning social enterprise Gram Vikas has taken in Odisha, one of the poorest regions in India, to bring dignity and social justice to rural communities. Gram Vikas pursues an uncompromising approach to inclusion, involving all members of a community and with lasting success and effect. Part 4 concludes with Chapter 19 by Katinka van Cranenburgh and Josep Mària. The authors study oil and gas governance in Ghana, analyzing the power and authority relations between the different stakeholders. They ask: How is the use of power mechanisms affecting the free and critical debate in the governance processes of the oil and gas sector in Ghana? Their findings, based on longitudinal data collection, shed light on how stakeholder relations and multi-stakeholder initiatives affect governance issues in Africa.

Part 5 deals with CSR challenges in the global value chain. As digital technology has accelerated the trend to outsource, supply chain complexity has increased and supply chain integrity (Maak & Ulrich, 2007) has become the fault line of CSR. In Chapter 20, Robert Sroufe and Kevin Dole explain how and why operations and innovation intersect with new opportunities for value creation, and how this impacts CSR. They use the waves of innovation model to understand the progressive transformation of processes, the position of sustainability on the innovation curve, and how the integration of more sustainable practices is already part of operations and supply chains around the world. In Chapter 21, Vikram Bhakoo and Kanika Meshram address one of the most critical issues in the supply chain: the increasing risk of forced labor and enslavement at the fringes of the global supply chain. Problems of "modern slavery" have been exacerbated in recent years and the fashion and fish industries in South Asia have become a key focus of investigation. Next to human welfare, animal welfare was, and still is, overlooked in many parts of the world. Frank Wiengarten and Christian Durach, in Chapter 22, ask why we have missed out on animal welfare so far. The authors remind us that supply chain management has a significant impact on animal welfare. Starting from the unsustainable demand for meat production, to concomitant waste (such as manure), the appalling conditions of animal transportation and live export, the usage of natural resources, to the detrimental effects on consumer health of overproduction and poor produce. And as the COVID-19 crisis has shown, human and animal health are closely connected—abattoirs and meat production became superspreaders of the virus.

Part 6 takes a closer look at the role of CSR in promoting social innovation. In fact, in Chapter 23 Phil Mirvis and Bradley Googins make the point that corporate social innovation is the next stage of CSR. They explore a variety of social innovations produced by companies or co-created in partnerships with other businesses, NGOs, and/or government agencies. More specifically, they draw on different ways companies produce social innovations using new social sources (e.g., open innovation, crowdsourcing, contests, intrapreneurship) and methods (e.g., indigenous research, incubators/accelerators, design thinking, and co-innovation), leveraging a pool of 70 corporate social innovators. In Chapter 24, Keiko Yokoyama reflects on the role of social entrepreneurship, which has grown significantly over the course of the past 20 years. Her focus is on the Japanese concept of social entrepreneurship, an under-researched domain of increasing importance with its own identity, distinct from European and North American approaches. Yokoyama explains what is unique to Japan, reflecting the country's history and current situation, and current trends in Japanese social entrepreneurship research. In Chapter 25, Itziar Castello addresses the changing landscape of CSR communication. Social media and the increasing digitalization of communications are transforming engagements between companies and other actors. Castello discusses the following key factors: the redefinition of actors from stakeholders to publics; the potential for democratization of the engagements due to the low barriers to access; the use of symbols to enhance the emotional charge of corporations' social media engagement, and the opportunities and challenges of accountability mechanisms in social media platforms. In Chapter 26, Laura Spence and Scott Taylor present a reading of CSR research that identifies three keyframes in contemporary literature: CSR as strategic, political, or utopian. In each of these approaches, the authors argue, good organizational praxis and positive social improvement may be an outcome but is not necessarily the primary measure of success. Researchers tend not to seek dialogue between strategic, political, and utopian interpretations of CSR, hindering the advancement of CSR research, especially in its implications for practice and progressive change. The authors conclude by outlining ways in which scholarly dialogue might be encouraged to foster a more clearly defined "critical CSR." In Chapter 27, Lutz Preuss, Jonatan Pinske, Tobias Hahn, and Frank Figge take stock of recent empirical work on paradoxical tensions in business sustainability, one of the core foci of CSR action. Their chapter investigates how people perceive such tensions, what responses they envisage, and how they manage them, with a particular focus on the identification of paradoxical tensions. The authors suggest a stronger focus on conducting process studies to uncover these conditions, as well as quantitative studies that investigate how adopting a paradoxical approach to business sustainability enables firms to simultaneously achieve environmental, social, and economic goals, both now and in the future. Finally, in Chapter 28, Steve Kempster argues that hybrid businesses such as B Corps have an underlying challenge associated with embracing capitalism—a sense of "drinking with the devil" to pursue purpose through profit. His chapter examines this challenge through the notion of logic: the social logic versus the market logic in the context of hybrid businesses. Kempster argues for a reframing of purpose through profit by giving prominence to an integrative process of value creation—the notion of good dividends. By integrating planetary capital, as a central aspect of the business model, there is scope for businesses to reach beyond sustainability and pursue the regenerative potential of business to generate good dividends through the commitment of responsible leadership.

Note

1 This section builds in part on Maak (2008).

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PART 1

History and Theory of CSR

2
CORPORATE SOCIAL RESPONSIBILITY
A Chronicle and Review of Concept Development and Refinements

Archie B. Carroll and Jill A. Brown

Introduction

The concept of corporate social responsibility (CSR), often referred to simply as social responsibility or corporate responsibility, has taken its place as a significant and indispensable feature in the history of business and organizations. Virtually any reference to the relationship between business and society today will integrate substantial coverage of this now ubiquitous concept. Today, CSR is a worldwide phenomenon as it has traversed from developed to developing and emerging economies.

A most formidable challenge in chronicling the history of CSR is deciding at what moment in the distant past to begin. Since this is a chapter, and not a book, strict parameters need to be followed so that the account is manageable. Space does not permit an exhaustive review. For most readers, the more recent past is typically of most interest and relevance; therefore, we begin our consideration of CSR by briefly considering the pre-World War II period and then concentrating on the post-World War II period beginning in the 1950s and tracing developments up into the 2000s.

Another challenge, as always, is defining CSR. Since this chapter intends to explore concept development over time, it is useful to begin with a basic understanding and then move forward. During the process of moving forward, a variety of definitions, concepts, constructs, themes, typologies, or frameworks enter the discussion. For sake of simplicity, we refer to them all as concepts.

While footprints of CSR may be found dating back for centuries, formal writings about social responsibility began to emerge in the 1930s and 1940s. It is contended, however, that CSR was born as a field of study or an academic discipline in the 1950s and 1960s. The 1960s marked a momentous growth in attempts to formalize more precisely what CSR means. Academics began developing literature on the subject, but business practitioners were relatively quiet about the topic until expected or pressured to respond. Early CSR business practices were characterized mostly by business philanthropy and community relations, but CSR practices began expanding to and permeating other arenas in the 1970s, and continue today.

Definitions of CSR proliferated in the 1970s and a core vector of corporate social *responsibility*, corporate social *responsiveness*, and corporate social *performance* characterized the decade. In the 1980s, we observed fewer definitions, more research, and alternative themes beginning to emerge.

Business ethics and stakeholder theory were concepts that were posited as competing with CSR, though the ideas were interrelated. The core idea of CSR continued in popularity in the 1990s, but it had to learn to coexist with complementary themes such as corporate citizenship and sustainability during this period.

During the 2000s, there appeared many interrelated notions about CSR's meaning and significance as connected themes continued to spin off from the core idea and considerable empirical research was conducted. Conscious capitalism, creating shared value, political CSR, and purpose-driven branding became popular ideas in the 2000s. Interestingly, none of the earlier ideas faded or dwindled away. Each grew in popularity, generated its own adherents and researchers, and remained as "competing and complementary frameworks" (Schwartz & Carroll, 2008). To be sure, some of these thematic concepts became faddish and companies adopted their terminology in lieu of CSR, but at their core, they remained basically comparable.

The development of CSR could appropriately be likened to a double helix wherein multiple strands interact—ideas and practice, theory and reality—and these have combined to shape an interconnected conception of what we today refer to as responsible business behavior and practice. In other words, CSR was not born whole. It grew as a product of myriad interactions in the minds, actions, and decisions of generations of businesspeople, academics, activists, non-profit organizations, and a developing social consciousness in society that played a role in forming it (Carroll, Lipartito, Post, Werhane, & Goodpaster, 2012).

The Evolving Footprints of CSR

The footprints of CSR go back hundreds of years. The concept of CSR has a long and wide-ranging history and one can trace evidence of business's concern for societies around the world. Since others have chronicled this history, we will not attempt to summarize it (Carroll, 1999; Carroll et al., 2012; Husted, 2015; Agudelo, Johannsdottir, & Davidsdottir, 2019). In the limited space we have available, it makes more sense to chronicle briefly the evolution of CSR since World War II, as we also note that formal writings on the subject began appearing in the 1950s and 1960s. Further, this history has been mostly in developed countries as a sizeable body of literature has accumulated since that time.

CSR's Modern Birth

Serious writings and references to CSR began in the 1950s but it was then more often referred to as social responsibility. Perhaps this was because the age of the modern corporation's prominence in the business sector had not yet occurred or been noted. The most important publication on the topic in the 1950s was Howard R. Bowen's landmark book titled *Social Responsibilities of the Businessman* (1953). As Bowen's book title suggests, there were very few business*women* during this time, or they were not acknowledged in formal writings. Bowen went on to argue that the largest businesses of the period were vital centers of power and influence and that their decisions and actions affected the lives of the citizenry in many ways. Because of this, Bowen posed the question that has driven this topic unceasingly since then: "What responsibilities to society may businessmen reasonably be expected to assume?" (Bowen, 1953: xi).

But what did Bowen mean by social responsibility, or CSR, in this time period? He set forth an initial definition as follows: "It [social responsibility] refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953: 6). Virtually no other writers were defining social responsibility or CSR during the 1950s, so Bowen's conceptualization stands out as representative of this time period.

CSR Writings Expand

Though there was limited literature and references to CSR in the 1950s and earlier, the 1960s marked a significant growth in attempts to formalize the concept and to state more precisely what it meant. Keith Davis was one of the first and most prominent writers during this period to define CSR, and he later wrote about the topic extensively in his business-and-society textbook, later revisions, and articles. One of Davis' first definitions of CSR was as follows: "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (Davis, 1960: 70).

Davis thought of CSR as a somewhat nebulous idea, but he did think it should be seen in a managerial context. He also believed it should be perceived as a long-range concept that could bring economic benefits to the firm as well as to society. Davis was one of the first thought leaders to link social responsibility to the power of business firms. In fact, during this period he set forth his well-known "iron law of responsibility," in which he argued that the "social responsibilities of businessmen need to be commensurate with their social power" (Davis, 1960: 71).

William C. Frederick was another major contributor to the early definitions of CSR. Frederick stated: "social responsibilities mean that businessmen should oversee the operation of an economic system that fulfills the expectations of the public" (1960: 60). He added:

> social responsibility, in the final analysis, implies a public posture toward society's economic and human resources and a willingness to see that those resources are utilized for broad social ends and not simply for the narrowly circumscribed interest of private persons and firms.
>
> *(Frederick, 1960: 60)*

Another major contributor to the understanding of CSR in the 1960s was Joseph McGuire. In his landmark book *Business and Society* (1963), McGuire argued that "the idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations" (1963: 144). McGuire's definition is notable because it is somewhat more precise in that it embraces economic and legal obligations but also points to other responsibilities as well. Continuing, McGuire stated that businesses must act "justly" as a proper citizen should. This insight came long before the notions of business ethics and corporate citizenship took center stage.

Another noteworthy contributor to CSR thinking in the 1960s was Clarence C. Walton, a perceptive scholar on business and society relationships. In his 1967 book, *Corporate Social Responsibilities*, Walton presented a number of different varieties or models of CSR. He argued:

> in short, the new concept of social responsibility recognizes the intimacy of the relationship between the corporation and society and realizes that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals.
>
> *(Walton, 1967: 18)*

CSR Concepts Advance

In 1970, Morell Heald's book *The Social Responsibilities of Business: Company and Community, 1900–1960* ushered in the CSR thinking of the 1970s. Heald did not focus on CSR definitions, per se, but he made many insightful observations about the trend that was gaining supporters and adherents. His position was that the "meaning of the concept of social responsibility for businessmen must finally be sought in the actual policies with which they were associated" (Heald, 1970: xi). Heald provides a historical chronicle of community-oriented programs, policies, and opinions of businesspeople, suggesting that during this period businesspeople were preoccupied with corporate philanthropy and community relations (Carroll, 2006). This is meaningful because philanthropy and community relations had become bread-and-butter issues for early CSR practices of companies. One could well argue that these two types of activities formed the core or backbone of CSR initiatives that continue to this day in one form or another.

Professor George Steiner was another significant thinker and writer on CSR during this decade. Steiner basically deferred to the definitions of CSR that had already been presented, but he then set forth some of his own thoughts and observations as follows: "Business is and must remain fundamentally an economic institution but…it does have responsibilities to help society achieve its basic goals and does, therefore, have social responsibilities" (Steiner, 1971: 164). He went on to observe that as companies grow larger their responsibilities expand as well. Steiner thought of CSR as more of an attitude or philosophy, a way in which managers approach their decision-making tasks. He likened CSR to a long-run enlightened self-interest of business as compared to the older, narrowly conceived short-run interest that had prevailed for so long (Steiner, 1971: 164).

In the mid- and late-1970s, we observe increasing reference being made to corporate social *responsiveness* and *performance* as well as CSR. The general argument that developed during this period was that the term responsibility was too suggestive of efforts to pinpoint accountability or obligation, and therefore was not dynamic enough to fully capture what companies were doing in the CSR realm. Robert Ackerman and Raymond Bauer (1976: 6) criticized the term CSR by stating that "the connotation of 'responsibility' is that of assuming an obligation. It places an emphasis on motivation rather than performance." They went on to argue that responding to social demands was much more than deciding what to do. There remains the management task of doing what one has decided to do, and this task is far from trivial. They then argued that the term social "responsiveness" is a more apt description of what is essential (Ackerman & Bauer, 1976). Their point was well made. Responsibility, if taken literally, does imply more of a state or condition of having assumed an obligation, whereas responsiveness connotes a dynamic, action-oriented initiative on management's part (Carroll, 1981).

Several other writers in the 1970s picked up on the importance of the responsibility–responsiveness–performance dimensions of social action. Frederick, for example, distinguished between corporate social responsibility (CSR_1) and corporate social responsiveness (CSR_2) in a working paper (Frederick, 1978) that later became a part of the established literature. S. Prakash Sethi (1975) proposed a three-stage schema for classifying corporate social behavior to include social obligation, social responsibility, and social performance.

In 1979, Carroll brought together the social responsibility and responsiveness constructs into a three-dimensional corporate social *performance* (CSP) model. The three dimensions of his CSP model included a basic definition of the CSR construct (which emphasized responsibility), a dimension reflecting social responsiveness, and a dimension of social issues (later termed stakeholders) involved (Carroll, 1979). His basic definition of CSR attempted to identify and clarify the obligations that made up corporate social responsibility and performance. Carroll's CSR definition was as follows: "The social responsibility of business encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time" (1979: 500).

This four-part definition sought to identify and characterize the different types or categories of social responsibilities companies had and it sought to place economic and legal expectations of business in context by linking them to the more socially/ethically oriented expectations of business ethics and philanthropy. The second dimension of his three-dimensional model was "social responsiveness," which purported to suggest different stances or postures companies could take regarding their responsiveness philosophy or strategy. These could range from reaction to proaction, or from doing nothing to doing much. The third dimension of his model enumerated various social issues (consumerism, product safety, environment, etc.) business must address as it plans for corporate social performance (Carroll, 1979: 502). Carroll argued that the three-dimensional CSP model could assist managers in understanding that economic and legal concerns are a vital part of being socially responsible and can help managers to systematically think through the social issues being faced and what their strategic responses should be. In short, CSP requires that (1) a firm's social responsibilities be defined, (2) a response strategy be selected, and (3) the social issues it applies to these be identified (1979: 504).

Though the 1970s was a significant period of conceptual development, a few empirical studies, usually surveys, energized further research on CSR. Bowman and Haire (1975) conducted a study striving to understand CSR and ascertain the extent to which companies were actually engaging in CSR. Sandra Holmes (1976) sought to gather "executive perceptions of corporate social responsibility." Abbott and Monsen (1979) sought to reveal more about CSR's meaning to businesspeople in a research study involving content analysis of the annual reports of Fortune 500 companies.

Infrequent Definitions, Further Research, Alternative Themes

As the 1980s arrived, fewer definitions of CSR were promulgated, more research was conducted and published, and a splintering of writings on alternative concepts or frameworks began to emerge. One definition that stands out during this period, however, was set forth by Thomas Jones. Jones (1980: 59–60) defined CSR in the following way: "Corporate social responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract."

He went on to say that the obligation must be *voluntary* and that it is a *broad* one that extends beyond the traditional duty to shareholders to include other social groups such as customers, employees, suppliers, and neighboring communities (Jones, 1980). Jones' definition hinted at the future use of the term stakeholders by referring to them as "constituent groups" and then giving examples (customers, employees, communities, etc.). One of Jones' important contributions was referring to CSR as a "process." This process characteristic is what he meant by CSR being revised or redefined. Later, Edwin Epstein (1987) elaborated on this notion by articulating what he called the "corporate social policy process." Epstein (1987: 106) maintained that this process was an "institutionalization" within business organizations that included three elements: Business ethics, corporate social responsibility, and corporate social responsiveness.

Research on CSR during the 1980s was especially interested in the relationship between CSR and businesses' financial performance. Scholars were becoming interested in the question of whether socially responsible firms were also more profitable firms. If it could be demonstrated that they were, this would strengthen the argument in favor of the CSR movement (Carroll 1999: 286). An excellent example of the growing interest in operationalizing CSR and seeing if it had any relationship to financial performance was that of Philip Cochran and Robert Wood (1984). Cochran and Wood surveyed various ways in which social and financial performance had been operationalized in the past and decided to use the Moskowitz index, a reputation index, as their measure of CSR. The authors admitted the weaknesses of this CSR measure and called for new measures (Cochran & Wood, 1984: 55).

Another early empirical study examining the relationship between CSR and firm profitability was published by Aupperle, Carroll, and Hatfield (1985). This study operationalized Carroll's four-part definition of CSR and sought the opinions of a sample of business executives. This operationalization was termed CSR orientation. The results of the study confirmed the sequencing of the four components—economic, legal, ethical, and discretionary—on the part of executives (1985: 457). In a later part of the study, the authors partitioned the four CSR components to separate the economic, which was labeled "concern for economic performance" (on the part of the executives surveyed), from "legal, ethical, and discretionary" which were labeled "concern for society" (on the part of the executives surveyed). Aupperle et al. acknowledged that not everyone saw economic responsibility as a part of social responsibility, but rather consider it something business firms did for themselves. They argued, however, that economic viability or sustainability was a contribution to society receiving the goods and services it desired. The authors further observed that the social orientation of an organization can be appropriately assessed through the importance it places on the three non-economic components as compared to the economic (Aupperle et al., 1985: 458). Early measures of the CSR and profitability relationship would be supplanted by later research as this topic became the subject of ongoing research in the decades ahead (Griffin & Mahon, 1997; Orlitzky, Schmidt, & Rynes, 2003).

On a more theoretical level, researchers Steve Wartick and Phillip Cochran (1985) presented an "evolution of the corporate social performance model," which extended the three-dimensional integration of responsibility, responsiveness, and social issues that Carroll (1979) had previously introduced in his CSP model. One of the foremost contributions of these two authors was to recast the three dimensions into a framework of principles, processes, and policies. They argued that the Carroll definition of CSR embraced the ethical component of CSR and should be thought of as *principles*. They recast the idea of responsiveness as *processes* and proposed that social issues should be thought of as *policies* (Wartick & Cochran, 1985: 767). They then proceeded to develop their principles, processes, and policies formulation further.

At least three paramount, identifiable alternative themes to CSR emerged and solidified in the 1980s. These frameworks were business ethics, stakeholder theory/management, and sustainability. Business ethics was becoming an official field of study in the 1980s, though it had played an integral part in CSR discussions prior to this time and was being taught sporadically in colleges and universities. Driven in part by a growing number of business ethics scandals and an increase in the number of philosophers and business faculty beginning to teach business ethics courses, two momentous advances in the field occurred in the early 1980s. An organization known as the Society for Business Ethics was formed and a major journal titled *Business Ethics Quarterly* was established. As an academic framework, Richard De George (1987) might be considered one of the first to distinguish business ethics as a separate field of study. De George acknowledges that business ethics was becoming a field in the 1970s, but it was not until the mid-1980s that that business ethics became institutionalized: "By 1985, business ethics had become an academic field, albeit, still in the process of definition" (De George, 1987: 203).

Clearly, the most important work kicking off the stakeholder management theme was the publication in 1984 by R. Edward Freeman of his book *Strategic Management: A Stakeholder Approach*. Though intended as a strategic management contribution to the literature, it was more quickly seized by business-and-society scholars who saw its close relationship to CSR. Business ethicists also saw it as a useful way of framing ethical issues for study. Stakeholder theory or stakeholder management, as it is often called, took off during the 1980s and became one of the most important "competing and complementary" frameworks to CSR during this period (Schwartz & Carroll, 2008).

It is easy to argue that the field of sustainability began in the 1980s too as it was the Brundtland Commission's definition of the term in 1987 that often marks the official age of sustainability. The Brundtland Commission defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987: 43). A noteworthy contribution to the CSR discussion offered by the sustainability concept was a concern for future generations.

Since this chapter is about CSR in particular, we will defer the further discussion of business ethics, stakeholder management, and sustainability to other chapters. It should be noted, however, that these concepts overlap with CSR and are easily referred to as competing, contrasting, and complementary concepts or frameworks.

Corporate Social Performance Evolves

There were further developments within the concept of CSP in the 1990s and, since they are aligned with the traditional CSR trajectory, they are worth noting. In 1991, Donna Wood (1991) revisited the CSP model and made the most important contributions to the treatment of CSP. Wood discussed and credited many contributors to the increasingly popular notion of CSP, and the model she presented built upon Carroll's (1979) three-dimensional CSR framework and the Wartick and Cochran (1985) principles/processes/policies model.

Wood reformulated these three dimensions (responsibility, responsiveness, performance) into three principles. First, she articulated the *principle of corporate social responsibility* in which she took Carroll's four-part definition embracing economic, legal, ethical, and discretionary/philanthropic, and identified how they related to the CSR principles of social legitimacy (institutional level), public responsibility (organizational level), and managerial discretion (individual level). Second, she identified the *processes of corporate social responsiveness*, which extended beyond Carroll's responsiveness categories (reactive, defensive, accommodative, proactive), that Wartick and Cochran formulated as policies, and she highlighted such processes as environmental assessment, stakeholder management, and issues management (Wood, 1991: 694). Third, she took Wartick and Cochran's policies, which was their elaboration on Carroll's "social issues" category, and reframed them under a new topic of concern: *outcomes of corporate behavior*. Wood's resulting model was much more comprehensive than the earlier versions of Carroll and Wartick and Cochran and introduced matters that were consistent with the earlier models but which the earlier models had not explicitly addressed. An important emphasis in Wood's model was on outcomes or performance, which was more explicit than in the earlier models, and this was a significant contribution. Later, Diane Swanson (1995) sought to reorient the CSP model. She elaborated on the principles, processes, and outcomes reformulated by Wood. Using research from corporate culture, Swanson's reoriented model linked CSP to the personally held values and ethics of executive managers and other employees. She proposed that the executives' sense of morality highly influences the policies and programs of environmental assessment, stakeholder management, and issues management carried out by employees. These internal processes are means by which organizations can impact society through *economizing* (efficiently converting inputs into outputs) and *ecologizing* (forging community-minded collaborations).

Also, in 1991, Carroll revisited his four-part CSR definition. By this time, he was referring to the discretionary component as *philanthropic* because that was how most discretionary actions were being manifested by businesses, especially via business giving, volunteerism, and community relations. He also indicated that the philanthropic nomenclature embraced the newly developing emphasis on corporate citizenship. Following this, he decided to extract his CSR definition from his CSP model and portray it graphically as a pyramid of CSR (Carroll, 1991). The pyramid of CSR depicted the economic category at the base, the foundation upon which the others rest, and then built upward through the legal, ethical, and philanthropic categories. He went on to say that each of these responsibilities is to be fulfilled simultaneously. Stated in more pragmatic and managerial terms, he argued that the CSR firm should strive "to make a profit, obey the law, be ethical, and be a good corporate citizen" (1991: 43).

Closely related to the literature on CSR and sustainability, the concept of the triple bottom line (TBL) was popularized in the mid-1990s by John Elkington (1994). The TBL is a framework that incorporates three dimensions of corporate performance: social, environmental, and financial. Traditional reporting approaches tended to focus on economic or financial performance only, but the TBL model argued that environmental and social indicators were also important. As a conceptual model, TBL makes sense. Attempts to measure these categories of performance, however, have been more challenging. The TBL indices have also been called an emphasis on planet (environmental), people (social), and profits (financials) (Elkington, 1994).

During the 1990s, two societal factors or trends appeared which had a significant impact on the conceptualization and implementation of CSR. The two trends were globalization and the internet. Each of these environmental influences significantly affected how CSR, CSP, and related concepts were perceived, extended, and activated in organizations. Globalization offered more context to the broad constructs of CSR and CSP, allowing for the exploration of different antecedents and outcomes to CSR and CSP. Newer research on global supply chains invoked more discussion on voluntary versus mandated CSR and the wide berth of responsibilities of multinational companies. CSR in emerging markets and developing countries began to be studied, providing insights into how CSR is practiced and implemented in both formal and informal governance systems. The explosion of the internet provided the opportunity for businesses to develop CSR communication strategies, and for researchers to analyze them. However, the internet also opened up the opportunity for broader criticism of a firm's policies and practices, as well as the possibility for boycotts and other forms of protest by disgruntled stakeholders. This generated more opportunities for research regarding CSR, social activism, and socially responsible investing.

An effective way to summarize and characterize the conventional CSR trajectory during the twentieth century is to note how William C. Frederick categorized its development. During the 1960s, traditional notions of CSR developed and these were based on the idea that business firms had a responsibility to society that extended beyond profits. Frederick identified this understanding as CSR_1 (Frederick, 1978). As discussed earlier, the focus in the 1970s shifted towards management's response to CSR_1 and this was termed corporate social responsiveness. Frederick labeled this concept CSR_2. In the 1980s, Frederick sought to imbue the notion of CSR with more of an ethical motivation and he described this version as CSR_3—corporate social rectitude. He argued that CSR_3 embodied the notion of moral correctness in actions taken and in policies formulated, and it is worth noting that this CSR version was identified during the period when business ethics was beginning to grow as a field. In the 1990s, Frederick argued that scholars may be caught up in what he termed the "CSR trap" in which too much focus was being given to the corporation as the center of attention when perhaps we ought to be moving beyond the corporation focus to a new paradigmatic ground based on consciousness. At this point, he argued that it was time for a new CSR acronym reflecting a broader and deeper concern. He proposed a CSR_4 concept that focused on C = cosmos, S = science, and R = religion. In 2006, Frederick (2006: 269) himself posed the question of whether his CSR_4 stage was a "bridge too far"—a goal stretching beyond the reach and interest of CSR scholars and practitioners. So far, Frederick is correct as his CSR_3 drew limited interest and usefulness and his CSR_4 stage has not caught on. Looking back on Frederick's progression, Heng Tien Tien (2014) summarized Frederick's four stages as follows: CSR_1 addresses business's social obligations, CSR_2 focuses on its pragmatic aspects, CSR_3 attempts to fill the CSR core with morals, and CSR_4 seeks to bring in the cosmos as the center of attention and redirect us to the roots of our cosmic existence, giving full consideration of the religious-based impulse inherent in humankind (Tien, 2014).

The New Millennium: CSR Refinements and Competing, Contrasting, and Complementary Concepts

Though new definitions of CSR and CSP were not making headlines as the new millennium arrived, continuous refinements and alternative themes and frameworks advanced as well. In this new millennium section, we will extend the mainstream CSResponsibility–CSResponsiveness–CSPerformance trajectory topics and will update the competing, contrasting, and complementary frameworks or models that were discussed before and introduce new ideas that are a product of the past two decades.

Along with further developments in mainstream CSR, business ethics, sustainability, corporate citizenship, and stakeholder theory were significant carryovers from 1980s and 1990s. Updates on each of them are outside the realm of this chapter; however, it should be acknowledged that each of them continues to develop, refine, and attract numerous adherents and advocates.

On the core topic of CSR, several different strands of thought developed and became popular in the 2000s. The most prominent are the business case for CSR, strategic CSR, implicit versus explicit CSR, and political CSR.

The Business Case for CSR

In the 2000s, a number of different analysts and practitioners continued to advocate for a "business case" for CSR. While it is valuable for companies to engage in CSR for altruistic, ethical, or normative reasons, the highly competitive business world requires that, in allocating resources to socially responsible initiatives, firms continue to consider their own business needs (Carroll & Shabana, 2010). As the business case has arisen and continues to unfold, it refers to the instrumental reasons why businesspeople believe that involvement in CSR needs to bring about distinct and identifiable financial benefits or advantages to the organization. In this line of thinking, CSR directly benefits the traditional financial bottom line (Carroll, Brown, & Buchholtz, 2018: 46). Business case logic holds that a company can "do well by doing good." That is, businesses can perform better financially by attending not only to their core business operations but also by fulfilling their responsibilities to society that extend beyond profit-seeking (Kurucz, Colbert, & Wheeler, 2008: 84).

The business case idea arose in response to a variety of researchers who have conducted research on the relationship between a firm's CSP and its corporate financial performance. For example, in 1997 Waddock and Graves examined the empirical linkages between financial and social performance using the Kinder, Lydenberg, and Domini database, sparking much discussion about the positive relationship between corporate financial performance and CSP, and spawning many other studies that use the same database today. The small but positive relationship between the two has been verified with meta-analyses (Orlitzky, 2005; Orlitzky et al., 2003), and has held up for the most part, despite epistemological contingencies and differences (Orlitzky, 2011). In further analyses of the business case for CSR, the topic has been expounded upon. Four general types of CSR business cases have been set forth by Kurucz, Colbert, and Wheeler (2008: 85–92): cost and risk reduction, gaining competitive advantage, building legitimacy and reputation, and synergistic value creation, that is, seeking win-win-win outcomes. This perspective of a "business case" being needed has expanded to a number of different CSR-related frameworks, including corporate citizenship and sustainability. One cannot help wonder, however, whether business case thinking might at some point undermine the altruistic motives that began CSR in the first place.

Strategic CSR

To a significant extent, strategic CSR is similar to and built upon the same logic that undergirded the business case for CSR. If firms expect to derive some economic or financial benefit from their CSR initiatives, it only makes sense that social, ethical, and public issues be integrated into the strategic decision processes of the firm. That is, firms should focus on ways that both financial and social objectives might be achieved at the same time. This idea has roots traceable to the 1970s and 1980s. Igor Ansoff (1979) broadly argued for strategies that integrated societal issues and he termed them "enterprise" strategies. Schendel and Hofer (1979) argued that enterprise strategy was vital to business being more deeply involved in the everyday affairs of society. R. Edward Freeman (1984) sought to integrate enterprise strategy with stakeholder theory and argue for a more inclusive strategic management approach. Carroll and Hall (1987) advocated strategic management processes that embraced corporate social policy. Strategic CSR became popular in the 2000s as the business case developed and the linkages between social issues and corporate strategy matured in practice.

Continuing in this strategic vein of thought, in 2002, Porter and Kramer suggested that there were competitive advantages to corporate philanthropy, an integral part of CSR. In 2003, Saiia, Carroll, and Buchholtz set forth the idea of "philanthropy as strategy." In 2006, Porter and Kramer continued their line of thought and presented what they called a strategic approach to corporate involvement in society. They went on to clarify the differences between generic social impacts by companies and strategic corporate actions that leveraged companies' competitive positions. In 2011, Orlitzky, Siegel, and Waldman reviewed both the theoretical foundations of strategic CSR and the empirical foundations of strategic CSR. In short, strategic CSR became and continues to be an often researched and practiced version of CSR in the 2000s.

Implicit and Explicit CSR

In the early 2000s, many researchers began to identify and emphasize that CSR crosses multiple levels of analysis, including individual, organizational, national, and transnational. In 2007, Aguilera, Rupp, Williams, and Ganapathi highlighted the need to "put the S back in corporate social responsibility" with a multi-level theory of social change. In 2008, Matten and Moon made an important contribution with the observation that CSR may vary depending upon the geographical context of its application. The question they started with was why does CSR differ among countries and how and why does it change (Matten & Moon, 2008: 404). The fact that global context affected CSR had long been recognized, but Matten and Moon provided a clearer rationalization for this by examining the differences between the United States and Europe, two of the most significant players in CSR. The researchers argued that national differences in CSR can best be explained by historically grown institutional frameworks that have shaped their national business systems, as presented by Whitley (1999). Using Whitley's four key features of historically grown national institutional frameworks—the political system, the financial system, the education and labor system, and the cultural system—they compare and contrast the US with Europe and reach conclusions on how CSR differs in each region (Matten & Moon, 2008: 407–408).

Matten and Moon perceptively concluded that US-style CSR has evolved in a system that provides more incentives and opportunities for companies to take comparatively explicit responsibility. In Europe, by contrast, the corporations' role is more implicitly engaged in CSR due to the society's values, norms, and rules, and institutional frameworks that result in mandatory and customary requirements for corporations to address stakeholder and other CSR issues. Thus, they identify two distinct elements of CSR: the explicit and the implicit (Matten & Moon, 2008: 409–410). A related way of distinguishing between the two is the observation that national institutions have encouraged individualism and discretionary agency in the US but national institutions have encouraged collectivism and systemic/obligatory agency in Europe. They also identify other factors that differentiate explicit versus implicit CSR in liberal market economies compared to coordinated market economies. Though the United States has over a century of explicit CSR built into its history, a key factor has been government's absence from CSR in the US and its greater engagement in CSR in Europe. The researchers go on to observe that Europe has been experiencing a recent shift from implicit to explicit CSR (Moon, 2014: 554–555). The authors proceed to analyze and describe how the application of their proposed explicit–implicit framework goes a long way towards understanding how and why CSR varies in different countries of the world. This framework is significant when one considers how and why CSR is expanding around the globe today.

Related to this, there has surfaced a proliferation of research on CSR in developing countries and a number of different local drivers of CSR have been identified. Wayne Visser (2011: 268–271), for example, has identified that each region, country, or community has a different combination of drivers but that some of the most important are cultural tradition, political reform, socio-economic priorities, governance gaps, and crisis responses. Visser (2011: 271) went on to identify global CSR drivers, tending to have international origins, including market access, international standardization, investment incentives, stakeholder activism, and supply chain integrity. As a manifestation of these different drivers and conditions, Visser (2011: 264–267) sets forth an alternative to Carroll's pyramid of CSR that he argues better describes what it might look like in developing countries. Other such alternative pyramids have appeared in the literature, usually arguing that different countries need different pyramids to accurately reflect conditions there. Following on Visser's identification of CSR drivers, D. Kirk Davidson et al. (2018: 80–88) identified factors in a contextual analysis that shapes CSR across countries that includes history, religion/ideology, social norms, geography, political structures, level of economic development, and civil society institutions (e.g., labor unions, NGOs, media).

Political CSR

Another form of CSR that has become popular in the first two decades of the 2000s is political CSR, often abbreviated as PCSR or pCSR. At first, one might think this is simply CSR applied to the political or governmental realm. But in Europe, where it has been argued it finds its most striking application or relevance, it could be thought of as a companion to the idea of implicit CSR discussed in the previous section. This emerging view of PCSR is relevant in European or similar contexts wherein the government and business historically have assumed a larger role in providing societal benefits. Following this line of thought, PCSR has been defined as follows by its leading advocates:

> PCSR entails those responsible business activities that turn corporations into political actors, by engaging in public deliberations, collective decisions, and the provision of public goods or the restriction of public bads in cases where public authorities are unable or unwilling to fulfill this role.
>
> *(Scherer, Rasche, Palazzo, & Spicer, 2016: 275)*

PCSR suggests that, in some countries, companies have increasingly taken on responsibilities traditionally left to governments. For example, in explicit-CSR countries such as the United States, companies leave it to governments to take responsibility for community services such as health care and education. In Europe, by contrast, more of an implicit-CSR region, companies are expected to play a more active role in societal service programs and responsibilities. PCSR, in recent years, has focused on the impact of globalization and how the weakening of national states has motivated firms to undertake political responsibilities (Scherer & Palazzo, 2011). In these environments, there has been a greater expectation that companies will provide public goods to compensate for developing countries that lack the resources to provide essential public goods for society's needs (Valente & Crane, 2010). Rehbein, den Hond, and Bakker (2018) argue that political CSR is different than corporate political activity in that its focus is more on society than on the organization pursuing it.

Other Competing, Contrasting, and Complementary Concepts

Over the past 40 years or so, a number of competing, contrasting, and complementary concepts to CSR have arisen. Some of the more obvious ones arose during the pre-2000s period, including business ethics, stakeholder management, corporate citizenship, and sustainability. At their core, these concepts have much in common with CSR, but their details are considered outside the scope of this chapter. In the 2000s, several other complementary CSR-related concepts emerged and became popular. Two of the most popular were creating shared values and purpose-driven business. Both have much in common with mainstream CSR and, thus, should be identified as part of the CSR chronicle and evolution.

The concept of creating shared value (CSV) was set forth by Michael Porter and Mark Kramer in 2011. They defined the concept as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates" (Porter & Kramer, 2011: 6). The authors had discussed this concept earlier when addressing strategic philanthropy, but had not developed it as thoroughly as was presented in 2011. Their argument is that companies could create shared value opportunities in three ways: by reconceiving products and markets; by redefining productivity in the value chain; and by enabling local cluster development (2011: 5). The authors sought to differentiate CSV from CSR but their distinctions drew primarily from their own characterizations, and some might argue oversimplifications, of CSR. They portrayed CSR as creating value by "doing good" and focusing on "citizenship, philanthropy and sustainability," while CSV entailed joint company and community value creation (2011: 16). It is a challenging judgment call as to whether CSV truly is a new concept or perhaps CSR reimagined, but Porter and Kramer argue that CSV should supersede CSR in guiding companies' investments in the community.

To illustrate some of the differences of opinion, in a major criticism of CSV, Crane, Palazzo, Spence, and Matten (2014) identify and discuss what they call four major problems with CSV. Their four major objections are: (1) it is an unoriginal idea, (2) it ignores the tensions between economic and social goals, (3) it is naïve about business compliance, and (4) it is based on a shallow conception of the corporation's role in society. In spite of their objections, the authors argue that the CSV notion has done more to get the idea of corporate responsibility issues into business board rooms than anything else recently written. This could be due to the respect and celebrity of the authors or it could be businesses' tendency to fall in love with new nomenclature. Regardless, CSV remains a competing, contrasting, or complementary concept to CSR.

The concept of purpose-driven business is more recent than CSV but it also sounds quite similar to CSR, though its proponents prefer to use this unique terminology. "Purpose" has become a popular buzzword in academic and management circles in recent years, though there does not appear to be a clearly defined, accepted definition of it. It is often explained by contrasting it with a "profit" focused business—profit versus purpose. But this is not unique or definitive because virtually all socially oriented concepts of the past half-century have been contrasted with a focus on profits. If one considers one of the four planks of the "conscious capitalism" movement, striving towards a "higher purpose" seems to get at the notion of purpose-driven businesses. Conscious capitalism claims four major tenets: a higher purpose, stakeholder orientation, conscious leadership, and a conscious culture (Conscious Capitalism, n.d.). Conscious capitalism argues that "Conscious businesses are galvanized by higher purposes that serve, align, and integrate the interests of all their major stakeholders" (Conscious Capitalism, n.d.). In the idea that businesses should exist for a higher purpose, or be purpose-driven, it is apparent that this is quite comparable to the core ideals of CSR. Virtually any conception of CSR has argued that company strategies and policies should extend beyond a focus on profits to embrace social, public, and stakeholder considerations. Some have argued that "purpose" is the new narrative of business. Upon close examination, however, it seems to be quite similar to evolved notions of CSR. If one considers companies that claim to be "purpose-driven" one would likely find these same companies on lists that identify CSR, CSV, or some other social/public/stakeholders/ethics/values orientation. In spite of this similarity, the idea of purpose-driven businesses is relatively new and it is likely that many companies will sign onto this nomenclature because it is fashionable and verbally differentiated.

Summary and Conclusion

The trajectory of CSR continues to rise and it has garnered an explosion of interest since the 1960s when it captured the attention of scholars seeking to define it and explore its many facets. Also, during the 1960s, social movements such as the civil rights, women's, consumer's, and environmental movements provided a societal platform upon which the concept could take root, become relevant, grow, and become indispensable to the success of businesses. CSR has had a robust past and its future remains bright. Other related concepts have grown in popularity during this same period. Among them have been business ethics, corporate citizenship, stakeholder management, sustainability, creating shared value, and purpose-driven business. Other emerging socially/ethically conscious semantics are in the works and doubtless will emerge in the days ahead. Though these other frameworks and terminologies will often be preferred by various advocates, CSR will likely continue to be the centerpiece of the competing, contrasting, and complementary frameworks (Carroll, 2015).

Proponents of CSR would like to see an optimistic or hopeful scenario wherein CSR would be adopted the world over and would be transformational wherever it is applied and practiced. Sadly, such idealism is seldom achieved. A more likely scenario is that CSR will be consistent and stable and will continue to grow on a steady, to slightly rising, path. Four strong drivers of CSR took hold in the 1990s and have continued today. These include its institutionalization in businesses, the demands of globalization, its reconciliation with profitability (the business case), and its proliferation in the academic and business communities. In short, CSR and its related concepts, models, and frameworks face an upbeat and optimistic future.

Questions

(1) What were some of the very early manifestations or applications of CSR among companies? Do these continue today?
(2) Which conception or version of CSR helps you to best understand its meaning? Can you identify companies that employ different CSR interpretations and explain why?
(3) Identify the traditional, mainstream trajectory of CSR. Explain how each stage in the evolutionary process identified an important component of it in implementation.
(4) In the 2000s, several different varieties of CSR came into business narratives. Explain the meaning and importance of the business case for CSR, strategic CSR, implicit–explicit CSR, and political CSR. Are these standalone frameworks or variations on a theme?
(5) Are creating shared value and purpose-driven business truly unique concepts or are they differentiated and updated language for CSR?

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3

EVOLUTION OF THE BUSINESS AND SOCIETY FIELD

From a Functionalist to a Supra-functionalist Orientation

Elisabet Garriga

Introduction

Since the 1950s a great number of theories and approaches have been developed around the business–society relationship. One of the most popular is corporate social responsibility (CSR), but there are others such as social issues management, public policy and business, corporate sustainability, and corporate citizenship, which are used to describe phenomena related to business in society. In more recent years, new concepts and approaches to the topic have emerged, including creating shared value, social entrepreneurship, circular economy, smart cities, and corporate political responsibility.

In 2004, facing a multiplicity of theories, I proposed "mapping the territory" by categorizing the main approaches—generically considered as CSR theories—into four groups (Garriga & Melé, 2004). At that time I assumed as a hypothesis that "the most relevant CSR theories and related approaches are focused on one of the following aspects of social reality: economics, politics, social integration and ethics" (Garriga & Melé, 2004: 52). I cited Parsons (1961), according to whom any social system entails adaptation to the environment (related to resources and economics) (A), goal attainment (related to politics) (G), social integration (I), and pattern maintenance or latency (related to culture and values) (L). This is known as the "AGIL" scheme.

In this chapter, my aim is to describe the evolution of the field that covers the business–society relationship, based on these criteria, identifying the main trends, and updating this "mapping" with recent theories. I will start with Bowen's (1953) notion of the responsibilities of the "businessman" and review the main theories and approaches up to now. It is not my purpose to extensively review all the theories on the theme, but only those which, in my view, have special significance in this evolution.

Exploring recent proposals has led me to revise my previous hypothesis, since some theories can be classified into the functionalist orientation, while others do not respond so well to this and are better viewed as a supra-functionalist orientation. The functionalist versus supra-functionalist distinction is based on three main features. The first feature is the number of aspects that the approach defines and its interrelationship between business and society. While in the functionalist approach the interaction between business and society can be defined with only one main aspect (within the AGIL scheme; Garriga & Melé, 2004), in the supra-functionalist approach there are two or three aspects explicitly interconnected at the same time; and this interconnection is explicitly expressed.

The second feature of the supra-functionalist orientation is what I term "emergence." Within the supra-functionalist approach, there is a change in the perception of the purpose of business; new roles and identities appear beyond business's traditional economic role. An illustrative case of emergence is so-called hybrid organizations, which simultaneously combine economic and social purposes.

The third feature is a difference at the level of analysis. A functionalist approach focuses on the level of society (explaining only the relationship between business and society) while supra-functionalist approaches focus on the macro-system level (capitalism or other economic systems and even the whole social system). Moreover, supra-functionalist theories try to explain how the system works, for instance, by creating shared value and stakeholder management. The latter explicitly proposes a particular kind of capitalism, termed "stakeholder capitalism" (Freeman, Martin, & Parmar, 2007). In contrast, functionalist approaches only focus on a single explicit role of business in society.

The next section reviews the main functionalist approaches to the interaction between business and society. I group them into those which focus on *wealth creation*, in which Friedman's (Friedman & Friedman, 1962; Friedman, 1970) and Jensen's (2002) approaches are paradigmatic ("instrumental theories" [A], in the previous nomenclature); those that focus on *social power* ("political theories" [G]) with Davis's (1960) approach; those that focus on *integrating social demands* ("integrative" [I]), of which corporate social responsiveness, Ackerman (1973) and Sethi (1979), as well as what is known as "issues management" (Johnson, 1983) are the most relevant exponents. Finally, I also include those which focus on *ethical criteria* with the human rights approach ("ethical" [L]). I presented this classification in my earlier paper (Garriga & Melé, 2004), although in a more extensive form than in the present chapter. The sections that follow include recent supra-functionalist approaches that consider the interaction between business and the macro system and explain shared value, focused on *wealth creation and integrating social demands* (A–I) (Porter & Kramer, 2011), corporate political responsibility (Scherer & Palazzo, 2011) with *political power and social integration* (G–I), and stakeholder management (Freeman, Harrison, Wicks, Parmar, & Colle, 2010), which proposes *value creation and trade* (A–L), in which ethical values are explicitly connected, overcoming the separation between facts and values. This review is by no means exhaustive. I have selected only a few relevant examples to show the main trend. The chapter concludes with some reflections on the current landscape on the topic and suggests further lines of research.

Functionalist Approaches to the Interaction of Business and Society

It was not until the second half of the twentieth century that specific literature on corporate social responsibility began to be developed, starting with Howard R. Bowen (1953), who published a book with the significant title *Social Responsibilities of the Businessman* (now, he could have used the term "businessperson" instead, but at that time the presence of women in management was rare). Bowen argued that corporate managers can no more disclaim responsibility for impacts on society-at-large than for their own reckless driving. After Bowen, the approaches that immediately followed were focused at the level of the businessperson, although attention later shifted to the business and society level.

Focus on Economic Objectives and Wealth Creation (A): Maximizing Shareholder Value

One well-known approach here is very straightforward and states that maximizing shareholder value is the supreme criterion to evaluate corporate social activity. Milton Friedman said that any investment in social demands which would produce an increase in shareholder value without deception and fraud should be made:

> There is one and only one social responsibility of business—to use resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.
>
> *(Friedman & Friedman, 1962: 133)*

Management's fiduciary duties towards stockholders are those which are contained in law, in addition to the "ethical customs of the country."

The instrumental orientation of Friedman's (1970) approach was made explicit in an example he provided regarding investment in the local community:

> It may well be in the long-run interest of a corporation that is a major employee in a small community to devote resources to providing amenities to that community or improving its government. That makes it easier to attract desirable employees, it may reduce the bill or lessen losses from pilferage and sabotage or have other worthwhile effects.
>
> *(Friedman, 1970).*

Agency theory (Jensen & Meckling, 1976) is the most popular articulation of this. Managers are the agents of the principals, who are the shareholders. The agents must protect and promote the interest of the shareholders, maximizing their value. Agency theory usually regards shareholder value maximization as the sole objective of corporate decision making and, consequently, social issues become a means to that end. Later on, Jensen (2002) proposed what he called the "enlightened value maximization" model, which accepts some ideas from stakeholder theory when seeking opportunities for value creation, whilst still maintaining the maximization of shareholder value as the firm's key objective.

Focus on Power (G): Corporate Constitutionalism

Keith Davis—a prolific and influential author on the social responsibility of business in the 1960s and 1970s—introduced the relevance and importance of the use of power to the business and society debate.

A central point of Davis's thought, on which his philosophy rests, is the responsible use of power. He argued that "social responsibilities of businessmen should be commensurate with their social power" (Davis, 1960: 71). In this regard, he proposed two action principles: "the social power equation" and "the iron law of responsibility." In accordance with the first, "social responsibilities of businessmen arise from the amount of social power that they have" (Davis, 1967: 45). He pointed out that, to maintain its position of power in society, the company must accept its responsibility towards the whole of society. The "iron law of responsibility" focuses on the negative consequences for business when power is not used in a responsible way. In Davis's (1967: 49) words: "those who do not take responsibility for their power, ultimately shall lose it."

Davis (1960) attacked the assumption of perfect competition: the firm has power to influence the equilibrium of the market. Therefore, the price is not an optimum Pareto, reflecting the free will of participants with perfect knowledge of the market.

Focus on Integrating Social Demands (I): Corporate Responsiveness and Issues Management

Some approaches look at how business integrates social demands, arguing that business depends on society for existence, continuity, and growth. Social demands are generally considered to be the way in which society interacts with business and gives it its legitimacy and prestige. As a consequence, corporate management should take these demands into account and integrate them in such a way that the business operates in accordance with social values.

Among the approaches, one known as "social responsiveness" or "corporate responsiveness" stands out. It arose in the 1970s and its main objective was to address social demands and manage them within the organization (Sethi, 1979). In this approach, it is crucial to consider the gap between what an organization's relevant audiences expect its performance to be and what it actually is. These gaps are usually located in the zone that Ackerman (1973) termed the zone of discretion (neither regulated as illegal nor sanctioned) where the company receives some unclear signals from its environment. He termed the process through which the social objective is spread and integrated across the organization the "process of institutionalization."

The concept of "social responsiveness" was soon widened with the addition of "issues management." The latter includes the former but also emphasizes the process of developing a corporate response to social issues. Issues management has been defined as "the processes by which the corporation can identify, evaluate, and respond to those social and political issues which may impact significantly upon it" (Johnson, 1983: 22).

Focus on Ethical Criteria (L): Human Rights

There are some theories that approach the relationship between business and society in terms of ethical requirements. They are based on principles that express the right thing to do. De George (1989) argued that ethics should inform the whole of business activity, as business ethics also includes the business and society relationship. In the 1980s, deontological (mainly Kantian) and utilitarian approaches were dominant, and in the 1990s virtue ethics provided a new perspective by emphasizing the relevance of personal character in CSR. Other theories advocate consensual standards, including international principles and norms, such as human rights declarations, UN principles for business, and universal rights.

Human rights have been proposed as a basis for CSR, especially in the global marketplace (Cassel, 2001). One of the human-rights-based approaches to understanding the relationship between business and society is the UN Global Compact, which includes nine principles in the areas of human rights, labor, and the environment. Many companies have adopted it. The Global Compact is based on the Universal Declaration of Human Rights.

Supra-functionalist Approaches to the Interaction between Business and Society

As I noted in the introduction, recent approaches to the interaction of business with society adopt a supra-functionalist perspective. As we will see, these approaches feature two or more aspects of AGIL at the same time. They also present an emergent view of the role of business and a level of analysis that goes beyond the simple business and society relationship; instead, they are macro-level-oriented (at the system level: capitalism, the economic system, or the social change level).

Focused on Both Value Creation and Social Integration (A–I): Creating Shared Value

Some recent approaches to business and society focus on both economic value creation and social integration (A–I, in the AGIL scheme). One of them, which has the potential to become popular, is "creating shared value"—a concept created by Michael Porter and Mark Kramer (2011) after the economic and financial crisis that erupted in 2008. The motivation was to restore business legitimacy and present a new form of capitalist system. The idea is that businesses can create economic value by solving social or environmental problems at the same time. Thus, a company can create economic value whilst creating social value. From this perspective:

> The purpose of the corporation must be redefined as creating shared value, not just profit *per se*. This will drive the next wave of innovation and productivity growth in the global economy. It will also reshape capitalism and its relationship to society.
>
> *(Porter & Kramer, 2011: 64)*

Porter and Kramer identify three main domains in which the economic and the social are interlinked and where shared value can be created: (1) reconceiving products and markets; (2) redefining productivity in the value chain; and (3) building supportive industry clusters at the company location.

These three domains constitute three ways to create economic value whilst solving a social problem or satisfying a social need. The first way is satisfying society's needs in a way that is good for customers (benefits that could be embodied in the firm's products) and that serves underserved communities (the bottom of the pyramid). The second way is the firm obtaining productivity benefits by addressing social and environmental issues (natural resources, water use, health and safety, working conditions, and workplace equality). The third way involves cluster development by building in developing countries (formation of open and transparent markets), investing in the network of suppliers, and logistics infrastructure. These three approaches satisfy social needs, increase efficiency, create differentiation, and expand markets.

Porter and Kramer (2011) especially point out the need to overcome the traditional social and economic trade-offs. In neoclassical economic thought, a social improvement imposes an economic cost on business, such as externalities. This was precisely the main argument of Milton Friedman. In the cited article, Porter and Kramer argue that social needs (and not only economic needs) also create markets, and that addressing social harms does not involve a cost to the firm because this is achieved through new technologies, operating methods, and management approaches—and business can actually increase its productivity. Moreover, shared value is not about redistributing value (as fair trade), but about expanding the total pool of both economic and social value.

The concept of creating shared value is intrinsically related to the competitive advantage of the business, integral to how the business competes: "the policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates" (Porter & Kramer, 2011: 67). Hence, shared value initiatives are integral to a company's profitability and competitive position, which means that they have an impact on the company's budget. They leverage the unique expertise of companies to create economic value by creating social value, which suggests that the agenda of such programs is internally generated with stakeholders and not because of activism or pressure from social groups or stakeholders outside the firm.

The concept of shared value has been adopted by multinationals, businesses, and industry associations, and it has become a standard for understanding the business–society relationship. Many case studies, management practices, and industry projects have promoted and successfully created shared value (simultaneous social and economic value). There has also been substantial research into innovation (Pfitzer, Bockstette, & Stamp, 2013), pricing (Bertini & Gourville, 2012), and the ecosystem (Kramer & Pfitzer, 2016) in this regard.

The shared value concept overcomes the traditional distinction between for-profit and non-profit: "The concept of shared value blurs the line between for-profit and non-profit organizations. New kinds of hybrid enterprises are rapidly appearing" (Porter & Kramer, 2011: 67). Porter and Kramer (2011) have argued that the principles of shared value also need to be applied to non-government organizations (NGOs) and governments: "Governments and NGOs will be most effective if they think in value terms—considering benefits relative to costs—and focus on the results achieved rather than the funds and effort expended" (Porter & Kramer, 2011: 73).

The authors defend capitalism as an economic system: "Capitalism is an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs, and building wealth" (Porter & Kramer, 2011: 64), but they believe that "we need a more sophisticated form of capitalism, one imbued with a social purpose" (2011: 77) and this is what creating share value provides.

Focus on Both Power and Social Integration (G–I): Political CSR

Matten and Crane (2005) developed an "extended view of corporate citizenship" based on a perspective of liberal citizenship; considering the company as the administration of a bundle of individual citizenship rights—social, civil, and political—conventionally granted and protected by governments. This approach introduced a certain understanding of CSR in political terms.

However, it was not until several years later, that Scherer and Palazzo (2007, 2011), who understand the business firm as a political actor, openly defended the necessity of a political conception of CSR, which is different from the traditional understanding of the firm's stakeholder responsibility and corporate social responsibility (Scherer, Palazzo, & Matten, 2009).

Scherer and Palazzo define political CSR as "an extended model of governance with business firms contributing to global regulation and providing public goods" (2011: 901), which can facilitate positive and impede negative business contributions to society.

Scherer and colleagues argue that business firms are confronted with increasing social and environmental demands and are asked to take responsibility for issues of public concern. This is particularly true in countries where the capacity of nation-state institutions to regulate socially desirable corporate behavior is declining. As a response, some business firms engage with corporate social responsibility projects and directly contribute to the production of public goods (Scherer, Palazzo, & Matten, 2014: 143).

In accordance with these ideas, also developed in other writings of these authors, I can affirm that this approach includes two dimensions of the AGIL scheme: political power (G) and integrative claims (I).

Scherer and Palazzo (2007) recognize that their approach is inspired by the most recent political thought of the German philosopher Jürgen Habermas (1996, 1998), who advocated "deliberative democracy," which contemplates two forms of coordination, namely "ethical discourse"—also proposed by Habermas—and "economic bargaining." Scherer and Palazzo are critical of the instrumental view of CSR, and believe that their approach can (re)establish a political order where economic rationality is circumscribed by democratic institutions and procedures. They write: "Based on this approach we suggest acknowledging a new political role of business as firms *already engaged* in these governance processes" (Scherer & Palazzo, 2007: 1097, emphasis in the original).

The scholars of political CSR focus on the macro level of analysis, beyond the conventional business and society relationship, and affirm that the involvement of corporations in the production of public goods challenges the received theory of the firm and its strict separation of public and private domains (Scherer et al., 2014: 143). Instead, they propose "a new modus of legitimacy on corporations, it embeds them in the emerging global governance movement and transforms them into political actors" (Scherer & Palazzo, 2011: 913).

Focus on Ethics and Value Creation (L–A): Stakeholder Management

The concept of "stakeholder management," introduced by R. Edward Freeman (1984), presents a new perspective in the field of business and society. In their book *Stakeholder Theory: The State of the Art*, Freeman et al. (2010) emphasize the misunderstanding regarding stakeholder theory and confirm that the original aim of stakeholder theory is value creation and trade. Stakeholder theory is different from other strategic management theories: Value creation activities and processes are to be understood in relation to the firm's crucial relationships with its stakeholders (Harrison, Bosse, & Phillips, 2010; Freeman et al., 2010; Post, Preston, & Sachs, 2002). Stakeholder theory, in its most recent formulations, holds that companies should create as much value as possible for all their legitimate stakeholders for their long-term survival (Freeman et al., 2010). This theory is grounded in the notion that business and ethics are not separate entities, and considers that virtually all business decisions have ethical content. Stakeholder theory aims to solve the problem of the ethics of capitalism (Freeman et al., 2010). This theory focuses on activities and processes between the firm and all of its crucial stakeholders. It is these stakeholders who are the real targets of value creation (Freeman et al., 2010; Post et al., 2002; Harrison & Wicks, 2013). In this way, stakeholder theory provides an alternative to the increasing criticism of the narrow conception of management disciples exclusively focused on economic value (Hausman & McPherson, 2006: 133; Satz, 2010; Sen, 1999).

Post et al. (2002: 89) have stated that the "stakeholder view posits that the capacity of a firm to generate sustainable…long-term value, is determined by its relationships with critical stakeholders." They have argued that what distinguishes a stakeholder from someone that is not is precisely his/her contribution to value creation: "The stakeholders in a firm are individuals and constituencies that contribute, either voluntarily or involuntarily, to its [value] creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers" (Post et al., 2002: 52).

Stakeholder theory tries to overcome the "separation thesis," according to which "The discourse of business and the discourse of ethics can be separated whereby sentences like, 'x is a business decision' have no moral content, and 'x is a moral decision' have no business content" (Freeman, 1994: 412). The fact–value distinction has been discussed extensively in stakeholder theory (Sandberg, 2008; Wempe, 2008; Harrison & St. John, 1996; Harris & Freeman, 2008). Freeman et al. (2010) argue that it makes no sense to talk about business without talking about ethics; they are always integrated. The implication of the integration thesis for the value creation process is that economic and non-economic value are both created at the same time. They cannot be separated or considered independently and, thus, an adequate model of value creation should always consider economic and non-economic value together.

Stakeholder theory, on the other hand, highlights that value is created through shared assumptions and beliefs in a community and may include social and environmental value. For this, each stakeholder value means different things to different stakeholders and has different contents (not only economic or financial content). This principle acknowledges that all business activity is as social as any other activity (Freeman et al., 2010). Therefore, stakeholders may have different concepts of value.

Stakeholder theory understands the process of value creation as a joint process between the firm and the stakeholders. No stakeholder stands alone in the value creation process, nor are they independent, and value is created by and for several stakeholders simultaneously (Freeman et al., 2010).

Focus on Power, Ethical, and Social Integration: Smart Cities

"Smart cities" refers to initiatives and ventures that use all available technology and resources in an intelligent and coordinated manner to develop urban centers that are at the same time integrated, habitable, and sustainable. The smart city concept spans a cross-section of strategies with multiple types of organizations—start-ups, civic organizations, government, and business—to improve the quality of urban life, the provision and management of public services, and the long-term sustainability of the city. One commonality emerges: the use of information technology, the transformative mechanism that makes these areas "smart."

Subsequently, instead of society in general, smart cities focus on the urban center, understood as a complex ecosystem of interrelationships (Visnjic et al., 2016), some of which, for instance

Tokyo, with over 35 million people living in the metropolitan area, are not small at all but bigger than countries such as Austria or Switzerland. In the complex ecosystem, businesses work in a networked ecosystem with all stakeholders, including civic organizations, public bodies, governmental institutions, top universities, business experts, and research centers. As Barrionuevo, Berrone, and Ricart (2012) point out, businesses are ideal for leading and developing projects in collaboration with universities and other public institutions thanks to their project and technical know-how. Firms have huge opportunities to collaborate in the network ecosystem with cross-sectorial initiatives to make cities around the world more efficient, sustainable, and livable. Local governments start by enabling collaboration and they collaborate across sector boundaries. Diverse partners from industry, academia, planning, design, and more bring capabilities that local government lacks (and vice versa).

There are usually five main areas a business can work in: the economic (GDP, economic development), the environment (tacking pollution, managing water efficiently, and supporting green buildings and alternative energy), social cohesion (in areas such as immigration, community development, and care), urban planning (local masterplans focused on designing green areas and public spaces), governance and civic participation (implementation of electronic government or e-government plans, with citizens as the main focal point), and public management (improving the efficiency of local governments: designing new organizational and management models).

In addition to this, business can be involved in projects everywhere in the urban centers: attempting to solve traffic congestion, creating an army of civic technology specialists working with open data, solving the energy crisis, or developing novel governance models such as participatory budgeting. One example could be street lighting solutions, with solar panels and energy-efficient streetlights connected by information technology, incorporating sensors that can automate and control them based on data on solar light and traffic flows (Eccles et al., 2012).

Concluding Remarks

I have described the main trends in the evolution of the literature on business and society, updating my previous theories on the interaction between business and society (Garriga & Mele, 2004). I have highlighted the recent trends in theories and approaches, which are moving from being functionalist to supra-functionalist.

For instance, I compared the business and society theories focused on wealth creation (A), such as those of Friedman (1970) or Jensen (2002), with the creation of shared value (Porter & Kramer, 2011). The latter is not primarily focused on profits, but on creating social and economic value at the same time (A-I) and sets out to redefine the purpose of the firm by creating shared value. Porter and Kramer (2011) explicitly explain the A-I connection through three ways in which companies can create both economic and social value.

There are new forms of organization, focused on A-I aspects, such as hybrid organizational forms or public and private partnerships with both social and economic goals. In this sense, the boundary between for-profit and non-profit organizations is becoming more and more blurred. The shared value concept, rather than focusing on the interaction between business and society, proposes new forms of capitalism and it can be applied to government and NGOs.

Creating shared value and these other initiatives are good examples of what I stated in the introduction: the evolution from a functionalist to a supra-functionalist understanding of business in society. This evolution has three main features: (1) the number of aspects included in the approach; (2) the emergence of a change in the purpose of business; (2) a difference at the level of analysis (see Table 3.1).

Another example of the transition from functionalist theories to supra-functionalist theories are the theories that define the relationship between business and society through the responsible use of corporate power (G), essential for the company's survival in the long term. Along these lines, the

Table 3.1 An example of the evolution from a functionalist to a supra-functionalist approach

		Functionalist	*Supra-functionalist*
Typical approaches		Wealth creation (Friedman, 1970; Jensen 2000)	Creating shared value (Porter & Kramer, 2011)
Aspects (in the AGIL scheme)		*A*	*A–I*
Emergence	Purpose of business	Making profits/ maximizing shareholder value	The purpose of business redefined: to create social and economic value at the same time New hybrid organizational forms, the lines between public and private, social and economic, for-profit and non-profit are blurred
	Goal	Shareholder maximization (economic value)	Shared value: solving social problems while creating economic value
Level of analysis		Interaction between business and society	Capitalist system (the idea of creating shared value also applies to NGOs and governments)

theories proposed by Davis (1960) and others (Carroll, 1979; Wood, 1991) focus on social performance and have evolved into models of corporate political responsibility, which state that business can provide public and collective goods (G–I). In this perspective, the level of analysis moves from society to the global society and political procedures related to democracy.

Proposals functionally oriented by ethical criteria such as human rights can be contrasted with models where ethical criteria are combined with value creation and trade (L–A). This is the case with stakeholder management when it incorporates ethical theories, as some outstanding proponents of this theory (e.g., Freeman et al., 2010) have proposed.

In my synthetic view, I have omitted criticisms that have been made of the different proposals. This would require a wider treatment, beyond the limits of this work. In any case, through different theories we can appreciate certain trends that can be identified in the supra-functionalist orientation.

Suggestions for Further Research

I conclude with suggestions for further research based on the three main trends identified in this evolution.

The first trend, explicit attention to two or more dimensions, should not be too surprising. Donati (1991) interprets AGIL in a relational way in which the adaptation, goal attainment, integration, and latency presented by Parsons (1961) should be understood as four interconnected dimensions present in every social relationship. The articulation of these dimensions brings about an emergent effect. Drawing from this idea, I affirmed that "the concept of the business and society relationship must include these four aspects or dimensions and some connection among them must exist. This must be reflected in every theory" (Garriga & Melé, 2004: 64). This points to the need for further research on these four dimensions and their explicit interrelationships within a more comprehensive approach to business and society.

The second trend is the newly emerging role of business, trying to overcome the narrow vision of separate economic and social sectors, or the distinction between fact and value, the separation thesis. On this point, further research would include developing a sounder integration of economic, social, ethical, and ecological values in business.

The third trend opens the door to wide and complex research even further, when we stand at the beginning of the Fourth Industrial Revolution, with increasing concern about the future of business and the future of the planet itself.

Questions

(1) What is your assessment of the evolution of the business and society field? Do you think that it has improved in the move from the functionalist approaches to the supra-functionalist approaches?
(2) What do you think about the pace of this evolution?
(3) Can we say that the theories of business and society are more useful now (supra-functionalist approaches) than before with the functionalist approaches?
(4) If you wanted to theorize about business and society phenomena today, based on the main ideas in this chapter, what elements would you take into account?

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4

CSR DISCOVERY LEADERSHIP

A Multilevel Framework in Historical Context

Diane L. Swanson

Introduction

The model of discovery leadership is informed by decades of corporate social responsibility (CSR) inquiry that has been part of corporate social performance research. CSR discovery leadership integrates the levels of analysis and topics addressed in this research to underscore that executives can direct values-driven corporate cultures to provide society with triple-bottom-line benefits. The model of CSR discovery leadership elaborates on the type of executive mindset needed for this enterprise and the values at stake.

The Evolution of Corporate Social Responsibility

Some of the first calls for corporate social responsibility came after World War II from the private sector in response to rising expectations of business (Carroll & Brown, 2018). William C. Frederick (2008), one of the founders of the field of CSR in business and society research, argues that this field has a longer history in the United States than in other nations, due to the prevalence of free-market ideology and limited government regulations, which prompts the public to expect the private sector to take up responsibilities that a restricted public sector will not. Not surprisingly, therefore, when CSR emerged as a discipline in the 1950s and 1960s, it emphasized a voluntary role for business that depends on executives viewing themselves as stewards of society's resources. The idea was that power begets responsibility, the voluntary assumption of which was preferable to government regulation. During this first phase of corporate social responsibility, which Frederick classified as CSR1, the executive's conscience was seen as the main driver of voluntary stewardship, which often took the form of charity and philanthropy from the business sector. In addition to identifying the first phase of CSR as an academic discipline and describing its attributes, Frederick (1987, 2008) classified its evolution in two subsequent phases which he called "CSR2" and "CSR3," starting with research that stressed the role of corporate social responsiveness.

In contrast to the obligatory tone of the first phase of CSR, research that focused on the importance of corporate social responsiveness during CSR2 was more action-oriented and pragmatic. Beginning around 1970, this second phase of research emphasized the organizational mechanisms and behavioral patterns that allow managers to anticipate and respond to social expectations. Described later, corporate social responsiveness was largely descriptive, especially when compared to the type of inquiry that marked CSR3 in the mid-1980s. They formed two parallel streams of normative research, the first developed by management scholars and the second by philosophers. According to Frederick (2008: 526), the first normative area focused on values and the second on ethics. The two streams came together to form the CSR3 phase of corporate/business ethics, which took up the question of how to foster ethical corporate cultures. Said differently, this research sought to identify the core values and ethical principles that could guide firms in delivering socially responsible outcomes.

The ethics research in CSR3 included approaches to rights and duties by ethics philosophers who were critical of managers' reliance on a narrow version of utilitarianism to determine whether the economic benefits of their decisions outweigh the economic costs. Some CSR3 ethicists used social contract theory to conclude that managers should view stakeholder claims to rights and justice as legitimate, regardless of such cost–benefit calculations (Donaldson, 1989; Dunfee, 1991). An important precedent for doing so already existed: Adam Smith's (1776) famous justification of capitalism was based on an implicit use of social contract reasoning that justified subjecting the activities to be permitted in the economic sector to certain boundaries that serve the greater good (Collins, 1988). CSR3 ethicists extended Smith's use of this reasoning by seeking to clarify society's boundaries for business in general and stakeholders' expectations of firms in particular. According to R. E. Freeman (1984), these stakeholders include customers, suppliers, business partners, stockholders, employees, social activists, the media, government regulators, civic organizations, and local communities. During this third phase of CSR inquiry, ethicists pointed out that these groups assert various claims to rights and justice-as-fairness that imply correlative duties from corporations (Beauchamp & Bowie, 1993). That is, stakeholder claims represent an alignment of rights and justice with duty. For example, when consumers assert the *right* to safe products, because they view this claim as *fair*, then essentially they are conveying that businesses have a *duty* to provide them with this right.

While philosophers elaborated on this conceptualization of *ethics-as-duty* during CSR3, management scholars investigated the values that could guide managers and influence their behavior in corporate cultures (Deal & Kennedy, 1982; Siehl & Martin, 1983). This investigation showed that managers' on-the-job values can channel corporate decisions toward company goals without fully considering the needs and values of a firm's stakeholders (Jackall, 1988; Frederick & Weber, 1987). Closely related research underscored that executives set the ethical tone at the top of organizations (Treviño, 1990) and embed values in their cultures that shape their responses to the external environment (Schein, 1985; Swanson, 1996, 1999). In this way, understanding corporate culture and the values that can support responsibilities to stakeholders became integral to CSR3 inquiry. The model of CSR discovery leadership, covered later, is especially influenced by this research and its insight that values lend themselves to theory building that spans the individual, organizational, and societal levels of analysis (see Agle & Caldwell, 1999), an attribute that stems from the understanding that values influence cognition, judgment, and behavior (Kluckholn, 1951; Rokeach, 1973) in social contexts that are interconnected (Ayres, 1944; O'Reilly & Chatman, 1996).

The Stationary Model of CSR in Corporate Social Performance Research

CSR research has also been classified in corporate social performance models that illustrate relationships among business and society topics at a point in time. Business and society scholars have periodically updated these stationary models or taxonomies for the purpose of developing theory based on a sorting logic (Mitnick, 1993). Likewise, Donna Wood's (1991) model of corporate social performance extended and revised Steven Wartick and Philip Cochran's (1985) classification which, in turn, was based on taxonomies by Thomas Jones (1983), Archie Carroll (1979), and S. Prakash Sethi (1979). Wood's model illustrated that business and society research could be sorted into the following domains:

(1) Principles of CSR expressed on the institutional, organizational, and individual levels of analysis.
(2) Corporate processes of social responsiveness, the action counterparts to responsibility, as environmental assessment, stakeholder management, and issues management.
(3) Outcomes of corporate behavior as social impacts, social programs, and social policies.

In this categorization, Wood distinguished between topics related to corporate social responsibility, corporate social responsiveness, and corporate social performance. She captured these distinctions by pointing out that *responsibility* addresses the obligations that firms have to society, *responsiveness* indicates the processes by which managers can discern the nature of these responsibilities and manage stakeholders and their issues accordingly, and finally *performance* focuses on the impacts of these processes on society. This sorting of topics conveyed the logic established by accumulated business and society research: That corporations should anticipate and respond to social pressure, formulate solutions to social problems, and be guided by principles of responsibility while doing so (Swanson, 1995). As a reflection of this research, the stationary model summarized principles of responsibility on the institutional, organizational, and individual levels of analysis, with the intuitional principle harkening to the call in CSR1 for business voluntarily to use its power responsibly. The social contract reasoning in CSR3, covered earlier, is implied by all three of the following principles.

- *The institutional principle of legitimacy*: Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it (Davis, 1973: 314).
- *The organizational principle of public responsibility*: Businesses are responsible for outcomes related to their primary and secondary areas of involvement (i.e., economic impact) with society (Wood, 1991: 697).
- *The individual principle of managerial discretion*: Managers are moral actors. Within every domain of corporate social responsibility, they are obliged to exercise such discretion as is available to them, toward socially responsible outcomes (Wood, 1991: 698).

The process model of CSR, also part of corporate social performance research, took up where the stationary model left off.

The process model of CSR in corporate social performance research

Diane L. Swanson's (1995) revision of the stationary classification of corporate social performance topics featured the role of value processes across levels of analysis, starting with reformulations of CSR principles at the institutional and organizational levels.

- *The institutional principle of CSR*: Business organizations are economizing and ecologizing tools.
- *The organizational principle of CSR*: Business organizations have economizing and ecologizing responsibilities.

These two macro-principles, illustrated in Figure 4.1, are based on Frederick's (1992, 1995) CSR3 research that identified four broad value processes relevant to business organizations:

- *Economizing*: Refers to an energy transformation process by which organizations convert inputs to outputs efficiently to provide goods and services required for survival and material flourishing.
- *Power aggrandizing* or *power-seeking*: Refers to status-enforced, self-centered behavior in organizations that seeks to acquire and use coercive power through hierarchical arrangements.
- *Ecologizing*: Refers to symbiotic, integrative linkages between organizations and their host environments that function adaptively to perpetuate the entire community, including human, animal, floral, and physical features of ecosystems (Frederick, 1995: 9).
- *Mutualistic economizing*: Refers to instances where a firm seeks its own economic advantage while permitting exchange conditions that allow the other party to gain some benefits.

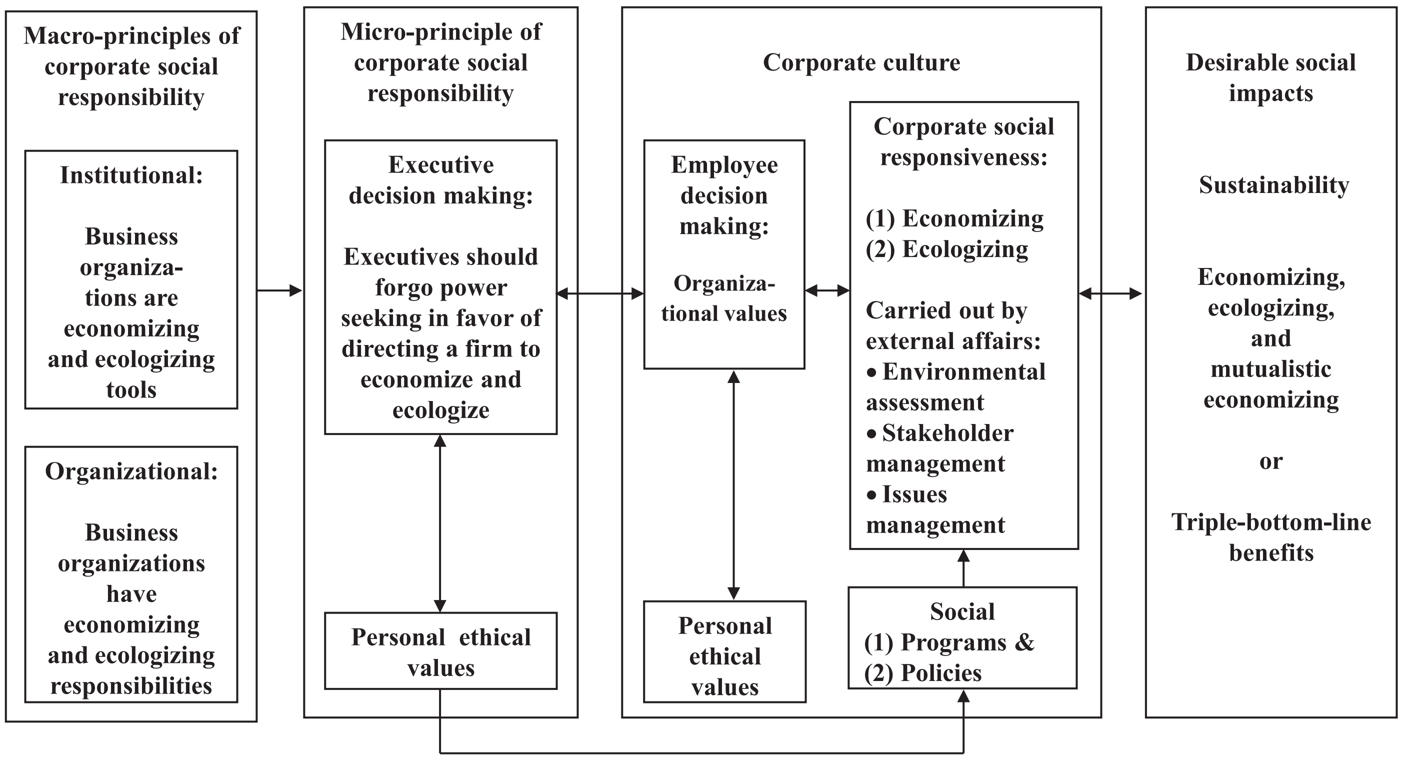

Figure 4.1 The process model of CSR in corporate social performance research. Author created

The two macro-principles at the institutional and organizational levels harken to CSR3 social contract reasoning that grants corporations legitimacy if they enhance the social good. They can do so by producing goods and services on a scale that would otherwise be unattainable (Donaldson, 1989). That is, corporations should *economize*. Furthermore, business legitimacy, a concept underscored in Wood's (1991) stationary model, rests on their ability to adapt production to life-sustaining needs and be integrated into society (Sethi, 1979). This requires that they forge cooperative, collaborative linkages with communities (Etzioni, 1988; Waddock, 2009). In other words, corporations should *ecologize*. In terms of the responsible outcomes, also emphasized in Wood's model, the macro value processes of economizing and ecologizing can be understood in terms of triple-bottom-line impacts, as when firms fulfill their economic function (economizing) while also contributing to the well-being of the community and the natural environment (ecologizing). Or, as John Elkington (1994) put it, positive triple-bottom-line impacts are those that sustain people, profit, and planet (or enhance social, economic, and environmental well-being). For example, if a firm makes a profit from mining a precious metal; hires locally; provides employees with health insurance, good working conditions, and continuing education; avoids negative externalities, such as water and land pollution; and returns the land to a better state than it found it, then sustainability in terms of triple-bottom-line outcomes has been served.

That economizing and ecologizing are not necessarily mutually exclusive brings *mutualistic economizing* into focus. Again, mutualistic economizing occurs when a firm seeks its own economic advantage while permitting exchange conditions that allow the other party to gain some benefits. If such benefits enhance not only the quality of community life, but the physical features of non-human ecosystems as well, then sustainability in its broadest sense is served. For example, mutualistic economizing may occur when firms partner with universities to train engineers or other specialists in areas germane to ecological sustainability, including innovations in renewable energy that yield profits while benefitting human communities and their natural environments. Mutualistic economizing may also occur when corporations strengthen ties with their communities by making charitable contributions to non-profit organizations dedicated to social or environmental improvements.

Figure 4.1 depicts a micro-principle for executive decision-making based on the understanding that coercive use of self-centered power, or *power aggrandizing*, reduces the potential for business organizations to serve economizing and ecologizing goals (Frederick, 1995). As such, this micro-principle takes up the concern expressed in the stationary model that corporations may abuse their power. However, it places the responsibility for avoiding such abuse with the executive manager at the individual level of analysis.

- *The executive principle of decision-making for CSR*: Executives should forgo power-seeking in favor of directing a firm to economize and ecologize.

Two-way arrows in the process model indicate that executives' personal values impact their decision-making (Hambrick & Mason, 1984), particularly their ability to formulate social programs and policies that drive corporate cultures to enact desirable societal impacts *vis-à-vis* processes of responsiveness. This depiction benefits from previously described CSR3 research on how executives embed values in organizations that shape their responses to the external environment (Schein, 1985; Swanson, 1995, 1999). As featured in Wood's (1991) stationary model, these responses are informed by environmental assessment, stakeholder management, and issues management, and Figure 4.1 indicates that these processes are carried out by external affairs employees who span the boundary between a firm and its external stakeholder environment. Both personal and organizational values are shown to be key to these decision-making processes, as is the information gleaned about stakeholder values, discussed next.

The personal values that can impact executive and employee decision-making are depicted in Figure 4.1 as "ethical values," a stipulation that brings together the research on ethical principles and values that made up the two streams of CSR3 research. This qualification follows from the understanding that both ethics and values are intimately related in driving behavior in corporate cultures (see Carroll & Buchholtz, 2012: 213). For the purpose of theory building, the term "ethical values," or simply "values," captures this relationship while retaining the insight from CSR3 that standards of rights and justice asserted by stakeholders imply duties for firms. To illustrate this point again, consider that when stockholders assert their *right* to receive accurate reporting of financial data, then they are essentially revealing that they believe that this expectation is *fair*. In other words, they are revealing that they *value transparency* and that managers have a *duty* to deliver it. Conveyed by the two-way arrow between corporate culture and desirable social impacts in Figure 4.1, an important aspect of responsiveness is that employees detect such stakeholder values and transmit this information to the executive and other employees for inclusion in decision-making aimed at their duty to enact socially responsible impacts.

The processes in Figure 4.1 are consistent with Wood's (1991) assertion that principles of responsibility are analytical forms to be filled with value content that can be operationalized across levels of analysis. Likewise, Swanson's (1995) process model shows that the executive's orientation to values on the individual level drives organizational processes that ultimately affect society. This depiction is consistent with CSR3 research that demonstrated that the executive can embed values in an organization's culture that shape its responses to external issues. It is also consistent with CSR3 findings that values operate dynamically across the individual, organizational, and societal levels of analysis. Some of the value relationships implied by these processes are elaborated upon in the section on CSR discovery leadership that follows. Frederick's (2018: 4) encapsulation of decades of CSR research provides a prelude to this section:

> Corporate social responsibility (CSR) occurs when a business firm consciously and deliberately acts to enhance the social well-being of those whose lives are affected by the firm's economic operations. CSR therefore blends and harmonizes economic operations with a human community's social systems and institutions, creating an organic linkage of business and society. The goal of this relationship is to achieve a balance between the firm's economic operations and the society's aspirations and requirements for community welfare.

CSR Discovery Leadership in a Multilevel Framework

Building on the research described so far, Swanson (2008, 2014, 2017, 2018a, 2018b) extended corporate social performance theory building with a model of CSR discovery leadership that underscores the executive's role in directing values-driven organizational cultures to serve the greater good. In constructing this model, Swanson recast the field's earlier emphasis on the executive's conscience in CSR1 and the action orientation of CSR2 with a focus on the kind of mindset needed to direct a firm to discover and respond to stakeholder expectations of triple-bottom-line benefits, some of which are legally mandated whereas some, including philanthropy, are discretionary but expected nevertheless. According to the values literature in CSR3, these expectations are properly understood to be value-defined, including that stockholders count on *strong economic performance*, consumers seek *product safety*, workers desire *equitable pay*, environmental activists value *environmental sustainability*, and communities look for firms to contribute to local causes that enhance *human or environmental well-being*.

Shown in Figure 4.2, Swanson calls this mindset "associative" and proposes that it is a necessary condition for CSR discovery leadership aimed at balanced triple-bottom-line performance. She proposes that four interrelated realizations define this type of leadership, starting with an executive's

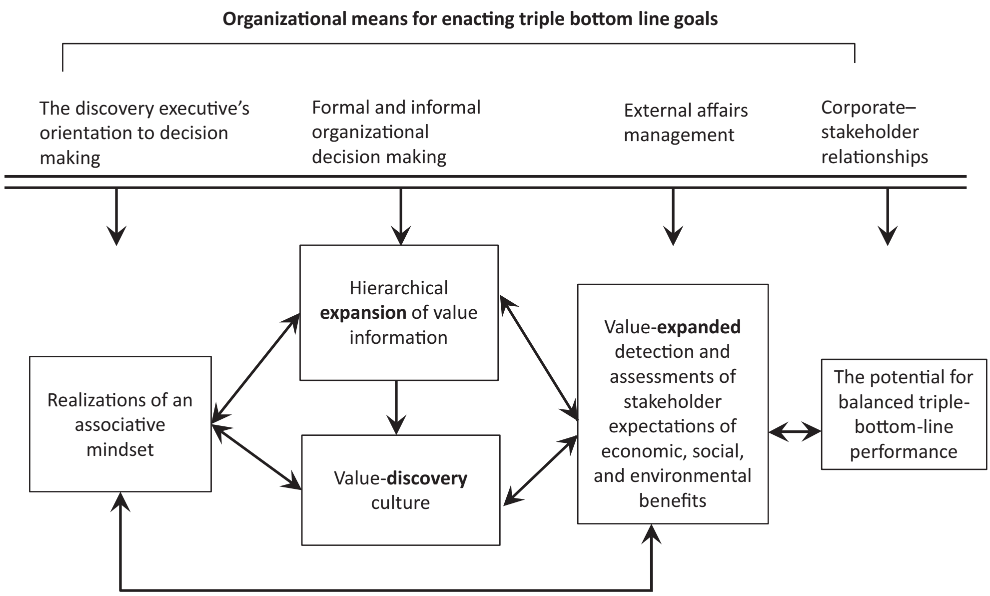

Figure 4.2 CSR discovery leadership. Author created

awareness that a firm is not separate from its environment but is symbiotic with it. Without this realization of affiliation, there is no possibility of an associative mindset.

> *Realization #1: Business organizations have symbiotic relationships with their social and natural environments.*

The second realization follows from the first: under the terms of the social contract, an executive is conscious of his or her responsibility to strive for balance in delivering triple-bottom-line outcomes that serve the greater good. This means eschewing power-seeking, as the micro-principle of executive decision-making in the CSR process model (Figure 4.1) indicates.

> *Realization #2: The responsible business leader pursues a balanced enactment of economic, social, and environmental goals.*

This realization comports with the two macro-principles in the process model. However, by acknowledging the importance of balance, it signifies that value-defined goals are not necessarily mutually exclusive. Indeed, value synergies may be possible. For example, if a firm reduces waste from production it may, in time, garner a reputation for protecting environmental well-being (ecologizing) that yields economic benefits (economizing). Such synergy may be magnified by the aforementioned mutualistic economizing, including when a firm partners with a non-profit organization to assist with the waste reduction. Another example of value synergy is that the executive who directs employees to prioritize product safety may also enhance profitability, if the firm gains a reputation for protecting consumer well-being (see Fombrun, 1996). The second realization points to the importance of finding and balancing value synergies for optimal triple-bottom-line performance.

Along these lines, there is a growing consensus among academics that a good reputation for social and environmental performance among stakeholders will likely result in or contribute to a firm's positive financial performance (Mahon, 2002; Orlitzky, Schmidt, & Rynes, 2003; Porter &

Kramer, 2006) and reduce business risk (Orlitzky & Benjamin, 2001). These prospects substantiate the need for external affairs specialists to respect stakeholders and engage them in relationships based on the values of trust and transparency (see Frederick, 2012). Indeed, John Browne (2016) reports that a company's ability to engage stakeholders in this way is worth more than 20 percent in superior stock performance over the course of a decade (see also Orlitzky & Swanson, 2012). An executive capable of orchestrating such relationships must necessarily have a mindset predicated on Realizations 1 and 2.

The third realization necessary for executive association is that values are key to finding ways of directing organizational decision processes toward a balanced enactment of triple-bottom-line goals.

> *Realization #3: The responsible business leader discovers how to embed (a) value information and (b) personal and organizational values that facilitate triple-bottom-line performance into organizational decision processes.*

The model of CSR discovery leadership in Figure 4.2 illustrates that the executive who has an associative mindset is capable of creating a culture driven to discover and consider stakeholder expectations of triple-bottom-line performance. This is because the associative executive requires a complete reporting of such information along the chain of command, indicated as a "hierarchical expansion of value information" in Figure 4.2. The one-way arrow from this box to the one below it portrays that the transmission of this information throughout the organization can help shape a culture capable of factoring such information into all decision-making. The "value discovery" aspect of this culture is consistent with the first aspect of Realization #3: the associative executive will direct external affairs specialists and other employees who span the boundary between the organization and society to discern stakeholder expectations of triple-bottom-line performance and establish communication channels that transmit this information to decision makers throughout the organization, as two-way arrows in Figure 4.2 indicate. Because these expectations are value-defined, Figure 4.2 indicates that the associative executive who quests for CSR will direct a continuous "value-expanded detection" of triple-bottom-line information in external affairs management. The transmission of this information throughout the organization is of critical importance to the associative executive who seeks to embed the potential for triple-bottom-line performance into organizational decision-making processes.

The second part of Realization #3 highlights the significance of finding ways to embed the values that serve triple-bottom-line goals into organizational decision processes. An executive has many ways of doing so, including modeling desirable personal values and rewarding employees who follow suit (see Schein, 1985; Savitz, 2013). Candidates for such *personal values*, drawn from Milton Rokeach's (1973) classification of values, include *broadmindedness*, *capability*, *courage*, *helpfulness*, *honesty*, *imagination*, *logic*, and *responsibility*. To illustrate, external affairs specialists and other employees who operate on the boundary between a firm and its environment must be *broadminded* and *imaginative* enough to discern the value-defined expectations of stakeholders, such as consumers' anticipation that they have a *right to know* product ingredients. By implication, executives striving for responsible performance will direct these specialists to be *accountable* and *truthful* in conveying these expectations to senior managers and other employees, and ideally exhibit the *courage* to be *honest* when such information is not welcome. Moreover, *responsible* public affairs specialists will understand the need to engage in *helpful* and *honest* communication with stakeholders in the process of such discovery.

The second part of Realization #3 also signifies that the associative executive understands the need to discern the *organizational values* that facilitate responsible performance and embed them in decision processes as well. Examples of such collective values in an organization include *communication*, *community well-being*, *compliance*, *cooperation*, *efficiency*, *economic growth*, *ecological sustainability*, *employee cohesion*, *quality*, *innovation*, *learning*, *productivity*, *product quality*, *resource conservation*, *safety*, *teamwork*, *transparency*, and *trust*. Many of these values are interrelated, synergistic means to triple-bottom-line goals. For example, *efficiency*, *productivity*, *teamwork*, *cooperation*, *employee cohesion*, and *innovation* are values that can be leveraged in support of *economic growth*, *community well-being*, and *resource conservation* (Frederick, 1995; Swanson, 2014; see also Fröbel & Marchington, 2005; Tohidi, 2011). The associative executive not only realizes the importance of embedding such values into organizational culture and leveraging their synergies, but he or she also understands the value of *learning* from this experience, which points to the fourth realization necessary for discovery leadership.

> *Realization #4: The responsible business leader directs employees to learn continually about the firm's economic, social, and environmental impacts and stakeholders' expectations and assessments of them.*

Conveyed in the box describing external affairs management in Figure 4.2, tracking a firm's triple-bottom-line impacts and stakeholders' assessments of them allows for the value of organizational learning to be part of discovery. It follows that the validity of this information may be bolstered by reporting designed to measure it, such as that established by the Global Reporting Initiative (2012).

To summarize, the associative executive has the potential to create an organization that continually discovers ways to enact triple-bottom-line goals and to learn from the experience. This is the essence of CSR discovery leadership.

Implications for Future Research

CSR discovery theory building is not complete. Notably, its four realizations should be seen as necessary but insufficient conditions for optimal triple-bottom-line performance. That said, CSR discovery leadership has many implications for research that can inform practice (Swanson, 2017, 2018a). Of these, the role of boards of directors in hiring associative executives is significant, because boards that support CSR need to know if executive candidates realize that relationships with stakeholders are symbiotic. According to the discovery approach, if this perception is absent, then prospects for responsible leadership are not credible. One possibility for determining whether an executive candidate realizes symbiosis is to give him or her a personality survey designed to assess this perception. One study suggests that the personality factor of agreeableness, which denotes the inclination to be cooperative, friendly, altruistic, tender-minded, and trusting (Goldberg, 1993), is consistent with an other-regarding associative mindset (Orlitzky, Swanson, & Quartermaine, 2006). This research, although preliminary, hints that it may be possible to develop a questionnaire that measures associative thinking as part of a portfolio of methods for screening executive candidates for socially responsible leadership potential.

Although a partial inventory of personal and organizational values has been provided herein, future research should account for all values relevant to triple-bottom-line performance. That done, scholars will be in a better position to examine synergistic relationships between values that affect responsible performance. For instance, one study found that an alignment of personal values and organizational values can lead to a higher level of employee job satisfaction (Berkhout & Rowlands, 2007) which, all else equal, implies better organizational performance (Harter, Schmidt, & Hayes, 2002; McGregor, 1960; see also Seevers, 200). Such research may help pinpoint value alignments that can facilitate a balanced provision of triple-bottom-line benefits, which goes to Realization #2. Moreover, understanding such value relationships may help diagnose distinctive value proficiencies required for different employee roles. For instance, although all employees should prize *efficiency*, this value has special significance for those who work in production. Similarly, *transparency* and *compliance* are especially important in the Office of Investor Relations. The identification of such role-specific value proficiencies can help discovery executives know to direct the Office of

Human Resource Management to hire for them. One area for inquiry is whether human resource management specialists can use the Rokeach Value Survey to determine if the values of potential employees are aligned with those deemed necessary for specific organizational roles (see Robbins, Judge, Millette, & Jones, 2014).

Another area to investigate is how to handle organizational value conflicts, which may occur, for instance, when the goal of improving *productivity* compromises consumer product *safety*. This inquiry should address the following questions: Who in the organization is best suited to detect and track such conflicts? Should this task be centralized in one office or decentralized throughout the organization? What kind of conflict risk analysis and reporting should the discovery leader require? This line of investigation should also address whether a flatter chain of command could speed the transmission of such information to the executive and other employees. The point is to address value conflicts in a timely manner before they risk a firm's reputation, as when *safety* concerns are ignored in favor of rushing a harmful product to market for short-term *financial gain*. The discovery perspective would also benefit from a fuller accounting of the means by which an executive can embed values that expedite triple-bottom-line outcomes into a firm's culture. Andrew Savitz (2013) suggests that hiring employees who believe in triple-bottom-line goals is a good place to start, which points to the need for valid screening techniques to be developed for this purpose, along with commensurate job descriptions and reward and promotion criteria.

Comparing the triple-bottom-line performance of firms that employ such practices to those that do not could further develop a theory of discovery leadership. Likewise, studies that track triple-bottom-line outcomes across industries could account for variances in outcomes due to differences in product lines, technologies, and resources. This is important from the vantage point of public policy, since it cannot be assumed that the optimal provision of triple-bottom-line benefits would be the same for firms of various sizes in distinct markets with unique resource needs and stakeholders (Swanson & Orlitzky, 2018). Such studies could enhance society's understanding of conditions under which public policy and regulation should provide special oversight of firms that lag behind their peers in responsible performance while recognizing and perhaps rewarding firms with best practices established by discovery executives.

Conclusion

CSR discovery leadership is informed by decades of research based on the precept that business has legitimacy if it serves the greater good. Discovery leadership elaborates on the mindset necessary for directing values-driven corporate cultures to provide this good in the form of triple-bottom-line benefits. Further development of this model depends on understanding how boards of directors can screen executive candidates for an associative mindset. Additionally, theoretical completeness depends on accounting for all the values involved in organizational decision-making, identifying more fully their potential conflicts and synergies, appreciating the value proficiencies needed for different employee roles, and ascertaining how human resource management specialists can hire for them. Finally, benchmarking CSR discovery practices may inform public policy that seeks to oversee firms that lag behind their peers in triple-bottom-line performance.

Questions

(1) What levels of analysis are addressed in corporate social responsibility research?
(2) What is the role of values in corporate social responsibility research, and how does it compare to the role of ethics in that research?
(3) What outcomes should executives who want to serve the greater good strive for?
(4) What kind of mindset do socially responsible business executives need?

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5
A THEORY OF BUSINESS

Thomas Donaldson and James P. Walsh

Introduction

While most agree that the purpose of business minimally involves the creation of value, we believe that a blurred double image of value haunts the discussion of business's purpose.[1] The image of what counts as value for a single firm is laid atop an image of what counts as value for business in general. These two images cannot match. Indeed, the resulting conceptual blurriness is a classic example of a composition fallacy—we should never mistake the properties of a part for the properties of the whole. We have asked business students and colleagues alike to fill in the blank in the following sentence: "Law is to justice, as medicine is to health, as business is to _____."

The first reaction is always one of awkward silence. People are surprised that the answer does not roll off the tongue. There is always a sense in the room that we should know the answer, and yet, we do not. Then the answers come. A cluster of people will focus on profit, money, and wealth. Others, more expansively, will talk about value creation and prosperity. Still others will focus on the likes of coordination, exchange, production, and innovation. Some even shift gears and focus not on wealth and well-being, but on greed, power, and oppression. This exercise points out three challenges when thinking about the nature of business. One is that we grapple with its purpose. The second is that we have a hard time disentangling our thinking about a single business firm from business more broadly. Finally, business is not always an unalloyed good.

A goal we have been pursuing for the last few years is to fill in the blank space for the "purpose" of business (Donaldson & Walsh, 2015). In doing so, we have arrived at a set of formal definitions that give precision to such everyday concepts as value, dignity, and business success—terms that we think capture the purpose of business. In the end, we think that business is about nothing less than the optimization of collective value.

We want more and less from business these days. Tellingly, Margolis and Walsh (2003: 268) began their paper entitled "Misery loves companies" with the words "The world cries out for repair." With firms' wealth and capabilities so clearly on display, Margolis and Walsh observe that they are a ready target for appeal. Beyond providing quality goods and services at a fair price, as well as local employment and investor wealth, firms are also asked to sponsor all manner of public health and community development initiatives.

However, many fear the firm. We have been witness to what can only be called dreadful corporate behavior during the past three decades (Greve, Palmer, & Pozner, 2010). Business legitimacy and the social trust that serves as its foundation has been damaged. The concern born of the turn-of-the-century scandals such as Enron, WorldCom, and Tyco were fueled anew in September 2008 with the collapse of Lehman Brothers and Washington Mutual. As the financial crisis worsened, the US Government had to bankroll scores of troubled firms, and it spent billions of dollars to prevent a total economic collapse.

Even before the financial crisis, confidence in big business was dropping. The Gallup organization has queried the US public about its confidence in society's institutions since 1973. Figure 5.1 reveals the responses they received over those 47 years (Gallup, 2020). It pictures the contagious loss of business legitimacy that we have witnessed since the turn-of-the-century scandals, if not before.

Legitimacy has fallen in tandem with rising expectations: society expects more from businesses these days than merely creating wealth. For example, a recent survey tells us that just 7% of the US population believes that a business should only make money for its shareholders (Cone Communications, 2013). Even more recently, Cone Communications (2018) told us: "Americans prioritize companies that are responsible (86%), caring (85%), advocate for issues (81%), protect the environment (79%), and give back to important causes (73%)."

A Beleaguered Straw Man

Our current understanding of business is mainly drawn from economics, specifically from what is known as neoclassical economics. Economists offer us a theory of the firm, telling us why the firm exists and how business in a world of firms differs from business in a world of market exchange. Known broadly as the neoclassical theory of the firm, the power and reach of this work are impressive. Indeed, William Allen, former Chancellor of the Delaware Court of Chancery, once remarked, "One of the marks of a truly dominant intellectual paradigm is the difficulty people have in even imagining an alternative view" (Allen, 1993: 1401). Alternative theories have had a hard time gaining traction.

Despite this, the neoclassical theory of the firm has been under scrutiny for decades. Its salience and very success no doubt elevated its status as a high-value target for academic critics. However, the parade moves on without jostling the dominance of neoclassical theory. Sensing futility, we are

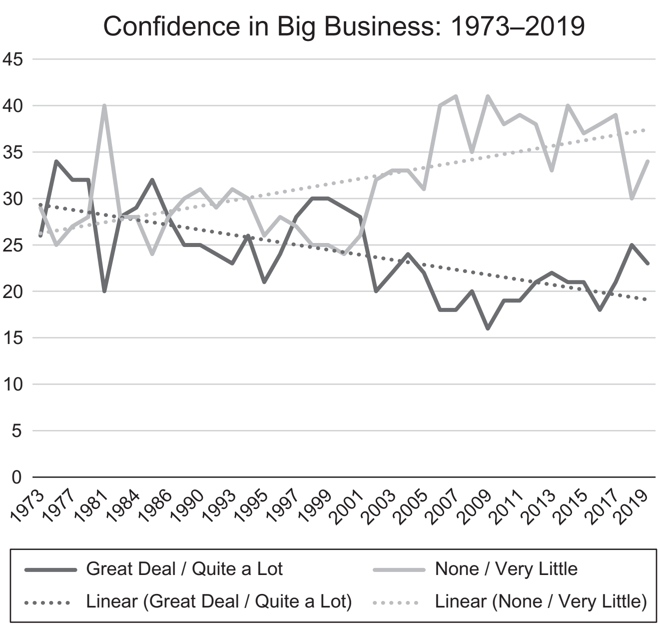

Figure 5.1 Confidence in big business, 1973–2019. Author created

reminded of Winston Churchill's now-famous words to the House of Commons on 11 November 1947: "No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except for all those other forms that have been tried from time to time." Channeling Churchill, one might say,

> No one pretends that the neoclassical theory of the firm is perfect or all-wise. Indeed, it has been said that the neoclassical theory of the firm may be the worst theory of the firm, except for all those other theories that have been tried from time to time.

On balance, the neoclassical theory of the firm serves business leaders' narrow interests reasonably well. The problem is that the theory was not developed to address society's broader interest in business activity; the source of the problems we identified above. We need a theory that can answer the riddle posed at the beginning of this work: "Law is to justice, as medicine is to health, as business is to _____?" In the absence of such a theory, we suffer a fallacy of composition.

A Fallacy of Composition

A fallacy is a form of deceptively bad argument. A fallacy of composition occurs when one assumes that the property of a part, or all parts, can be taken to represent the whole. Just because every member of the investigative team is an excellent researcher, it does not follow that the team is an excellent research team. It will not be an excellent one if the members cannot work well together.

Such a deceptive line of reasoning tempts false conclusions in management theory. Imagine that the purpose of a firm is to maximize its shareholders' wealth or, say, to delight its customers. We must remember that a single firm is just one part of the broader agglomeration of firms that comprise business activity, activity that sits squarely in an institutional and historical context. We should take great care before we conclude that the purpose of business is to maximize shareholder returns or to delight customers. The composition fallacy alerts us to the possibility that the attributes of a successful firm (or firms) may not be the same as the attributes of successful business in general. A closely related confusion, while not a fallacy *per se*, is the conflation of business means with business ends. Operational efficiency, for example, may be crucial to a firm's success and even to business success, but it would be a mistake to conclude that efficiency itself is any ultimate firm or business goal. The temptation to do so is real, but we need to be alert to the problem of goal displacement as we consider purpose, that is, the problem of confusing the means to the goal, in this case, efficiency, with the goal itself (Warner & Havens, 1968).

Consider engines. At a time when the social sciences grapple with bouts of physics envy (Flyvberg, 2001), a look at the limitations of physics is instructive. One can define a mechanical engine as a machine with moving parts that converts power into motion. There have been and are many engines: Hero's (ancient Greek) wind-wheel engine that drove an organ, the steam engine that drove locomotives, the modern internal combustion engine that is ubiquitous today, and the atomic fission engine that powers nuclear submarines. Physical theories dealing with one particular aspect of engines, namely, their efficiency in overcoming friction and converting power into motion, have inspired better and better engines. But as powerful as these ideas have been for improving efficiency, we do not fully understand what an engine really is until we relate it to its human value. Even a supremely intelligent scientist from another galaxy would not know what an "engine" is without some theory that references its use and purpose, such as in transportation. Otherwise, it is simply a "machine with moving parts." Similarly, it is impossible to understand fully the nature of business in society by merely looking at the descriptive principles that undergird the efficient operation of a firm in society.

Our goal, thus, is to begin to develop a conceptually robust theory not of firms, but of business.

Definitions for a Theory of Business

Language brings our world into relief. Specialized languages such as mathematics, logic, topology, and, yes, economics, systemize thinking with extreme clarity. The linguistic philosopher Ludwig Wittgenstein (1953) compared specialized languages to new suburbs in urban areas—they are new entrants to an existing linguistic territory. As we have seen, however, the critics and defenders of the beleaguered straw man, the neoclassical theory of the firm, often talk past one another because the specialized language of neoclassical theories has difficulty interpreting issues lying outside its scope. The strength of specialized languages is that they embody sharper tools for particular purposes. Their weakness connects to their strength; their acuity comes at the cost of conceptual narrowness. For example, the language of DNA and genetic biology may do an excellent job of explaining how a zygote becomes a human being, but it does a poor job of explaining how a human being will fall in love with another, create a new zygote, and reproduce the species. Neoclassical theories function reasonably well for their designed purpose. The issue is that their purpose is limited. In order to reach beyond their designed scope, we require different terms and different theories. If we want to achieve depth and clarity in capturing the purpose of business, we require a specialized language.

Any theory of business needs to focus on four key ideas. Three of these are common to the contemporary literature on corporate governance; namely, we must consider the purpose, accountability, and control of business. Also, given that ours is to be an action-guiding or "normative" theory as well as a factual or empirical one, we will consider the nature of business success. With these four aspirations in mind, we offer the following definitions.

(1) **Business:** a form of cooperation involving the production, exchange, and distribution of goods and services to achieve collective value.
(2) **Business participant:** someone who affects or is affected by the pursuit of collective value. Some business participants are identified through their membership in entities that affect or are affected by the pursuit of collective value.
(3) **Positive value:** a reason for acting where the object of the act is seen as worthy of pursuit.
(4) **Negative value:** a reason for acting where the object of the act is seen as aversive.
(5) **Intrinsic value:** a positive value whose worth does not depend on its ability to achieve other positive values.
(6) **Benefit:** the contributions made by business to the satisfaction of a business participant's positive and intrinsic values, net of any aversive impact on the satisfaction of those same values.
(7) **Collective value:** the agglomeration of the business participants' benefits, again, net of any aversive business outcomes.
(8) **Dignity:** an intrinsic value prescribing that each business participant be treated with respect, compatible with each person's inherent worth.
(9) **Dignity threshold:** the minimum level of respect accorded to each business participant necessary to allow the agglomeration of benefit to qualify as business success.
(10) **Business success:** optimized collective value, optimized subject to clearing the dignity threshold. Equifinality assumed, alternative states of business success are possible.

We understand business to include a system of production, exchange, and distribution relationships among and between the entities that constitute firms' value chains: firms themselves, civil society, institutions of government, and the communities that both sustain and benefit from business activity. All of these entities, and the individuals that comprise them, participate in business activity. However, we reserve the term "business participant" for those who are the ultimate bearers of value, namely, persons.

It may strike some as odd that our definition of business emphasizes cooperation instead of competition. To be sure, competition plays an essential role in business. Many see it as the heartbeat of market capitalism. Still, if we want to understand the purpose, accountability, control, and success of business, we must place competition in its proper context. The market is a form of cooperative institution. Moreover, competition is significant because it serves as an important means to maximize value. However, it is not the only means to create value. The ability of groups to cooperate in competitive systems is also recognized as a critical economic success factor (Markussen, Reuben, & Tyran, 2014; Lado, Boyd, & Hanlon, 1997). With competition so celebrated in contemporary society (Stalk & Lachenauer, 2004; Stalk, 2006), we need to be alert to goal displacement (means–ends inversion). We need to keep in mind that competition itself is not the goal of business.

We define a positive value as a reason for acting when the object of the act is seen as worthy of pursuit. Put another way, it is someone's reason for acting. This definition taps a deep legacy in moral philosophy, one that defines values in terms of reasons and one that relates values to human interests (c.f. Perry, 1914, 1926). T. M. Scanlon's view, reflected in the approaches of contemporary moral theorists, is that "to call something valuable is to say that it has other properties that provide reasons for behaving in certain ways with respect to it" (Scanlon, 1998: 96).

Some values are not agent-specific. They are intrinsic values. Suppose that owning more land is a value for you, and someone asks you why you value owning more land. If you attempt to give a persuasive answer, you need to appeal to a higher-order reason that is understandable to the person asking the question. You might reply that owning more land gives you a sense of security, with the implication that your higher-order reason is the value of security. This answer may well satisfy your questioner, since both of you probably agree that security is a value. However, suppose the person surprises you and follows up with another question, "Why do you value security?" Here, your reply might be something like: "I don't value security for some further reason; rather, security is something I think has intrinsic worth." In other words, you would be saying, "I think security is an intrinsic value." When something that is "worthy of pursuit" does not have its value derived from a higher-order value, it counts as an intrinsic value. It is a final reason for acting. Intrinsic values, in turn, possess an "objective" normative status. Even if society were to form an overlapping consensus affirming the rightness of slavery, society would be wrong. The intrinsic value of personal freedom tenders a non-relative claim.

One might challenge the idea of intrinsic values by saying, "Show me a definitive list of intrinsic values!" Philosophers have constructed and defended many such lists over the years. Two of the best known are W. D. Ross's (1930) list of "*prima facie* duties" and William Frankena's (1973) list of "intrinsic goods." Frankena's long list includes such values as cooperation, experiences of achievement, self-expression, freedom, peace, security, adventure, and novelty (Frankena, 1973: 87–88).[2] Of course, people investigate these lists to see if they are, in fact, intrinsic.

Collective value is the total of business participants' benefits. While the meaning of that sentence is clear, the ability to understand this statement in practice is anything but clear. Einstein reportedly said, "Not everything that counts can be counted, and not everything that can be counted, counts." Not all benefits can be easily appraised, much less combined in a fashion that allows for easy summation and comparison. Acknowledging severe limitations in our ability to measure benefit and collective value, we hasten to add that not all is lost. Some states of value satisfaction are clearly better than others. The existence of practical wisdom tells us that this is so (Aristotle, 1962). If values, or bundles of values, were truly incommensurable, we could not speak rationally about some all-things-considered value choices being better or worse than others.

We can make good "all-things-considered" choices, even in multi-valued contexts. Imagine an employee, Bob, who reasons about whether to choose job A or job B. Bob thinks:

> In job A, I have a monthly salary that is $10 higher than in job B, and I am treated with disrespect and ignominy. In job B, I have a monthly salary that is $10 lower than in job A, and I am treated with respect and dignity. I conclude that job B is a better job than A.

Here Bob compares two things that appear to be incommensurate at first blush, namely, the value of dignity and the value of money. However, Bob reasons well. The objectivity of Bob's choice is reflected in the fact that a vast majority of people would reason in the same way if confronted with this choice. Neoclassical economists view human beings as rational economic agents, as *homo economicus*. We view our fellow men and women as practical reasoners, as *homo practicus*.

If business exists to create collective value, it follows that any theory of business must be action-guiding or normative. A theory like this must say something about the world we hope to inhabit. We need to come to terms with how business creates value and serves society. Recognizing that aversive outcomes can attend to the conduct of business, we also recognize that some aversive outcomes are simply out of bounds. Our challenge as a people is to determine just what behavior is acceptable and what is unacceptable. In legal terms, we are looking for a moral "bright-line rule," one that tells us what kind of business activity is to be strictly forbidden (Schlag, 1985). We suggest that, at a minimum, dignity establishes that decision criterion.

Our understanding of human dignity tells us that our fellow humans are not to be treated as mere objects or instruments in a business organization's production function. Business participants are to be treated with respect. As such, the dignity threshold establishes a moral foundation for business activity. The challenge, of course, is to identify what treatment does or does not clear the threshold. Borrowing language from the world of statistics, we can say that dignity is both a "categorical" and "continuous" idea. When we speak of an indignity, we speak of dignity as a categorical idea. Hold someone as a slave, for example, and regardless of how well you might treat that person, you fully deprive that person of his or her dignity. There is absolutely no dignity in slavery. Thomas Jefferson may have fathered six children with Sally Hemings, but owning her as his property until the day he died, he denied her dignity (Gordon-Reed, 2008). Article 4 of the United Nations Declaration on Human Rights is unequivocal: "No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms." The US South, in the first half of the 19th century, relied upon the institution of slavery to support its expansive system of plantation farming. Even if slavery enhanced the GDP or PPP of the region, plantation farming could not be considered a business success. Slavery stripped its captive people of their dignity. The institution of slavery does not pass the dignity threshold.

Writing about the nature of society, Margalit (1996: 10–11) observed: "A society is decent if its institutions do not act in ways that give the people under their authority sound reasons to consider themselves humiliated." Expanding on Margalit's notion, we would say, "Business is decent if its institutions do not act in ways that give the people under their authority sound reasons to think their inherent worth has been denied." Beyond that, if business is to be considered successful, the collective value must be optimized, enhanced as much as possible. That optimization process must include the recognition of participants' dignity. Rosen (2012: 157) got it right when he said: "In failing to respect the humanity of others we actually undermine humanity in ourselves."

If we are correct, any attempt to separate business activity from values is akin to trying to separate a vase from its shape. Business activity always reveals the values that shape it. Those values are revealed in any consideration of the purpose, accountability, control, and success of business. As such, we offer the following four propositions as corollaries to a theory of business:

- P1: The purpose of business is to optimize collective value.
- P2: Business is accountable to those who affect and are affected by its activities, those in the present, past, and future.
- P3: Business control must prohibit any assault on participants' dignity.
- P4: Optimized collective value is the mark of business success.

We need to consider carefully what a theory of business implies for any single business firm. Instead of drawing inferences directly from our broader theory of business to any single firm, we should ask whether what is true at the level of business as a whole is compatible with what is true at the level of the firm. Indeed, we do not want to commit a fallacy of division (the converse of the fallacy of composition). We commit it when we imagine that the properties of a whole are fully transferable to its parts. Several open questions about such compatibility emerge when we juxtapose a theory of business with a theory of the firm. Table 5.1 briefly contrasts the two perspectives and then raises a series of open questions for us to consider.

What is the purpose of a firm when the purpose of business is to optimize collective value? One might be tempted to reason that every firm must simply work to optimize collective value. This view, however, would evidence the division fallacy. Consider the human heart. The purpose of the heart is to pump blood. However, it is important to note that different parts of the heart, the ventricles, valves, septum, aorta, and more, have their own discrete purposes. Now consider business. Just as the septum is a part of the heart that pumps blood, a particular firm is a part of the ecology of business that creates collective value. Different firms may set themselves different purposes. Some may herald social goals alongside profitability, such as Google's, "to organize the world's information and make it universally accessible and useful," even as others adopt a narrower, profit-first approach. Yet such a mixed ecology of firms may enhance collective value more than an endless line of identically purposed ones.

Indeed, few firms may even be entirely focused on creating collective value, and that is fine. Still, such firms are not exempt from playing some role in that effort. After all, a firm is a moral entity that works in and for society. As such, a firm holds two interrelated purposes: one, a focal purpose, a purpose that reflects its work *in* society, and two, a contextual purpose, a purpose that reflects its work *for* society.

The firm's focal purpose is familiar to every business student. Fail to provide customers with a high-quality good or service at a competitive, profit-making price, and the firm may well go out of business. Fail to reach those customers with an effective sales and marketing campaign, raise and manage capital, recruit and manage human resources, and efficiently manage their operations, and the firm may go out of business. And to be sure, managers cannot ignore those who hold the firm's residual claims, those who hold common stock. The neoclassical economists persuasively point out

Table 5.1 Open questions: Contrasting a theory of business with a theory of the firm

	Theory of business	*Neoclassical theories of the firm*	*Open questions for corporate leaders*
Purpose	Optimize collective value	Maximize firm value	Is our corporation's purpose compatible with business achieving optimized collective value for all business participants?
Accountability	To all business participants	To the law and to the firm's owners	Is our form of corporate accountability compatible with business achieving optimized collective value for all business participants?
Control	Prohibit assaults on participants' dignity	Guard against self-seeking with guile	Is our form of corporate control compatible with business achieving optimized collective value for all business participants?
Success	Optimized collective value	Shareholder wealth creation	Is the form of our corporation's success compatible with business achieving optimized collective value for all business participants?

that these risk-bearing shareholders are the ones most interested in maximizing the value of the entire corporation. Shareholders can keep managers ever attentive to creating sustained competitive advantage.

All of that said, the firm's contextual purpose cannot be ignored. A firm is a human creation, one designed by humans and for humans. At a minimum, all of its activities must clear the dignity threshold. No firm should disrespect the inherent worth, the dignity, of its many business participants. It must treat each one with respect. Moreover, no firm should forget that the final justification of its activities from a social perspective lies in its contribution to collective value.

To say that a theory of business must account for the purpose of business is one thing; it is something else entirely to articulate just what that purpose is. We have tried to step up to that challenge. In doing so, we have outlined a normative theory. We can now answer the riddle we posed at the paper's beginning: "Law is to justice, as medicine is to health, as business is to optimized collective value." We admit that the phrase "optimized collective value" does not roll off the tongue in the same way that the words "justice" and "health" do. If forced to sum up the phrase in a word, we would choose the word "prosperity," but we would do so with a caveat. The definition of prosperity must be an expansive one. Some view prosperity as simple financial well-being. We are interested in a special kind of well-being, one that honors the dignity of those who affect and are affected by the creation of that wealth. We are interested in the kind of well-being that reflects a world of business where its focal and contextual purposes are met.

Questions

(1) Whose interest does the neoclassical theory of the firm serve and how? Where are its boundaries?
(2) Donaldson and Walsh introduced an alternative normative theory—a theory of business. What is the key message of this theory?
(3) What is their line of reasoning why an alternative theory is needed?
(4) What is the purpose of a firm when the purpose of business is to optimize collective value?
(5) What does it mean for business practice?

Notes

1 This chapter is drawn from a much longer published article, Donaldson and Walsh (2015). This is an open-access article under the CC. Figure 5.1 is a corrected and elaborated version of Figure 1 in Donaldson and Walsh (2015) and is now published in Walsh (2020).

2 Psychologists also pursue this quest. Milton Rokeach (1973), an eminent social psychologist, developed a value survey comprised of 18 terminal values (identifying desirable end states) and 18 instrumental values (identifying desirable means to those ends). The former includes such values as a world at peace, family security, and freedom; the latter include such values as being honest, ambitious, and responsible.

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PART 2

Normative Foundations of CSR

6
CSR AND CORPORATE CHARACTER

Geoff Moore

Introduction

This chapter offers an alternative approach to business ethics from the corporate social responsibility (CSR) approach that is the subject of this book. It offers a critique of CSR and then describes and critiques the alternative "corporate character" approach. The conclusion returns to the critique of CSR and shows how the corporate character approach overcomes the problems associated with CSR.

CSR and Its Deficiencies

As is well known, one of the difficulties associated with CSR is definitional. To get around the inherent vagueness in the meaning of the word "social" (and the lack of any explicit reference to "environmental"), various alternatives have been suggested, such as simply reducing CSR to "corporate responsibility." However, by linking CSR specifically to stakeholders, as has become the norm, this became less of a problem. Indeed, Freeman and Velamuri (2006) suggested that CSR would be better understood as referring to company *stakeholder* responsibility. If a corporation knows to which stakeholders it owes responsibility, and what the nature of that responsibility is in each case, then CSR becomes immediately more tangible. But this approach, as it became widely adopted, also of course made it possible to measure the effect of any CSR project or program on the stakeholders affected. Hence, the "business case" for CSR at the project level became a focal point. And, at the corporate level, studies of the relationship between what became known as corporate social performance (CSP), as some kind of amalgamation of the outcomes of some or all of the CSR projects and programs a corporation might have, and corporate financial performance (CFP), became commonplace (see, for example, Endrikat, Guenther, & Hoppe, 2014).

This coupling of CSP with CFP meant that CSR left behind its early attention on the macro-social impacts of business activity to focus on the corporate level and the impact on financial performance (Lee, 2008). CSR had, in other words, become instrumental and even strategic. As Fleming and Jones note in their polemic against CSR, "CSR in the discipline of management studies and organization theory has largely been co-opted by strategic management" (2013: 3). And this is true not just in the academic literature. Guest speakers from industry on the MBA module I teach consistently emphasize that, unless there is a financial return to a new CSR project or program, there is no point putting it forward; in other words that CSR needs to mesh with the commercial strategy of the corporation.

Of course, this is not to deny that there are some benefits to the strategic approach to CSR, as will be clear from Part 3 of this volume. Linking CSR to corporate strategy legitimizes it for managers, whatever their personal motivation, encouraging an "instrumental" approach to stakeholder engagement (Donaldson & Preston, 1995) rather than a more critical stakeholder analysis (Fleming & Jones, 2013), so leading to the achievement of conventional corporate objectives. And although there is by no means total unanimity from the results of the many academic studies into the relationship between CSP and CFP, there does appear overall to be a positive relationship (see, for example, Orlitzky, 2008; Endrikat, Guenther, & Hoppe, 2014; Quere, Nouyrigat, & Baker, 2018 for negative results; but also Orlitzky, 2011 for a study that finds that results are socially constructed). The positive findings, of course, lend support to the strategic approach to CSR; if CSR leads to an enhanced reputation, greater customer loyalty, and better evaluation of products, attracts employees, and improves their motivation and retention (Aguinis & Glavas, 2012), and so potentially increases profitability, why would a corporation not engage with it?

In addition to the criticism that CSR has become nothing more than strategic, and so has a diminished ethical basis, there are two further criticisms of CSR. First, it has been argued that the limited liability which corporations enjoy, such that shareholders' personal assets are not at risk, puts shareholders in a situation where they have "no-obligation, no-responsibility, no-liability" (Ireland, 2010: 845). Shares permit their owners "to enjoy income rights without needing to worry about how the dividends are generated. They are not liable for corporate malfeasance" (Ireland, 2010: 845). As Haldane has put it, "the shareholder-centric model appeared to be a recipe for higher economic returns at the lowest possible risk. This was an awe-inspiring combination" (2015: 8). Little surprise therefore that "CSR has been so warmly embraced by so many companies" since it "leaves untouched the shareholder-oriented model of the corporation and the corporate legal form as presently constituted" (Ireland, 2010: 853). As such, CSR may be no more than a prop that shores up the systemic *immorality* of organizations in general including corporations (see Fleming & Jones, 2013: 100–101; Hinings & Mauws, 2006).

The second criticism is that while, via the stakeholder approach, CSR gets closer to the "core business" of the corporation, it does not address questions about its *purpose*. Creating value and sharing it out among various stakeholders (Porter & Kramer, 2011)—although probably inequitably, given the variance in stakeholder power—goes only so far; what if the "value" is created from activities that are ethically problematic, such as tobacco or gambling? While arguments could be made in favor of the social value of such activities, this does not negate the point that CSR does not distinguish between these and other ethically unproblematic activities. So long as corporations create value, they are legitimate players in the CSR field.

Given these three criticisms, how might we characterize the concerns that arise? First, the "business case" approach means that the marginal value of CSR projects will decrease over time. Corporations will only "do" ethics if there is a return, and there will increasingly be occasions when the return is insufficient. Second, there is an assumption behind strategic CSR that what is good for the corporation is also good for society. But, as Lee (2008: 65) has noted, "from the perspective of society, the social problems ignored by corporations may well be much more urgent issues that require corporate expertise and operational capacity. Conceiving CSR as discretionary business practices dilutes the meaning of social responsibility in CSR." Third, this conceives of ethics as strategy. As Rhodes puts it:

> This is a morality where maximizing shareholder value is the principle that guides the government of corporations, including how they organize their own ethics. Echoed here is the neoliberal form of reasoning that configures all aspects of existence in economic terms.
>
> *(Rhodes, 2016: 1505)*

CSR has, in other words, been captured and set to work in support of the *status quo*.

These significant concerns about the CSR agenda have led not just to critiques (Fleming & Jones, 2013, for example), but also to a search for fundamentally different approaches to business ethics. And significant among these is the "corporate character" approach to which I now turn.

The Corporate Character Approach

In searching for an alternative approach to business ethics, scholars have turned away from the Enlightenment-based ethics of CSR and found significant resources in a form of neo-Aristotelian virtue ethics. While Aristotelian ethics have been applied directly to business (see, for example, Hartman, 2013), the most widely cited moral philosopher in this area has been Alasdair MacIntyre (Ferrero & Sison, 2014), and it will be work derivative of the conceptual framework he supplies, notably in *After Virtue* (2007), that forms the basis for the remainder of this chapter.

To call this the "corporate character" approach is to make two important points. Taking the terms in reverse order, reference to character locates this within the field of virtue ethics where, at an individual level, character is formed from the possession and exercise of virtues and vices. And character is then understood to be significant for, and prior to, action. Virtues (and vices) are, in other words, deep-seated character traits which influence action:

> Virtues are dispositions not only to act in particular ways but also to feel in particular ways. To act virtuously is not…to act against inclination; it is to act from inclination formed by the cultivation of the virtues.
>
> *(MacIntyre, 2007: 149)*

Second, the word "corporate" makes the claim that it is possible to apply this not just to individuals working in corporations (indeed, working in organizations of any kind), but also to the corporate or organizational level. In other words, it is to claim that we can, at least by way of metaphor (see Moore, 2017: 20–22), speak sensibly of corporate-level virtues and vices, and hence of *corporate* character. Thus, although much of what has and could be said about a virtue ethics approach to business applies at the individual level, the focus in this chapter will be on the corporate level. And even though we do not want to take the notion of corporate character beyond it being a powerful metaphor, it will become clear that it "serves an important expressive function" (Hasnas, 2012: 194). In other words, the concept of corporate character allows us to speak intelligibly but also efficiently about important features of organizations.

Purpose and Goods

In contrast to the CSR-stakeholder approach, a fundamental aspect of a virtue ethics approach is to do with purpose. At the individual level, the question is posed as to what the ultimate purpose, goals, or good (the *telos*) might be for any particular person. Aristotle named this *eudaimonia*, which MacIntyre translates as "blessing, happiness, prosperity. It is the state of being well and doing well, of a man's [sic] being well-favored himself and in relation to the divine" (MacIntyre, 2007: 148). And, indeed, MacIntyre offers us an alternative definition of virtue tied to this: "The virtues are precisely those qualities the possession of which will enable an individual to achieve *eudaimonia* and the lack of which will frustrate his [sic] movement toward that *telos*" (MacIntyre, 2007: 148).

Applying this at the corporate level, the same question about purpose, goals, or pursuit of the good can clearly be asked. And it has been a common feature of work in this area to require that having a good purpose is fundamental to any notion of a virtuous corporation (see, for example, Moore, 2012). In extending the concept of purpose at the organizational level, Hsieh, Meyer, Rodin, and Van 'T Klooster (2018) have helpfully distinguished between social and corporate purpose. *Social* purpose "concerns the contribution that a corporation makes to advancing societal goals, regardless of whether it directly pursues these goals or advances them as a side effect" (2018: 52). Employment, for example, might be considered as one such social goal. And, since corporations receive considerable benefits from society (a legal infrastructure within which to operate, including limited liability as noted above, together with the more general social infrastructure of transport networks, health, and education), society can rightly demand reciprocal benefits, and could reasonably revoke the social license to operate that it provides in particular cases where such benefits are not forthcoming.

Corporate purpose, in contrast, refers to "any non-financial social goals that the corporation directly pursues" (Hsieh et al., 2018: 52). This does not preclude the pursuit of profit, but it would be in the nature of the virtuous corporation that the pursuit of profit would be a balanced pursuit, with other goals pursued and indeed prioritized at the same time. And the way that a MacIntyrean virtue ethics has characterized the idea of pursuing different goals (social and otherwise), is by the use of the notion of goods, of which there are three different kinds: Internal, common, and external.

Internal goods comprise both the excellence of the products or services that the corporation provides, and the "perfection" of the individual members of the corporation in the process (MacIntyre, 1994: 284; 2007: 189–190). While MacIntyre does not qualify or define "perfection," it might be taken to accord with notions of human flourishing.

However, while the pursuit and achievement of such internal goods might seem to be, and often is, a good in itself, there is a further qualification that needs to be made. This is the extent to which the internal goods of a particular corporation contribute to the good of the community: "The common goods of those at work together are achieved in producing goods and services that contribute to the life of the community and in becoming excellent at producing them" (MacIntyre, 2016: 170). The contribution to the life of the community, thus. acts as a condition against which we could judge the benefits of the internal goods of any particular corporation. It follows that the determination and achievement of such common goods would be a function of what we might term the virtuous corporation, where practitioners deliberate "with others as to how in this particular set of circumstances here and now to act so as to achieve the common good of this particular enterprise" (MacIntyre, 2016: 174). And such deliberation would also need to take into account the view of constituencies outside of the corporation: "In contemporary societies our common goods can only be determined in concrete and particular terms through widespread, grassroots, shared, rational deliberation" (MacIntyre, 2010).

In addition to the pursuit of internal goods and the extent to which they contribute to common goods, is the third kind of goods—external goods. These are goods such as survival, reputation, power, profit, and, more generally, success. External goods are required to enable the survival and development of the corporation and of what we will come to call the core practice at its heart, and it is worth reinforcing the point that they are indeed goods. However, there is an important relationship between internal and external goods. External goods depend upon the realization of internal goods since they arise from the revenue derived from the goods or services produced by the corporation, and that in turn depends upon the excellence of the corporation's practitioners. And similarly, the realization of internal goods requires there to be sufficient external goods to provide the materials, equipment, facilities, and so on necessary to produce the products or services. There is, thus, an "essential but complex circularity between internal goods and external goods" (Moore, 2012: 380).

This is not to say, however, that this complementarity implies equality. There is a hierarchy involved with these goods, such that external goods, while necessary, are to be subordinated to both internal and common goods. And this imposes on corporations the requirement to *order* the different kinds of goods appropriately, while achieving *balance* in their pursuit (Moore, 2012). It is, for example, possible for the pursuit of growth or profit (external goods) *for their own sakes* to distort the pursuit of excellence in the products, service, or the "perfection" of practitioners (internal goods) at the core of the corporation.

Practices and Institutions

The concepts of internal and external goods are intimately connected, within the conceptual framework that MacIntyre provides, with practices and institutions—common enough terms, but MacIntyre defines them somewhat differently from familiar usage:

> By a "practice" I am going to mean any coherent and complex form of socially established cooperative human activity through which goods internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity, with the result that human powers to achieve excellence, and human conceptions of the ends and goods involved, are systematically extended.
>
> *(MacIntyre, 2007: 187)*

Within this definition, we can immediately note that the concept of internal goods is integral to practices and, perhaps less obviously, both the pursuit of excellence in the products or services the corporation provides, and the "perfection" of what we might now call the practitioners within the corporation. Related to this, MacIntyre provides a third definition of virtues: "A virtue is an acquired human quality the possession and exercise of which tends to enable us to achieve those goods which are internal to practices and the lack of which effectively prevents us from achieving any such goods" (2007: 191).

Practices, however, are unable to exist, at least for any length of time, without being sustained by institutions. MacIntyre's definition here is an extended one, but worth citing in full:

> Institutions are characteristically and necessarily concerned with what I have called external goods. They are involved in acquiring money and other material goods; they are structured in terms of power and status, and they distribute money, power and status as rewards. Nor could they do otherwise if they are to sustain not only themselves, but also the practices of which they are the bearers. For no practices can survive for any length of time unsustained by institutions. Indeed so intimate is the relationship of practices to institutions—and consequently of the goods external to the goods internal to the practices in question—that institutions and practices characteristically form a single causal order in which the ideals and the creativity of the practice are always vulnerable to the acquisitiveness of the institution, in which the cooperative care for common goods of the practice is always vulnerable to the competitiveness of the institution. In this context the essential feature of the virtues is clear. Without them, without justice, courage and truthfulness, practices could not resist the corrupting power of institutions.
>
> *(MacIntyre, 2007: 194)*

Again, we can immediately note here the concept of external goods, and understand it now as being integral to institutions, and we can also note the relation between the practice (and hence internal goods) and its "cooperative care for common goods," thereby reinforcing the relationship between internal and common goods. We can see, in addition, the "intimate" connection between practices and institutions, and hence between internal and external goods that we observed above. But there are two other features of this definition which are also worth noting. First, on this account, while there is this intimate relationship between practices and institutions—forming, as they do, a "single causal order"—it is also a relationship which is, by its very nature, characterized by stress, in that the practice is always vulnerable to the "acquisitiveness" of the institution. There is, in other words, a tension between these two fundamental elements which, on MacIntyre's account, is intrinsic to all corporations, and organizations more generally.

Second, it is of interest to note that MacIntyre implies that virtues can be applied at a level other than the individual. That is, he seems to attribute to *practices* (not just to *practitioners* within them) the virtues of justice, courage, and truthfulness. While we should not make too much of this—it is not something MacIntyre develops elsewhere—it does at least afford some support for the notion of corporate-level virtues, and hence of corporate character that, as was mentioned above, is meaningful for and applicable to corporations by way of metaphor.

Building on these notions of internal and external goods, practice and institution, it is possible to conceive of a corporation (indeed, any organization) as a practice-institution combination, as illustrated in Figure 6.1. In addition to what we might refer to as the core practice "housed" within the institution, however, the full conceptual framework contained in Figure 6.1 has another practice, shown as the "P" within the smaller circle at the top left of the figure. This is the practice of making and sustaining the institution, which MacIntyre argues "has all the characteristics of a practice, and moreover of a practice which stands in a peculiarly close relationship to the exercise of the virtues" (2007: 194).

In developing this idea, the argument has been made that this is a way of conceptualizing and locating management and managers within the overall framework (Beabout, 2012; Moore, 2008). Management is, on this account, the secondary, domain-relative (because management is always the management of some specific practice, not just management in the abstract) practice of making and sustaining the institution. And while management is, therefore, necessarily concerned with securing the external goods which the institution and the practice require, this also acts as a constraint on managerial activity in that, in line with the prioritization of internal over external goods discussed above, it is in the nature of management (or, at least, of virtuous management) to focus also on the development and flourishing of the core practice and its practitioners. In this sense, strategic management, while still domain-relative, might be conceived, in Tsoukas' phrase, as a "competitive institutional practice" (2018a: 323)—a practice at the institutional level which is, by its nature, competitively oriented towards the achievement of external goods.

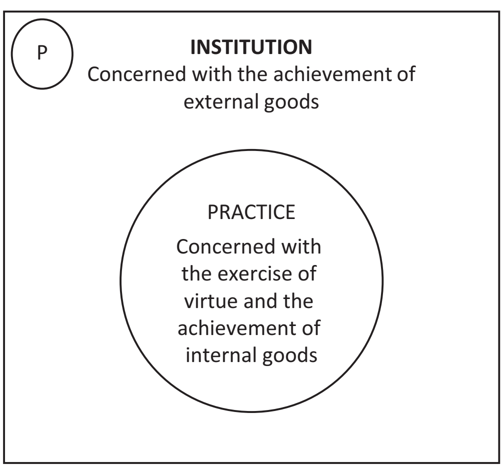

Figure 6.1 An organization as a practice-institution combination. Hasnas (2012) makes this comment in relation to the value of the terminology of corporate moral agency, rather than specifically in relation to corporate character. In a similar way to the use of metaphor here, which is making no specific ontological claim, Hasnas argues that corporations cannot be ontologically moral agents, but that the terminology is still of value. Author created but previously published by CUP

Corporate Virtues and Corporate Character

With this conceptual framework in place, we can return to the notions of corporate virtues and corporate character which have been referred to above, and put some flesh on the bones of these concepts. Having discussed corporate purpose, and then internal and external goods, and practice and institution, it is possible to combine these as shown in Figure 6.2 (Moore, 2015). Here, success and excellence on the x-axis are used as shorthand for external goods pursued by the institution, and internal goods pursued by the practice respectively. The y-axis then provides a spectrum from good to bad corporate purpose. The virtuous corporation would be located as shown, obviously with a good purpose, but with a balanced position between success and excellence, though just on the side of excellence. A "vicious" (in the technical sense of being opposed to virtue) corporation, by contrast, would have a bad purpose but could be located anywhere along the x-axis, although it would most likely be success-oriented.

Various corporate-level virtues are shown. These are indicative in that, while philosophically grounded, they have yet to be confirmed empirically. They do, however, provide at least an initial indication of the virtues that would be important for the virtuous corporate to possess and exercise—and hence, also, of the opposing vices that it would be important to avoid. This, in turn, allows us to provide a definition of corporate character as follows:

> Corporate character is the summary of characteristics that develop over time in response to a corporation's challenges, opportunities and its own pursuit of virtue. A corporation can be characterised by the extent to which it possesses and exercises moral virtues (and lacks the associated vices), and by the extent to which it draws on the intellectual virtue of practical wisdom in its pursuit of a good purpose and to enable the correct ordering and balance in its pursuit of excellence and success.
>
> *(Moore, 2015: 109–110)*

The Formation and Implications of Corporate Character

Just like an individual character, this definition provides for the idea that character develops and so is formed over time. Indeed, character is "formed through a process of habituation" (Tsoukas, 2018b: 188), which is more than simple repetition and will involve "successive trials" (Tsoukas,

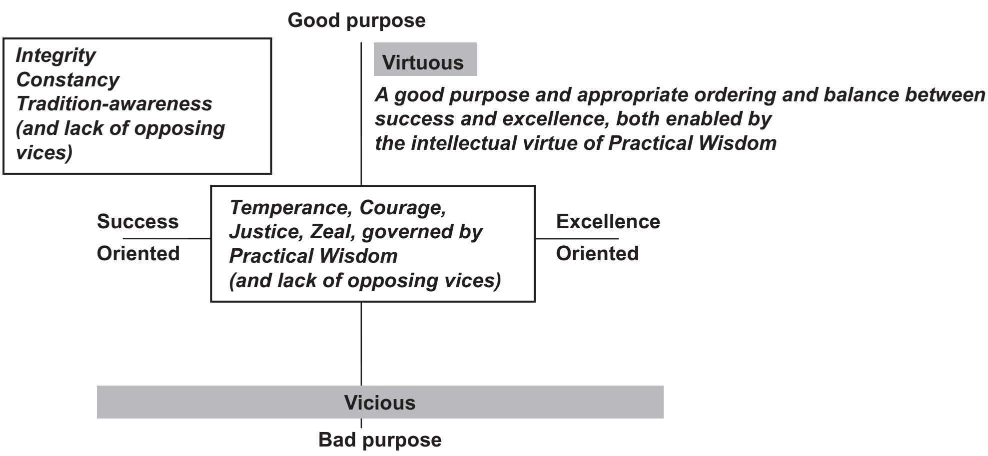

Figure 6.2 Corporate virtue mapping with indicative virtues. Note that "and balance" has been added to the original after "ordering." Author created but a version previously published by John Wiley & Sons

2018b: 189, citing Sherman, 1989: 178–179) to build excellence in organizational character—consistent with responding to challenges in the definition above. Tsoukas (2018a: 334–335), drawing on institutional theory as well as the MacIntyrean conceptual framework covered above, has noted three ways in which this occurs. First, this arises through what he terms "values articulation work… through which purpose and values are constructed and reaffirmed"; second by means of "capability development work [which enables] setting up, enacting, and refining routinized ways of reliably performing a coordinated set of tasks for the sake of achieving an intermediate end, which contributes to the organizational purpose at hand"; and third through "differentiation work…typically by senior managers…to examine its competitive advantages and explore ways these may be sustained, developed or changed." It is worth noting that these three different kinds of work would need to be undertaken by the practice (capability development work), by managers on behalf of the institution (differentiation work), and collaboratively by practitioners in both practice and institution (values articulation work). Unsurprisingly, therefore, and as the definition above indicates, corporate character is an outcome of coordinated work involving both practice and institutional actors.

As character is formed, this then "creates a set of distinctive competences since the organization has developed the capacity for a particular kind of action informed by a certain ethos (i.e., value commitments and routines)" (Tsoukas, 2018a: 335).[1] These distinctive competencies are "the routine ways character is manifested" (Tsoukas, 2018b: 187). And one aspect of these distinctive competencies is a concern for both success and excellence, for "balancing the competing requirements of caring for both internal *and* external goods, for excellence *and* success" (Tsoukas, 2018a: 337, emphasis in original), or for what Tsoukas calls "balancing work" (2018a: 340), again in line with the definition above.

If, then, these four kinds of work are involved in character formation, what are the implications, including the potential drawbacks, of this approach? It is in the nature of character that, once formed and relatively fixed, it commits both individual and corporate actors to "relatively enduring choices" (Tsoukas, 2018b: 188), such that it self-limits freedom of choice in relation to behavior both now and in the future: "Character-defining commitments constitute a pre-commitment strategy for the organization, through which particular character-induced habits ensure that particular choices are made from within a set menu" (Tsoukas, 2018b: 188).

This, of course, has advantages in limiting the range of choice of actions and helping to ensure consistency in decision making—and is, of course, inherent in constancy, one of the corporate virtues. But this may also have the negative implication that certain "rigidities" are built in such that, when competitive circumstances change, it may "prevent the leadership of a firm from realizing the novelty of the circumstances in order to modify existing core competences and the accompanying organizational character dispositions" (Tsoukas, 2018b: 191).

This might also be related to another potential problem that Tsoukas identifies with this approach, in relation to practices. Because practices are, by their nature, focused internally on products, services, and the "perfection" of practitioners, and involve pursuing excellence with standards set historically and by other contemporary practitioners, there is a danger of what Tsoukas refers to as "self-enclosure" involving both "self-interested and self-referential behaviors" (2018a: 334). A consequence of this internally focused behavior is that practices may have a greater tendency for preservation over change.

As Tsoukas acknowledges, however, there are resources within the practice-institution combination to resist this danger, notably through the institutionally oriented secondary practice which is "additionally charged with providing coherence and an outward-looking direction to the core practices" (2018a: 335). This implies that it is an institutional responsibility to ensure what we might appropriately refer to as "best practice."

In addition, however, and applicable to both dangers identified above (but not something that Tsoukas considers directly), there is a further safeguard built into the practice-institution combination and broader conceptual framework we have been considering. This is in relation to the contribution to common goods that the virtuous corporation should be seeking to make, and the requirement therefore to engage not only with internal practitioners, but with the much wider set of constituencies that provide the organization with its context. As noted above, "In contemporary societies our common goods can only be determined in concrete and particular terms through widespread, grassroots, shared, rational deliberation" (MacIntyre, 2010). It is within such deliberation that the self-enclosure of the practice, and the rigidity of corporate character dispositions, may be challenged and corrected where necessary.

Discussion and Conclusions

It will be evident from the description of the "corporate character" approach described above that it offers a very different set of resources for "coming at" business ethics than the CSR–stakeholder approach described and critiqued at the beginning of this chapter. Indeed, I have argued (Moore, 2017) that in its entirety (that is, beyond the specifically corporate focus in this chapter), it provides a comprehensive and coherent approach to ethics, linking individual, managerial, organizational, and societal levels in a single framework. In addition, and as has been noted on various occasions above, the framework is generic to organizations of all kinds, not just to corporations, and so has a much broader application than that considered here.

In the specific context of this chapter, however, what is it that this approach offers which overcomes the problems identified with the CSR-stakeholder approach? I noted above that CSR has become established within the existing neoliberal capitalist framework, providing a means of propping up the existing system without questioning its fundamental contradictions. By contrast, the corporate character framework, and specifically its concerns for the achievement and prioritization of internal and common over external goods, does put in question those fundamental contradictions. But this is not only by way of critique—in its place it offers a practical, if challenging, alternative.

I noted also CSR's lack of concern over the purpose of the corporation, so long as economic value was created and shared out (more or less) equitably. By contrast, as we have seen, the corporate character approach starts from this very perspective, asking questions as to why any particular corporation exists, and how its internal goods—both the excellence of its products and services, and the "perfection" of its practitioners (at both core and institutional practice levels)—contribute to the common good. This also answers the concern that CSR, unlike its earlier manifestation, no longer asks questions about the macro-social impacts of business activity, but focuses instead on the corporate level and the impact on financial performance. By definition, the corporate character approach makes a direct link with the macro-social environment through its concern for common goods.

Finally, because CSR has become instrumental and strategic, we noted that, in effect, it conceives of "ethics-as-strategy, rather than ethics-as-ethics" (Moore, 2017: 31), and has thereby been captured by business for its own ends. By contrast, the corporate character approach takes us back to an Aristotelian virtue ethics which will not allow such co-option. At a practical level as far as corporations are concerned, the concepts that the MacIntyre-inspired conceptual framework provides—*telos*; internal, external, and common goods; practice and institution—make its capturing by business for its own ends virtually impossible. To adapt a pertinent question that MacIntyre (1992: 8) asks of us as individuals, the corporate character approach asks this of corporations and the practitioners within them: To what conception of our overall good have we so far committed ourselves? And, do we now have reason to put it in question?

Questions

(1) Does the criticism that is levelled at CSR at the beginning of the chapter make sense to you, and so indicate the need for an alternative approach?

(2) Does the "corporate character" approach that is described provide a convincing alternative way of "coming at" business and business ethics?
(3) Do existing examples, such as B Corps (B Corporation, 2020) or Paul Polman's call for businesses to become "responsible social corporations" (Gangal, 2019) go far enough, or does the "corporate character" approach demand even more from businesses?
(4) If so, what are the implications for you as an individual and as a manager, for your corporation, and for business in general?

Note

1 Tsoukas is here drawing on Selznick (1957) who used the term "organizational character" and related concepts such as "distinctive competences" in his work.

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7

CSR AND VIRTUE ETHICS

The Common Good of Firms, Markets, and Civil Society

Germán Scalzo, Javier Pinto-Garay, and Kleio Akrivou

The Dynamics of Virtue, the Common Good, and Corporate Responsibility in Virtue Ethics Applied to Business

Virtue ethics has a longstanding tradition in moral philosophy, but only regained philosophical relevance in the second half of the 20th century (MacIntyre, 1981; Melé, 2012; Sison & Ferrero, 2015). Since then, its application to the business world has increased significantly, even gaining ground over other, more mainstream approaches, namely deontology and utilitarianism (Koehn, 1995; Ferrero & Sison, 2014).

Virtue ethics in business (VEB) (Sison, 2010) has its origins in Aristotelian (Pinto-Garay, 2019; Swanton, 2011, 2013) and Thomistic moral philosophy (Koehn & Wilbratte, 2012; Alves & Moreira, 2013; Grassl, 2010). For Aristotle, virtue is excellence that consists of "living or doing well" (Aristotle, 1995: 1095a) in accordance with rational activity; in other words, it corresponds to what is best in human beings. This excellence is attained based on personal traits, in particular, prudence or practical wisdom (*phronesis*), which refers to the habit of acting correctly (Solomon, 1992; Moberg, 2007), especially in social matters.

Virtue ethics focuses especially on the centrality of virtue as personal development (or vice as personal deterioration) through an agent's performance (Fontrodona, Sison, & de Bruin, 2013) in order to attain the highest aim: happiness (*eudaimonia*, usually translated as human flourishing). For Aristotle, happiness is nothing more than the development of one's natural capacities in a community in order to attain a good life and determine the kind of person that one wants to be. Indeed, although there is diversity among virtue ethicists, their distinctive treatment of the idea of rightness makes *virtue ethics* different from other approaches in moral philosophy: "*Virtue ethics* tell us that what is right is *to be a certain kind of person*, a person of virtue" (Zwolinski & Schmidtz, 2013: 221, emphasis added).

Virtue ethics, with an orientation towards happiness and excellence, has an intrinsically communitarian or political nature (Sison, 2014). Personal flourishing (*eudaimonia*) underpins personal action but is only possible in community and finds its fullest meaning when it is directed towards the good of the community, that is, towards the common good.

Personal flourishing or happiness is to be found in sharing a good life with family, friends, and fellow citizens (Aristotle, 1995: 1097b), not in isolation. Human excellence cannot exist without the participation and cooperation of others. Human goods such as friendship, education, work, health, or religion are achieved in human communities and only in this way do they help constitute flourishing (*eudaimonia*) (Sison & Ferrero, 2015). Thus, understanding virtue involves viewing human beings as political animals (*zoon politikon*) (Aristotle, 1995: 1095a).

Accordingly, a community is able to achieve a special unity inasmuch as each of its members is devoted to finding his or her self-fulfillment through helping other members to fulfill themselves. This involves caring for them and helping them to grow in freedom and responsibility, as well as other aspects of human flourishing (Finnis, 1980). A catalyst for well-being, the common good combines personal, communal, and broader justice and responsibility to society (individuals, families, intermediate communities, the state, etc.), as justice is essentially a personally and genuinely felt sense of duty to other people's development and thriving when in direct or indirect relationships with them. Thus, a commitment to the common good is possible via personal virtue in terms of friendship and solidarity. These are not mutually exclusive, as Aquinas states: "He that seeks the good of the many, seeks in consequence his own good…because the individual good is impossible without the common good of the family, state, or kingdom" (2006: II–II, q.47, a.10, ad.2).

Seeking the common good, as defined here, means prioritizing the well-being of others and the community's thriving before considering any individual benefit that might derive from such collaboration. Before economic gain, efficient performance, fame, or power, communities (including the business firm) exist based on the potential they offer their members and society to thrive. Therefore, virtue ethics upholds that the personal development of community members is more important than any other good that the firm can achieve and we must attend to it first. Only in this sense are virtue, happiness, and a good corporate character possible (Moore, 2002). Therefore, as we will see, when the firm establishes different forms of collaboration with its stakeholders, a common good approach identifies the firm as community. It also identifies effective, socially responsible action in that the intention behind it is not so much focused on strategic advantage as it is on the development of other people and communities within the firm's regular activities.

While they are often imperfect, communities in the form of firms/businesses/corporations cannot escape their connection to the common good (Sison & Fontrodona, 2012, 2013). According to VEB, firms are intermediate associations because they perform roles in society that differ from the family and the political community (Sison & Fontrodona, 2012). Their purpose distinguishes them from other intermediate communities (sports associations, churches, or political groups) (Sison & Fontrodona, 2012); that is, they offer products and services to satisfy material needs and promote well-being (Kennedy, 2006) in a sustainable, productive, and profitable way (Melé, 2012). From the perspective ofVEB, profitability is not a good in itself, but rather a condition for sustainability, and allows the firm to invest in its members' development (Breen, 2007). In this sense, profits are aimed at, and consequently integrated into, the common god of the firm. Therefore, a well-run firm's economic activity has an instrumental role oriented toward the goods of excellence, such as the development of knowledge, skills, and virtues among employees (Pinto-Garay & Bosch, 2018).

When firms are described in terms of the common good, corporate responsibility to society becomes a matter of personal virtue and justice. Concerning the former, corporate responsibility to the common good is based on the moral status of persons as moral agents. In other words, the firm's responsibility is based on its members' personal capacity to assume responsibilities to society. In fact, those who deliberate with intelligence, honesty, and care find good reason to respect and promote the well-being not only of themselves, but also of their family members, of their neighborhood, and of their economic associates and associations (Finnis, 2011).

The social excellence of the firm depends on the personal virtue of its members, which is, in fact, the primary basis for recognizing the *possibility* of a moral status when it comes to corporations ("moral personality"). This lens admits such a possibility because it elevates the social and moral bases of practices (Akrivou & Sison, 2016). However, it is secondary to the social and moral bases of persons, who are the main analogs of (moral) personhood. As social systems, imperfect communities are not autonomous in the fulfillment of their moral ends and purposes; they rely on good and ethical persons who critically exercise their moral faculties and develop as virtuous actors.

Secondly, corporate responsibility is a matter of justice. Responsible action is a basic moral duty, or, more precisely, a duty of justice, which is, by definition, the willingness to give to others what they have the right to receive. This right corresponds to any basic human good, that is, the basic aspects of human well-being (Finnis, 2011). In this sense, VEB enables broader well-being, and the common good combines personal, communal, and wider justice and responsibility to society (individuals, families, intermediate communities, the state, etc.), as justice is essentially a personally and genuinely felt sense of duty to other people's development and thriving when in direct or indirect relationships with them. Therefore, a commitment to the common good is possible via personal virtue in terms of friendship and solidarity. A theory of the common good implies obligation to others by virtue of the common good that every rational person bears when personal fulfillment depends on the intention of achieving (so far as our resources permit) another person or group's development for its own sake.

Facing the Challenge of Identity and Individualism in a Contemporary Theory of Social Responsibility

Interest in the idea of the firm's social responsibility, along with extensive debate on its scope and definition, has grown in recent years (Garriga & Melé, 2004). Prior to this, the mainstream account of the firm, inspired by neoclassical economic theory, mainly assumed that the firm is a legal entity, a quasi-moral agent that acts within a market economy as a rational profit seeker with the only end of satisfying the needs of its immediate stakeholders, namely the firm's shareholders (Jensen & Meckling, 1976). This predominant economic account of the firm naturally legitimizes agency, transaction-cost, and shareholder-centric views of the firm and governance (Eisenhardt, 1989; Jensen & Meckling, 1976).

From within this perspective, shareholders and other stakeholders (internal and external) alike are understood as clearly rational, seeking to maximize their interests (Ross, 1973). Shareholders are solely seen as profit-seeking maximizers who only invest in firms in the belief that they represent the best possible return on investment for the financial capital invested. In addition, stakeholders are understood as other related groups within the firm and outside of it that are in search of economic value production; they are also understood as self-interested maximizers, who are often guided by goals of satisfying needs that are seen as antagonistic and in conflict with the shareholders' needs.

Accordingly, to maximize shareholders' economic return, the firm must be managed efficiently, requiring the appointment of mature "professionals" who are expected to act with integrity as "good stewards" of shareholder interests (Davis, Schoorman, & Donaldson, 1997) and are seen as the nearly "exclusive" agents of shareholders (Jensen & Meckling, 1976; Ross, 1973). Within the meaning-making that goes on in relation to the roles and identities of the senior and middle managers that run the firm's operations on shareholders' behalf, legitimacy is granted to them to independently author strategies, processes related to organizing, and actions aimed toward efficiently "controlling" and regulating internal and external relationships so that they align with shareholders' interests. Managers are seen as agents who operate to satisfy the needs and interests of the shareholders—the principals. Meanwhile, the firm's human-social fabric is perceived as a *nexus of contracts*: the firm defines its relationship with its human "resources," which the firm is seen to "possess" via the power of labor contracts. In addition, it promotes a management style based on technocratic, value-neutral, and rational behavior (Hendry, 2004; Akrivou, Orón-Semper, & Scalzo, 2018).

In the second half of the 20th century, the scope of the firm's responsibility began to expand and, together with the proliferation and evolution of this notion, divergent approaches (to the shareholder model of businesses) have emerged to explain corporate social responsibility (Garriga & Melé, 2004). Although these theoretical approaches are many and varied, they all share an explicit consideration of stakeholders other than just shareholders. Indeed, stakeholder theory is one of the most salient and well-known approaches.

According to stakeholder theory (Freeman, 2004, 2010; Freeman & Velamuri, 2008), a stakeholder is any constituency that can be affected or can affect the achievement of the organization's objective(s). Generally defined, these constituencies, persons, or groups, are identified by their interest in the corporation, whether or not the corporation has any corresponding functional interest in them (Donaldson & Preston, 1995). This theory approaches organizational development with a focus on management rationality that attends to third parties related to the organization's performance. As corporations' agents (Phillips, Freeman, & Wicks, 2003), top managers are duty-bound to use reasonable judgment to strategically ensure that their corporation remains in accordance with the interest of (at least its salient) stakeholders, defined as employees, financiers, customers, and communities (Freeman, 1994).

However, groups or persons are not considered priority stakeholders *per se*: Stakeholder theory considers all constituencies to be in a synergic relationship geared toward the organization's benefit (Phillips et al., 2003). This implies that a constituency is only a relevant stakeholder in relation to the organization's development, for which managers are primarily responsible, when it turns out to be strategic. Beyond strategic importance, a person or group is irrelevant, instrumentally speaking. Every stakeholder (including shareholders) receives different treatment according to the context. None are important *per se*.

Although later iterations of stakeholder theory included a social-moral principle for approaching the well-being of constituencies related to the firm (Phillips et al., 2003; Donaldson & Preston, 1995), it continues to consider the firm's relationship to stakeholders in social-contractual terms (Hendry, 2001). In Freeman's stakeholder theory, this social ethics is based on what he describes as Kantian capitalism (Evan & Freeman, 1988), which means that each constituency has the right not to be treated as a means to some end, and therefore should be able to participate in determining the future direction of the firm in which they have a stake (Evan & Freeman, 1988).

As we will see, stakeholder theory contains many conceptual difficulties that are in contrast with a VEB approach to the social performance of firms. The first is related to stakeholder theory's philosophical background, namely Kantian capitalism (Bowie, 1998). As Wijnberg (2000) explains, this approach does not offer clear criteria for deciding if diverse stakeholders are being treated justly, or a useful foundation for managerial decision-making. This theory is too vague in its attempt to distinguish stakeholders and how they must be treated, considered, and respected. This, in fact, turns out to be a problem when defining the nature of the firm's responsibilities to its constituencies.

Phillips (1997) has identified this as the problem of *stakeholder identity*, that is, there are no criteria for assigning stakeholders a status according to the kind of relationship that the firm maintains with them and, consequently, it is difficult to determine how to treat them in a responsible manner. In other words, the problem of identity results from the lack of a normative framework (Phillips, 1997) that can explain the different kinds of duties and responsibilities to specific stakeholders, such as public authorities, customers, and owners. Since stakeholders are seen in an *egalitarian sense*, the theory lacks a practical principle according to which different constituencies demand, in justice or fairness, consideration of their different forms of well-being.

Secondly, from a VEB perspective, stakeholder theory's most significant limitation pertains to its inability to overcome the problem of individualism in social relationships. The driver that inspires cooperative relationships between firms and different stakeholders does so based on self-interest, which implies an instrumental, rational, and fragmented conception of the good. The common good is not integrated into this theory, nor into the theory of management and productive work. For VEB, the common good as an ethical principle of individuals inspires relationships within the practical setting of productive work that, in turn, emerges from the genuine virtue of fellowship rather than from self-interested, individualistic choices on the part of groups inside and outside of the business.

As MacIntyre (1981) explains, following Aristotle, the virtue of friendship is the bond of human community, and individualism is at odds with fellowship. Thus, VEB implies requirements related to just service, generalized well-being, and the social bases of firms. Therein, the basic requirement of practical reasonableness favors and fosters the common good of one's communities. That principle is closely related both to the basic value of friendship and to the principle of practical reasonableness, which excludes arbitrary self-preference in the pursuit of the good (Finnis, 1980).

Yet, friendship must be compatible with one's responsibilities—most obviously with what one owes to others as their due (Finnis, 1998)—and respect one's own limitations and capacities, as well as each person's origins, interdependencies, and commitments. Hence, pointing to the horizon of integral human fulfillment and universal friendship is not to suggest that practical reasonableness demands one leave behind particular, limited relationships with one's family, neighborhood, workplace, city, country, or friends (Finnis, 2011).

Firms' Responsibilities According to Virtue Ethics

As mentioned, every human society—families, companies, local communities, and nations—have different forms of common good (Argandoña, 1998; Sison & Fontrodona, 2012) and the firm's social responsibilities vary according to each context. This means that, even though every constituency must be treated responsibly and in light of its well-being, that well-being is tied to particularities that constitute different ways of understanding the common good, as Aquinas himself argued. Following Aristotle, he distinguished different forms of justice according to which people, and now corporations, have responsibilities to specific third parties in a differentiated manner.

To approach the firm's responsibility towards society (stakeholders and persons more broadly who partake in the common good) within VEB, the conceptual framework for the firm–market–society relationship based on virtue, the common good, and justice demands that we distinguish stakeholders and, consequently, offer different kinds of (fair) treatment to them. This is not just another practical criterion for ethically and fairly managing stakeholders, but rather a philosophical approach that differs significantly from Kantian capitalism (Evan & Freeman, 1988), as well as from the utilitarian ethics of capitalism.

Thus, when considering Aquinas' account of justice, corporate responsibility can be defined as (1) distributive justice for internal stakeholders or collaborators, (2) commutative justice for commercial stakeholders, and (3) social justice for civic stakeholders. As we will see, the definition of corporate social responsibility based on VEB distinguishes three kinds of stakeholders.

Corporate Stakeholders

As Sison and Fontrodona (2012, 2013) explain, those who make up a firm are not just employees who provide intellectual and productive work, but also investors or shareholders, that is, those who supply the needed financial resources for the firm to operate. In fact, financial provision is a form of work and managers establish a particular kind of relationship with financial stakeholders in terms of fiduciary duties of fairness, loyalty, and honesty (Goodpaster, 1991; DeMott, 1988). Therefore, corporate stakeholders, represented by workers and investors (Sison & Fontrodona, 2013), constitute the common good of the firm as a community of work (Solomon, 1992; Melé, 2012).

Thus, shareholders, managers, professionals, and employees assume their respective rights and duties as members of the same community (Argandoña, 1998). In this sense, Melé explains that the common good as an organizational principle entails cooperation to promote conditions that enhance opportunities for human flourishing among all members of a given community. Profits and economic resources constitute an instrumental dimension of the firm's common good, and are necessary conditions for the community's members to thrive. Thus, an essential part of the firm's common good is its members' fulfillment (Argandoña, 1998).

In this way, the firm's responsibility to these internal stakeholders—its community of work—can be defined as supporting work in such a manner that each member of the organization has the chance to improve as a human being through his or her engagement in productive activities. Personal fulfillment is then the common good of the firm and it is achieved when each and every member of the group shares, participates, and takes part as a group (Sison & Fontrodona, 2013).

In this sense, MacIntyre offers a useful definition: "The common goods of those at work together are achieved in producing goods and services that contribute to the life of the community and in becoming excellent at producing them" (2016: 170). Thus, the firm's responsibility to these stakeholders, that is, the community of work, is defined as the duty to provide good and collaborative work. This duty is a matter of justice and, when it comes to collaborators, corporate responsibility implies an exclusive criteria of justice defined as distributive-contributive, that is, a fair relationship between a community and the individual in much the same way that the whole is related to its parts (Aristotle, 1995: 1131a, 1131b; Aquinas, 2006: II-II, q.61).

Distributive justice delivers common goods in a proportional manner:

> something is given to a private individual, in so far as what belongs to the whole is due to the part, and in a quantity that is proportionate to the importance of the position of that part in respect of the whole.
>
> *(Aquinas, 2006: II–II, q.61, a.1–a.2)*

If justice implies distributing the community's common goods, then we can say that, for the firm, such a process of distribution involves compensation because the employee has merit according to which he or she can demand the benefit of a portion of the corporation's common goods.

As Sayer (2009) explains, the solely distributive perspective describes individuals merely as recipients, rather than active contributors whose good depends on what they can contribute to the firm. Work is largely understood in a negative manner, as a burden, and a means to an end, rather than as a source of meaning and fulfillment. But reformulating work in an Aristotelian manner, Sayer continues, implies emphasizing the importance of self-fulfillment and well-being, and realizing that doing is more important than having, that what we do is what we become.

Doing a good job—that is, being productive and thriving throughout our daily activities—is possible only to the extent that the firm facilitates related resources and opportunities. Thus, contribution to the firm's common profit is a duty of justice when personal thriving at work is made possible in part based on the firm's benefits. Justice in contribution is defined in relation to what people are expected and able to contribute in terms of work (Gomberg, 2007), not what they must receive. Thus, distributive justice must be intrinsically considered in relation to each member's contribution, that is, just compensation cannot be fully understood in terms of distribution, but rather first needs a counterpart in contribution. Otherwise, we would not be able to fully understand the nature of work or how it constitutes the common good of the firm. Responsible employees must seek to improve, that is, offer better results for the sake of the firm's common good. In short, the firm's responsibility to collaborators is defined as facilitating fair collaboration among the community members in terms of contribution and distribution.

Commercial Stakeholders

Commerce is intrinsically linked with the common good of the firm and society. Commercial activity—selling and buying products or services—plays a very important role in public service when it supplies the goods necessary for life (Aquinas, 2006: II–II, q.77, a.4). It provides the necessary criteria for the acquisition of material goods and the development of virtues oriented towards the common good. Commerce differs from constituting a community of work, just as the form of the common good and justice therein also differ.

According to VEB any form of commercial activity is essentially a matter of profit and justice. To achieve a common good, firms need to incorporate commercial justice into virtuous practices (Arjoon, 2008; Macdonald & Beck-Dudley, 1994) because that common good can only be achieved through just and fair practices. Otherwise, decision-making turns into practical acumen or, more specifically, business cunning.

Now, the criteria for considering a commercial activity as just or fair are not simply associated with voluntary engagement, but also with proportionality in the benefits that both parties freely attain through the transaction (Finnis, 2011). Freewill and proportionality are, therefore, essential features of commutative justice. Following Aristotle, Aquinas states that commutative justice takes place through the interchanges and trade-offs between two persons (Aquinas, 2006: II-II, q.61, a.1); a type of justice can be seen in trading, usufruct, money lending, deposits, or rent (Aristotle, 1995: 1131a), that is, in all actions that manifest exchange (Aquinas, 2006: II–II, q.61, a.2).

However, justice in commercial relationships goes *beyond* the mere commutative fairness of reciprocation (Dierksmeier & Celano, 2012). In other words, the scope of commercial justice is not limited to proportionality; for a transaction to be totally fair from a VEB and common good perspective, the personal thriving and well-being of the related constituencies must be considered, that is, a truly common good in market relationships, no matter whether they are sporadic or permanent. Only when the process of decision-making considers how the satisfaction of real human needs can achieve real benefit and mutual development—known as goodwill, good faith, or benevolence (Aquinas, 2006: II–II, q.23, a.1)—can justice in commerce be achieved.

In short, the firm's responsibility to commercial stakeholders must be directed toward achieving proportionality and fairness, all while respecting commercial associates' need to achieve the material conditions for thriving based on exchange. In this sense, responsible dealings on the market are not just voluntary, but also provide better living conditions as long as both parties are profitable; otherwise, commerce ceases to exist as such.

Civic Stakeholders

Finally, we must examine how social constituencies are different from collaborators and commercial stakeholders. VEB scholars suggest the possibility of linking the common good of the firm and the broader common good at a higher level of political-social organization (Dierksmeier, 2011), which requires us to conceive of businesses as imperfect human communities (McCall, 2016).

Via the pursuit of virtuous governance, this theory connects economic and business theory with society, borrowing from Aristotelian and Thomistic ethics the concept of humanity's social nature (Sison, 2016). Every person's, and consequently every community's, natural inclination toward integrating a broader common good beyond the immediate community can be understood through Aristotle's description of human beings as political animals (Aristotle, 1995: 1095a) who practice a communal way of life in cities that, as Aquinas explains, demands justice and law (Dierksmeier & Celano, 2012). Corporations—as parts of a broader and superordinate political order—bear a responsibility that aims at the greater common good of the city (*polis*) (Sison & Fontrodona, 2012, 2013). This theory, which establishes material and financial interests beyond the maximization of profits for shareholders, sets normative requirements for corporations at the service of society in the form of social justice (Dierksmeier & Celano, 2012).

A responsible relationship—or social justice—between firms and civic society has two aspects: first, the common good of broader political communities requires corporations to accept that their own interests are subsidiary to the broader political order's prosperity (that of the *polis*) and, second, firms cannot deny their responsibility to civic stakeholders and non-economic constituencies as society depends on corporate contributions.

The idea of a subsidiary relationship, according to which firms are beneficiaries of society, is derived from Catholic social teaching (Sison & Fontrodona, 2011; Congregation for the Doctrine of the Faith,

1986) and its contribution to VEB (Cremers, 2017; Naughton & Laczniak, 1993; Sison, Ferrero, & Guitián, 2016). According to this teaching, all intermediate institutions need the social order and the state not just to thrive—making security, legality, and justice available—but also to even get their start because society provides the resources needed for firms' creation. In this sense, firms must incorporate a responsibility to sustain civic society (Flannery, 1960) beyond work and commerce and in terms of civic behavior (corporate compliance). That is, they must contribute to future generations through environmental and work–family-balance policies, and sustain common social expenses by means of their tax-based economic contribution (Pontifical Council for Justice and Peace, 2004).

Conclusion

In this chapter, we aimed to reflect on the notion of business responsibility through a virtue ethics and common good approach. We first addressed different approaches to defining the scope of the firm's responsibility towards its stakeholders and society. These competing theories of the firm rely on contrasting assumptions about human agency, which give rise to competing understandings of the nature of the firm, and its role in human perfection.

In opposition to mainstream theoretical approaches, the neo-Aristotelian common good of the firm theory (Sison, 2016) is characterized by (1) the attainment of material conditions for the development of a joint activity, (2) the coordination of actions towards achieving a result, (3) human development for each community member through individual action, and finally (4) each member's own personal development (Finnis, 1980).

Certainly, a common good approach to social justice on the part of firms understands social relationships as essentially voluntary commitments and duties to others, with said duties being a matter of justice and commitment to the common good of stakeholders and communities. This chapter concluded by briefly introducing, from a virtue ethics approach to corporate social responsibility, three forms of duties and social responsibilities towards stakeholders, including those who make up the firm, those who have a market-based relationship with it, and constituencies that are related to the firm in a non-instrumental way as part of society's civic sphere.

Questions

(1) How can corporate environmental policies be addressed from a VEB perspective?
(2) Do tax-avoidance policies constitute bad practice even though they are not illegal? Why or why not?
(3) How might VEB consider the relationship between the firm and unions?
(4) From a VEB perspective, describe the balance between employees and shareholders that corporate governance must manage.
(5) What does VEB have to say about usury and consumerism?

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8
SPIRITUALITY AND CSR

Josep M. Lozano

Introduction

At first glance, readers might be surprised to find a chapter on spirituality in a book dedicated to corporate social responsibility (CSR). As I will try to demonstrate, numerous factors justify this, some more related to specific circumstances and others to structural questions. However, to begin with, I would like to turn to Scharmer's diagnosis of today's crises and the challenges of our time. Scharmer (Scharmer, 2009; Scharmer & Kaufer, 2013) indicates that humanity currently faces a triple divide: the ecological divide (between humans and nature); the social divide (between humans); and the spiritual–cultural divide (the personal disconnection between self and Self). The fact that all three interconnect and feed off each other and, consequently, cannot be addressed separately is, I believe, what justifies this chapter. A conventional approach to CSR would argue that the first two divides explain CSR sufficiently well. Furthermore, proponents of this approach would argue that CSR comprises integrating the first two divides within management criteria. At most, they might accept the third divide as an added or complementary element. By contrast, I believe that today's challenges go even further; we cannot separate the three. To reach this conclusion, a certain journey is necessary.

Spirituality and CSR: a Journey

We should not forget that originally, even if might seem like a long time ago, the reference topic was "business ethics." Its use began to decline (relatively) in parallel with the emergence of "CSR." In terms of the issues raised, business ethics aimed to legitimate, guide, and question business and organizational practices. In a business context, the problem was not so much the concept's internal coherence and intellectual rigor but, rather, its apparent distance from day-to-day management, its normative-deductive focus (placing it somewhere within "applied" ethics), and, therefore, the tendency to present the issue of ethics as an excessively "abstract" reality. The sense was that it oftentimes talked about business reality but not from within that reality. Even attempts to associate it with the personal dimensions of organizational life and its reference to the ethics of virtue succumbed to these risks and failed to resonate with the people that business ethics attempted to reach. This deficit, as we shall see, is one of the dimensions that the discourse on spirituality and management aims to redress. Within all this we have to consider, especially in the globalization context, the challenge implied by the progressive cultural and axiological pluralism found within and beyond firms. In other words, on the one hand, companies bring together people who orient their lives by applying highly diverse moral and axiological premises and, on the other, companies operate in highly diverse cultural contexts. One of the key components of this pluralism is religion.

One of the factors explaining CSR's growth and development as a reference framework is its clear managerial focus. Bearing in mind that if companies do one thing, it is act, the primordial question has to refer to the effects of those actions and, as a result, the structure of their relations and how they manage these.

At this point, I would like to leave the vast debate on CSR's content and limits to the side, a debate stemming from the protean ambiguity of the term "social." What interests me is underscoring the aim that CSR discourse often defends, that is, that values are not the starting point but, rather, that business relations and, consequently, business practices are. Axiological questions are generally not the starting point; relations are. However, only axiological focuses allow questions on the principles or premises guiding actions and practices to emerge. The traditional focus is much more operational and stresses what companies do and the assumption that companies are what they do. However, this does not provide any clarity, and there is no axiological legitimation. There are also no references to the model of society on which to support this focus, just as political approaches regarding CSR have been made patently clear.

However, reflecting on responsibility highlights an issue that opens the door to progressively connect CSR to spirituality. Speaking clearly, there cannot be any responsible companies without responsible people. We cannot avoid this question regarding the personal quality which corresponds to CSR and makes the latter possible. The question on the relation between CSR and personal development within organizations enables us to raise the issue of spirituality by addressing two complementary factors: leadership and workplace spirituality.

Leadership

Needless to say, there are diverse and plural approaches to leadership (Ciulla, 1995; Horner, 1997; Dent, Higgins, & Wharff, 2005). In fact, the question is increasingly not so much about leadership, as such, but rather leadership quality. And this raises the question of the leaders' human quality, as well as the quality of the relations they establish. It is no longer about what leaders do and their ability to motivate and mobilize their followers. It is also about the values and legitimacy of the projects they personify, the visions they propose, and their relations with different stakeholders. Thus, this affects not only the results they achieve but also the authenticity with which they speak and act (George, 2003). The question, thus, turns to the ultimate source of their vitality and convictions, from where their values originate.

We can see this in two relevant references reflecting on leadership: the tension between transactional and transformational leadership (Eisenbach, Watson, & Pillai, 1999; Sarros & Santora, 2001) and the servant leadership concept (Greenleaf, 1977). The logic of exchange is what characterizes transactional leadership: "In exchange for your contribution, I'll give you what we have agreed on and/or what you deserve." It is a type of leadership based on the extrinsic components of the relationships established; it does not include a strong personal bond or involvement. By contrast, these relationships are clearly present in transformational leadership, activating an attitude among people which does not limit or reduce itself to immediate interests. Rather, this type of leadership goes further and focuses on a shared goal which, in a certain sense, provides transcendence to day-to-day actions. Transformational leadership, thus, has a strong inspirational component and creates sense and meaning. Servant leadership (Greenleaf, 1977) goes even further and directly stresses service. Leadership has to be seen from this perspective. If the central question is service, this implies that leadership can no longer center on the self or one's ego. Rather, it has to serve a purpose that provides meaning and unity to the group. Clearly, then, if questions about a leader's radically personal characteristics arise – and they point to their vital core, their meaning, purpose, authenticity, transcendence, service, and everything but their ego – the question of spirituality becomes inevitable, insofar as these dimensions have historically been developed within the context of spiritual traditions and wisdom.

Maak and Pless's (2011) view on responsible leadership has played a key role in this evolutionary process. Their approach stems from the combination of leadership and responsibility to form responsible leadership (Maak, 2007; Maak & Pless, 2011). One of their central premises is that there cannot be responsible companies without responsible people, and that not just any type of leadership is desirable. They use eminently qualitative parameters to describe this type of leadership within a relational framework (Maak & Pless, 2006). Leaders must, therefore, safeguard the values they share with the communities in which they operate; they must also serve others and provide inspiration and insights on the desired future. This means that leaders must become architects of structures and processes, and agents of change, supporting their followers and creating meaning and sense. Regardless of whether all these qualities can be found in a single person, it is obvious that such a qualitative-oriented profile will sooner or later question the ultimate human quality of people capable of sustaining all these qualities. Apparently, the next step would, therefore, be an approach that focuses on individuals and explores questions regarding how deep-rooted their fundamental values are, the degree to which they relate to their most personal aspirations, and the quality of their commitment to horizons that lie beyond mere personal gratification.

This takes us to a more holistic view of management and leadership. Parikh (1991) makes this clear when he underscores that every manager exists at five different levels: as a citizen, as a member of the organization in which he/she works, as a manager within the organization, as a person involved in multiple roles, and at the existential level of "being." Others such as Datar, Garvin, and Cullen (2010) have taken up this reference to the level of being when they highlight that the education provided through MBA programs should not only address students' level of knowing and doing, but also their level of being. This emphasis on a more integral view of the professional as a person and on the idea that we cannot disassociate the person from the professional raises the question of spirituality in its own right. It is also true that the presence of spirituality stresses diverse components which are not always coherent. We can talk (Dent et al., 2005) in terms of wellbeing, health, authenticity, and the construction of meaning. However, despite the different focuses on one or another dimension, the common denominator is that there is no such thing as professional or leadership development without developing the person. And we cannot do the latter without also taking spirituality into account.

Workplace Spirituality

If we talk about spirituality as a dimension that affects the entire person, we cannot reduce the discussion solely to leadership. Thus, we also have to talk complementarily about workplace spirituality. This integral view of the person holds true here, as well, but the context is the workplace as a whole; consequently, the approach is clearly more organizational. In their now-classic text *A Spiritual Audit of Corporate America*, Mitroff and Denton (1999) reflect these two key points in their subtitle: *A Hard Look at Spirituality, Religion, and Values in the Workplace*. On the one hand, the two points are non-identification (and, at times, separation) between spirituality and religion, and, on the other, the connection between the question of corporate values and, hence, issues of organizational culture and change.

I will explore the first point further below. In terms of the second, Giacalone and Jurkiewicz (2003) create a long list of points where workplace spirituality and organizational topics intersect, affecting corporate culture and values: recruitment, self-presentation, ethics, health insurance, creativity/innovation, pro-social behavior, public relations, leadership, job satisfaction, workgroup cohesion, work–family issues, and motivation/reward systems. Without doubt, taking into account the spiritual dimension, insofar as it affects the whole person, has or can have an impact on all the aspects related to people management and development within organizations. Pawar (2008) signals that there are two approaches to considering the bond between spirituality and organizational change, one which focuses more on the organization and one more on the individual. Each one of these modulates the same organizational change variables according to the focus they adopt and according to the organizational change aspects they contemplate (content, processes, or context). Many of the variables coincide with the previous list of topics, though there are specifically organizational elements (for example, the benefits for individuals and for the organization, the way processes are facilitated and reinforced, or the types of personal and organizational transformation produced).

Thus, one of the most important connections when integrating spirituality within organizations occurs with respect to people development (from both the leadership and workplace spirituality perspectives). In this sense, we should note that this internal dimension—in organizational terms—is a relatively novel component within CSR. This is not just because of the issue addressed (spirituality), but also the fact that it links to internal CSR dimensions which, in general, have been much less developed than external ones. CSR has always focused much more on the external impacts of business activity and less on internal dimensions.

Regardless, the tension between personal and organizational dimensions is a constant, probably due to one simple reason: it is unavoidable. Positing that the connection is the area of values (undeniable) is not enough. We have to recognize that this tension arises because talking about spirituality means talking about a radically personal dimension (existential in Parikh's terms, as mentioned above). At the same time, examining it from an organizational perspective makes it inevitably linked to—if not directly dependent on—the organization's aims, with the risk of being subordinated. In other words, incorporating the spiritual dimension can strengthen people's bonds and involvement with the organizational project and contribute to their overall development as people. As a result, this can potentiate the organizational project even further and have a positive impact. However, for this same reason, the risk of instrumentalizing spirituality, or at least increasing its ambiguity, emerges. In this situation, it is never clear how and in what way strictly spiritual ends converge with those of the organization.

Spirituality in Management: a Means or an End?

This is the pertinent question that Chakraborty and Chakraborty (2008) raise, and perhaps we can do nothing more than simply be aware of it and process it honestly and transparently. This is because there is an irreducible tension between spirituality's radically personal dimension (existential) and the organizational objectives' pragmatic dimension. It is true that both the idea of purpose and values can be a means to integrate personal and corporate concerns, but we cannot obviate or underestimate this tension.

Among other reasons, we run the risk of instrumentalizing spirituality to serve the organization (and vice versa, though to a lesser degree). Purser and Loy (2013) perhaps provide one of the most graphic illustrations of this risk when talking about "McMindfulness" to refer to the danger of subordinating certain meditative practices to organizational needs, removing them from their context. Purser and Loy's expression is appropriate because, on the one hand, the original mindfulness proposed (Kabat-Zinn, 2005) is solid and has had highly positive effects in different environments; and, on the other, some have succumbed to the temptation to convert it at times into a consumer product. We could refer to this as "the King Midas temptation." The company does not turn everything it touches into gold, but rather tends to convert it into something instrumental and focused on profit, something which, in this specific case, represents a crude commoditization of spirituality.

The business community and the executive function are subject today to tremendous pressure, demands, and uncertainty, all of which are difficult to withstand and assume at times. Relations and technologies have also become increasingly complex. The obsolescence of traditional management focuses based on the hierarchy–control binomial is becoming clearer day after day, and managing teams does not just require certain skills but achieving a certain way of behaving. And this behavior always reflects a way of being. All this leads to the need for people to find support and references to not lose themselves—and not harm others—when exercising their responsibilities. People are the ones that need support, not executives, and this is the personal translation of this tension we have discussed.

In organizational contexts, we can thus detect the desire for greater depth and self-awareness, like something linked to and demanded by today's management needs. This is why professionals increasingly receive support and guidance—often customized, face-to-face—to undertake personal change processes, including the need to become more aware of what each individual is looking for in life and their goals. This explains why they receive support and resources, and, if needed, they are personally questioned. This developmental process does not just serve to work on behaviors and reactions, but also, if warranted, on the assumptions, behavioral patterns, and commitments that affect the meaning of life itself. The aim is to provide them with support to undergo a process more fully aware and lucid, and not take anyone—manipulating them—to a preconceived place. The aim is to increase their awareness and lucidity, providing them instruments (or tools) based on spiritual traditions: breaks, spaces for silence, yoga, and even meditation practices.

Thus, one of the problems that bringing "spirituality" to the workplace implies is that, at times, it does not include a strategic reflection on the firm or its purpose; neither does it analyze the social and axiological changes that this entails. Rather, the focus is on finding answers to practical challenges related to management's development. A simple and prosaic example will help. "Spirituality" is often linked to reducing stress and tension. Several questions immediately come to mind, however: Is the aim to live better with that stress without changing the organizational conditions that generate that stress? Is the aim to make people more resistant in order to increase the pressure they experience and can tolerate? Is the aim to work with key people within the organization because any change produced within them implies organizational change? Or, from a different angle, when "spirituality" is associated with the ability to energize change processes in contexts of axiological pluralism and uncertainty, insofar as "spirituality" allows us to create meaning, purpose, unity, and depth at work, what are we essentially hoping to achieve (or what is at the service of what else)? The key issue here, then, is that the company (in the market setting) moves based on the logic of interest. It is not reduced to this logic, but in general, it does not move apart from that logic. And this is where the question of spirituality as a means or as an end arises. We can certainly answer and fine-tune this question intellectually, though it is only clear in practice by analyzing and assessing the personal and organizational processes in which people talk about spirituality.

Four Approaches: One Proposal

Numerous authors have proposed different approaches to the incorporation of spirituality in firms (for example, Chakraborty & Chakraborty, 2008; Mitroff & Denton, 1999; Giacalone & Jurkiewicz, 2003; Pawar, 2008). I would like to propose four approaches. These do not refer so much to the practical focus (though, evidently, there are practical implications), but rather their frames of reference. Though the lines between the four are somewhat blurry, they have a certain weight on their own.

The first approach begins with the premise that taking spirituality into account within organizations improves how those firms function and perform. This includes "bearing in mind" incorporating practices, changing discourse, creating spaces, and so on. In fact, this approach does not specifically value spirituality in the strict sense, but rather its impact on organizations. It associates developing spirituality to enacting positive changes that promote fairness, commitment, reliability, empathy, and integrity in people, as well as focusing on the present moment, creativity and improved decision making, transformational and/or responsible leadership, and so on. It is clearly a practical approach, linked directly to the quality of organizational life. It is thus closely tied to organizational reality. This is the approach's starting point. However, this does not imply that this approach is not respectful of the issue of spirituality, though, as we have seen, it unavoidably raises the question of whether this spirituality is a means or an end. At any rate, this approach focuses spirituality on the quality of organizational life and does so because it feels that we cannot reduce quality to technologies, processes, and systems. Quality also includes relations within the organization and the organizational project itself. Beyond instituting value-based management, the aim is to create, develop, and share a common perspective that facilitates not only decision making, but also the ability to discern the diversity of situations. If we mention spirituality in this context it is because silence, detachment, and commitment are essential ingredients to create meaning and purpose. Spiritually does not create its own specific values but it can model the processes needed to develop those values.

The second approach goes in the opposite direction. The aim is to explore what different religious traditions can say and propose to the business world. To simplify, in this approach, we go from the doctrinal to the practical realm, though always based on the premise that practice has to listen to doctrine and "apply" it. If we use the "applied ethics" concept to create an analogy, here we could say we are taking doctrinal orientations or practical advice that the different religious traditions propose with respect to economic activity. Oftentimes, the resulting discussion is more a question of "religion and business" in all its variations, while spirituality serves as a component to personalize the discussion. This all leads to general recommendations and principles, concepts, and solid and elaborate criteria stemming from social doctrine (whether dictated by religious hierarchy or any other religious tradition or institution). There are also more or less informal proposals linked to concrete aspects of religious traditions, addressing issues such as management and the art of war, shamanistic traditions that favor innovation, the presence of Buddha in the firm, compassion as a management component, and what teachings from different religious belief systems can further our understanding of leadership and good governance. Without doubt, this focus tends to convert executives and organizational members into listeners (and, at times, apprentices) of words originating in different spiritual traditions. In this context, other questions appear related to managing religious diversity within organizations. (To avoid any misunderstandings, I specifically exclude approaches that aim to take advantage of the organizational space to preach or indoctrinate. These are sub-products of this approach which we can reject, and which are not generally considered when discussing these issues.) Exploring this issue further is beyond the scope of this chapter.

The third approach does not pivot directly on the issue of management and companies but on the training and education needed to act. It encompasses the enormous open debate on the type of training and education we need today both inside and outside the firm. It goes without saying that this issue, as a business demand and as an educational offering, can be found in the educational proposals that include a minimal concern for and commitment to what we mean today by educating and facilitating people's educational development. The question here is who we educate and for what. It assumes, consequently, returning to a certain anthropological view of education without reducing it to its technical and developmental dimensions. However, it clearly does not counter or distance itself from these dimensions. This takes us back to what I have already mentioned in terms of incorporating "being" into the "knowing" and "doing" in management education (Datar et al., 2010). If the spiritual dimension and taking care of the personal space from which we live and act constitute the person, we cannot talk about education and training without incorporating them explicitly in educational and training processes. To use a more classic type of expression, if the aim is to educate reflective practitioners (Schön, 1987), on what exactly should today's reflective practitioners reflect? It seems like, in today's volatile, uncertain, complex, and ambiguous world, reflective professionals have to be able to reflect on not only their work and organizational contexts but also on themselves, their place in the world, and their contributions. The aim is to integrate nurturing and taking care of the inner space from which we operate and act into the very concept of professional development. Since professionals are people, not facilitating and supporting this connection in today's knowledge society is akin to amputating individuals as both people and professionals.

Lastly, the fourth approach complements the previous one. The essential premise of this focus is that the entire organizational model and management style have an underlying anthropological foundation. Returning to the context of today's volatile, uncertain, complex, and ambiguous world, we have to ask ourselves what type of organizations and professionals we need for a world with these traits. Professionals and organizations that want to maintain their coherence, commitment, and effectiveness not only have to set objectives, but also create sense and purpose. They cannot only achieve results; they have to have a positive impact on their surroundings. They have to share an identity and a reason for being based on recognizing all types of differences: cultural, educational, and so on. This approach incorporates the question regarding the underlying anthropological model into its reflection on companies, and it directly links the social model it proposes and promotes to CSR. Without doubt, the question of spirituality connects explicitly to the question of the human quality needed today to lead projects and organizations that have a positive impact on society, though the two often overlap or are confused. The aim is not to turn organizations into communities or sects. Rather, the objective is to recognize that we cannot define today's knowledge society and organizations solely by their histories and present, but especially by the projects they create, thus, the need to develop human quality. The components of the latter are present in the most diverse spiritual traditions and the dimensions they address and nurture. Furthermore, we can access these dimensions through those traditions without needing to submit to their belief systems or converting. These traits include knowing how to listen; going beyond the usual rhetoric on dialogue and communication; maintaining a certain lucidity about oneself and reality; paying attention and connecting to what is happening here and now; not identifying with or submitting to one's own desires and needs (without negating or amputating them); seeing one's own activity and contribution from a horizon which goes beyond our most immediate circles; not disconnecting from one's own source of vitality, but rather respecting, nurturing, and furthering it; seeing learning as an open and receptive attitude, not as repetition or acquiring/receiving prefabricated solutions; and being aware of one's own personal and corporate ego and not submitting to its automatisms. Without doubt, talking about spirituality from this perspective implies discussing the human quality needed to create organizations capable of guiding themselves and acting appropriately in a changing world. It also means recognizing and respecting a human dimension that tends to be forgotten, though necessary and valuable on its own; development that directly connects to the quality of professional and business life. This implies its recognition in organizational contexts, both in terms of spaces and agendas as well as practices and personal and professional development.

Behind all these approaches, the "definition" of spirituality comes into play. In fact, every approach to this issue starts with or combines various "definitions" or explanations of the various authors' understanding of spirituality. This second option, its understanding, seems more reasonable and transparent to me. It consists of not attempting to create *the* definition; it tries to describe the frame of reference on which we base it. For this reason, and before turning to the conclusion, I would like to return to the reference framework we saw earlier (Ribera & Lozano, 2004). Thus, I understand spirituality as (1) an opening which is also, simultaneously, a process; (2) aiming towards perception and knowledge which encompasses all of the human experience; (3) at a level which is a way to displace or silence the ego from its central position in human life; (4) and transforming the vital energy itself by being receptive to a shapeless foundation; and (5) with a historical expression represented through different images and symbols (unity, absoluteness, emptiness, God, silence, love, energy, mystery, wisdom, etc.), images and symbols which are an expression of spirituality though do not limit its meaning.

Spirituality and CSR: a CSR that also Talks in the First Person

We always have to connect spirituality, no matter its definition, to its context, and this context serves to specify and identify it. That is why we should highlight the approaches that not only talk about incorporating spirituality into management but, more specifically, those that consider that today's transformations give it a meaning which perhaps was not there just a few years before.

Tischler (1999) foresaw that we have to connect companies' and managements' interest in spirituality to the knowledge society. This is due to the fact that the central role played by people, the need to work in multicultural contexts, and globalization (which, at the time, had already gone hand in hand with the ideological crises of the era and the notable loss in the importance of institutions that had had a socializing function and transmitted values) require a new understanding of quality. In addition, we can no longer limit this quality to products, processes, and services; it has to include the needed quality for personal and organizational life (Mitroff & Denton, 1999; Scharmer, 2009; Senge, Scharmer, Jaworski, & Flowers, 2004). For this reason, we can no longer limit the approach to spirituality, which never stops having a radically personal component, to individual aspects, because it has to do with professional quality, relational quality, and the quality of how we organize work and develop people.

In other words, postindustrial societies, without the all-encompassing and undisputable reference to ideologies and religions and submitted to colossal challenges and threats (not produced by nature but by humans), need to develop the ability to work with values and create projects which are not only guided and aligned by objectives in order to survive. Due to a lack of universally accepted references and guides for action and seeing actions as, a priori, immune to the challenges that developing them implies, the question *from where* becomes primordial. This "from where" or source simultaneously refers to people, processes, and organizations as well as the quality of all three. Consequently, we have to address spirituality not from a nostalgia for a past that will never return, but rather recognizing that today's transformations require we face the uncertainties and opportunities opening up before us with a lucid personal awareness that is firmly rooted in fundamental values and attitudes.

Ultimately, we need to ask ourselves if we can train responsible leaders without training people who are responsible, as mentioned above. But there are other questions. Can there be professional quality without personal quality? Today, when we hear so much about educating, recruiting, and retaining talent, we forget that talent is not a type of prosthetic device that we can simply add on; it is inherently within people. Knowledge is in people; people are knowledge. Managing knowledge means managing people, and managing people means managing knowledge. Recognizing the intrinsic link between professional and personal talent implies, at the extreme, that there cannot be professional development without personal development. However, we have to consider people as a whole, not just as mere "bearers" of certain competencies and skills. As a result, developed people are those who have also developed their lucidity and self-awareness.

This needed self-awareness as proposed is not an entity on its own, floating on some unknown isolated and shapeless cloud or subject to a system of beliefs (religious or not). In addition, it is reasonable to believe that the search for individual identity and some type of community stems from this need for knowledge and information. It is no longer a spirituality limited to private life. It is a spirituality that connects to the growth of human quality and the need to create new types of communities (Pruzan & Mikkelsen, 2007). And that is how we can talk about the interrelation between communities of self-awareness, communities for the use of knowledge, and for knowledge creation (Carnoy, 2000). The error would, thus, be to continue to think that we can move forward with knowledge use and production without enhancing our self-awareness. This self-awareness is not a type of autism surrounded by technological gadgets. Self-awareness implies expanding our awareness, sensitivity, and our ability to listen to and interact with others. If the latter is in fact true, can we afford the luxury of scorning sapiential and religious traditions not as belief systems but as guides and means of support to be able to carry out the needed questioning and creativity?

We thus turn back to Scharmer's (2009) diagnosis with which we began this chapter. We are not simply talking about adding spirituality to CSR; we are talking about recognizing that we are living a triple divide: ecological, social, and spiritual-cultural. The three are interconnected, and we cannot address them separately. CSR is comfortable addressing the first two. The challenge, however, is reformulating CSR to make it more holistic and to incorporate the third divide.

In a very different context, Torbert and associates (2004) argued in favor of thinking about actions in the third, second, and first person. To draw an analogy, we can argue that CSR in the third person puts the emphasis on "objectively" explaining how organizations work and using theories and descriptions to produce principles or sometimes mere guidelines for actions and methodologies. The ideas and tools can be either simple or complicated, the methods can be straightforward or sophisticated, and theories can be perfected to a greater or lesser degree. All things considered, however, everything is summed up by the desire to provide lines of action to respond to all that we understand as CSR. The aim is for executives and companies to make better decisions about an external world with which they have no personal connection.

CSR in the second person explicitly emphasizes the relational component and sees itself as a relationship builder. The second-person approach aims to develop capabilities, skills, emotional intelligence, and all manner of elements necessary to strengthen relational approaches. We can link it to a profound change in mentality: the shift from seeing the world as a collection of separate things, individuals, and organizations to seeing it as made up of relationships. If markets are conversations (Levine, Locke, Searls, & Weinberger, 2001), then relational capabilities are crucial for CSR, and developing them is a challenge for companies. For this reason, we could argue that we do not just need reflective practitioners (Schön, 1987). We must develop critically reflective practice, because today, in a society of organizations based on talent and knowledge, neither management nor leadership is possible without "sense-making" processes (Weick, 1995). This leads to the need for a CSR that is also capable of working in the first person.

Increasingly, the exercise of managerial responsibilities connects to the question of personal quality, without reducing this to how well people exercise their specific functions. That is, when exercising their functions, executives find themselves face-to-face with themselves, their own authenticity, and their own integrity.

Working in the first person might seem rude, unnecessary, and unjustifiably meddling with people's private lives, among other reasons, because matters of this type are often mistakenly thought to convey certain beliefs, philosophies, and/or ideologies. But this is not so. It is a case of presenting frames of reference to think about and undertake personal practices that enable this process of inquiry, vital consolidation, and open-mindedness to implement and share.

Working in the first person also means seeking out and incorporating censured forms of language instead of simply reproducing established languages. In our present culture, we rarely give ourselves permission to talk about connections between the spiritual and professional realms. What we have to ask, therefore, is whether we can separate management quality from the quality of the life or the person doing the managing (Parikh, 1991); whether the success of a given intervention depends on the inner condition of the intervener (Senge et al., 2004; Scharmer, 2009); and, thus, whether good management and good leadership are possible (Castiñeira & Lozano, 2012) without developing the crucial capacity to restructure the interaction between knowledge, awareness, and social transformation. Further, if they are possible without developing the ability to immerse ourselves fully in everyday life, while remaining in contact with the veritable center of ourselves and with a horizon that allows us to look beyond our immediate surroundings.

This is where, in my opinion, we have to situate the link between CSR and spirituality, now and in the future.

Questions

(1) Does it make sense to talk about spirituality in the CSR context? And from a business perspective?
(2) Is attempting to integrate spirituality within a business context a means to instrumentalize it?
(3) Should we not see spirituality as a personal or private affair, and consequently as something valuable yet alien to CSR?
(4) What aspects of CSR practices might be positively affected by developing a healthy spirituality which foments human quality?
(5) From a CSR perspective, can we develop people without integrating spirituality?

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9

CATHOLIC SOCIAL TEACHING ON THE SOCIAL RESPONSIBILITY OF BUSINESS

Domènec Melé

Introduction

Catholic social teaching (CST) has been developed by the Magisterium—popes, bishops, and ecumenical councils—since the late 19th century, although its roots go back to the very beginnings of Christianity (Charles, 1998). The responsibility of business and, more specifically, of those who manage business, is part of CST, as are social issues, including those related to business activity.

The Catholic Church "recognizes the fundamental and positive role of business, the market, private property, and the resulting responsibility for the means of production" (John Paul II, 1991: 42), but in various ways condemns abuses and exhorts responsible behavior, as we will go on to see in this chapter. However, in her teachings, the Church does not propose specific models of how to manage the social responsibility of business. Models can be many and their effectiveness varies within the framework of different historical situations. "The Church has no models to present" (John Paul II, 1991: 43) but, instead, she offers teachings as basic moral guidelines to develop models, policies, and practices.

The first writing on the responsibility of business in CST goes back to Pope Leo XIII (1891), who dealt with the situation of workers in the first Industrial Revolution. He condemned the working conditions in factories at the time and the lack of respect for what would later be called labor rights, such as a fair wage, dignified working conditions and the rights of workers to unionize, and urged that measures be taken in this regard.

Pope Pius XI (1931) developed these points and lamented the existence of factories that impoverished workers, denying their humanity. He condemned situations of unfair competition and certain labor contracting practices that directly scorned "the human dignity of the workers, the social character of economic activity and social justice itself, and the common good" (Pius XI, 1931: 101). His successor, Pius XII, insisted on several social issues, including human rights and labor rights, harmony between labor and capital, participation within organizations, and private property, all of which appeal to business responsibility.

Since the second half of the 20th century, CST has dealt with several matters related to the social responsibilities of business, although the expression "corporate social responsibility" rarely appeared before the 21st century. In this period there have been many CST documents worth special note, including the pastoral constitution *Gaudium et Spes* of the Second Vatican Council (1965)—an important event within the Catholic Church—and various encyclical letters issued by Popes John XXIII (1961, 1963), John Paul II (1981, 1987, 1991), Benedict XVI (2009), and Francis (2015). The *Compendium of the Social Doctrine of the Church* (PCJP, 2004) is also noteworthy, and an excellent compilation of CST up until its time of publication; as is the *Catechism of the Catholic Church* (Catholic Church, 2003), which also summaries significant aspects of CST on business and its social responsibilities.

This short historical overview introduces the present chapter, which aims to present a synthesis of Catholic teachings on the social responsibility of business. It begins by presenting a tight summary of ethical foundations relevant for managing business in society. Then it continues by discussing two key issues regarding the social responsibility of business: how CST understands the relationship between business and society and what gives moral legitimacy to business. Next, it deals with specific social responsibilities of business, including those inherent to its core activities and the possible contributions of business to alleviating social problems. I also sum up the role of practical wisdom in managing these responsibilities. Finally, I discuss similarities and differences between Catholic teaching on the social responsibilities of business and other proposals.

Ethical Foundations of the Social Responsibility of Business

Underlying the different views of corporate social responsibility are certain ethical views. CST applauds initiatives on corporate social responsibility, although not necessarily their ethical foundation. Pope Benedict XVI (2009: 40), for instance, without giving further details, stated that there are ethical considerations that currently inform debate on the social responsibility of the corporate world which are not all acceptable from the perspective of the Church's social doctrine.

The ethical foundation of the social responsibility of business proposed by CST is a person-centered ethics (Benedict XVI, 2009: 45), which entails recognition of the dignity of the human person and his/her integral human development. John Paul II affirmed that the main thread and, in a certain sense, the guiding principle of CST is "a correct view of the human person and of his unique value" (John Paul II, 1991: 11), with dignity and associated innate rights.

CST is based on both faith and reason; a reason which has a certain capacity to know reality, including what contributes to the development of the noblest capacities of the human being. From these premises, CST defends "the inviolable dignity of the human person and the transcendent value of natural moral norms" (Benedict XVI, 2009: 45) and considers that *love in truth* "is the principle around which the Church's social doctrine turns, a principle that takes on practical form in the criteria that govern moral action" (Benedict XVI, 2009: 6).

Love in truth includes justice, which prompts us to give the other what is due by reason of his or her right, and to contribute to the common good (Benedict XVI, 2009: 6). The reason for the latter is that, "in keeping with the social nature of man, the good of each individual is necessarily related to the common good, which in turn can be defined only in reference to the human person" (Catholic Church, 2003: 1905).

As Pope Benedict XVI explained:

> besides the good of the individual, there is a good that is linked to living in society: the common good. It is the good of "all of us," made up of individuals, families and intermediate groups who together constitute society. It is a good that is sought not for its own sake, but for the people who belong to the social community and who can only really and effectively pursue their good within it.
>
> *(Benedict XVI, 2009: 7)*

John Paul II related the common good to solidarity as a virtue, by affirming that solidarity "is a firm and persevering determination to commit oneself to the common good" (1987: 38).

Both justice and solidarity are relevant in the context of the social responsibility of business. First of all, business bears responsibilities derived from duties of justice towards persons with rights—both contractual rights, acquired in dealing with the firm, and natural rights, which should be respected by the mere fact of being a person. This requirement is not too different from the usual claim in favor of respecting the human rights of people in the business context.

Second, solidarity goes beyond strict duties of justice. Solidarity requires that business contributes to the common good within its mission and capacities. In this regard, Benedict XVI stated:

> To take a stand for the common good is on the one hand to be solicitous for, and on the other hand to avail oneself of, that complex of institutions that give structure to the life of society, juridically, civilly, politically and culturally, making it the *pólis*, or "city."
>
> *(Benedict XVI, 2009: 7)*

These institutions include the business firm. Thus, working for the common good of the firm, i.e., for the common good of the society, is a fundamental requirement in managing business in society.

Relationship Between Business and Society

The understanding of the relationship between business and society in CST is consistent with its view of the human being, the identity of the business firm, and its concept of society. As noted, CST stresses the importance of a correct view of the human being (John Paul II, 1991: 11) and this view includes the existence of a social dimension in the person. On one hand, the person has the capacity for self-possession and self-determination (interior freedom), but on the other, has relatability and sociability which entail living in society.

> Society is not for him [the person] an extraneous addition but a requirement of his nature. Through the exchange with others, mutual service and dialogue with brethren, man [it means both man and woman] develops his potential; he thus responds to his vocation.
>
> *(Catholic Church, 2003: 1879; cf. Vatican Council II, 1965: 24)*

Recognizing the human capacity of "mutual service and dialogue," that is, capacity for cooperation and "civic friendship," leads to the definition of a society as

> a group of persons bound together organically by a principle of unity that goes beyond each one of them. As an assembly that is at once visible and spiritual, a society endures through time: it gathers up the past and prepares for the future.
>
> *(Catholic Church, 2003: 1880)*

This view differs from both the collectivistic view, in which personal freedom practically disappears, and the individualistic view which stresses individual freedom, interests, and preferences up to the point that the social dimension is practically eliminated, or perhaps reduced to the capacity to negotiate consensus among individual interests.

People associate within society, forming intermediate groups or mediating institutions between individuals and society and, in different ways, contributing to a good society. "Civil society, organized into its intermediate groups, is capable of contributing to the attainment of the common good by placing itself in a relationship of collaboration and effective complementarities with respect to the State and the market" (PCJP, 2004: 356).

One of these intermediate groups is the business enterprise—entities with public or private activities; for-profits and non-profit organizations (PCJP, 2004: 356). Fort (1996: 149) argues that business firms are mediating institutions, since they "mediate" providing personal identity and promoting ethical behavior through concern for others. Guitián (2018) complements this view, adding that a business firm acts as a mediating institution when it seeks its own perfection, including the human perfection or excellence of its members, and contributes to others' perfection.

The private ownership of property is an element of private economic activity. However, CST does not consider the firm as a mere society of property owners, who hire people to work for them, exchanging their work for a wage. CST emphasizes that human activity takes its significance from its relationship to persons. Human work is not a mere commodity to be exchanged for a wage, but an activity of a person and ordered toward persons. "For when a man works he not only alters things and society, he develops himself as well" (Vatican Council II, 1965: 35; cf. John Paul II, 1981: 12). Human work comes from a conscious and free individual, a person with dignity, and this confers dignity on work. Workers certainly are hired, not as a commodity—this would be a form of slavery—but to contribute to business goals through their work.

The conclusion is that

> a business cannot be considered only as a "society of capital goods"; it is also a "society of persons" in which people participate in different ways and with specific responsibilities, whether they supply the necessary capital for the company's activities or take part in such activities through their labour.
>
> *(John Paul II, 1991: 43)*

CST sees the business enterprise as "a community of work" (John Paul II, 1991: 32), a "community of persons" (1991: 35) working to achieve specific goals, within society at large. Actually, according to CST, "Each community is defined by its purpose and consequently obeys specific rules" but "the human person…is and ought to be the principle, the subject and the end of all social institutions" (Catholic Church, 2003: 1881).

One essential element in CST which allows us to understand society and human communities is the common good, a notion mentioned above as the good of all who are part of a community. A popular definition of the common good is "the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfillment more fully and more easily" (Vatican Council II, 1965: 26, 74; cf. Catholic Church, 2003: 1906). In short, the common good includes "those social conditions which favor the full development of human personality" (John XXIII, 1961: 65).

Notice that this definition differs from the liberal definition of the common good as the sum of individual interests. According to CST, the common good presupposes (1) respect for the fundamental and inalienable rights of the human person; in particular, it resides in the conditions for the exercise of the natural freedoms indispensable for the development of the human vocation; (2) the social well-being and development of the group itself, making accessible to each what is needed to lead a truly human life: food, clothing, health, work, education and culture, suitable information, the right to establish a family, and so on; and (3) peace, that is, the stability and security of a just order. The authority should arbitrate, in the name of the common good, between various particular interests and assure by morally acceptable means the security of society and its members (cf. Catholic Church, 2003: 2007–2009).

The Intrinsic Social Responsibility of Business

Understanding the business enterprise as a mediating institution goes beyond the functionalist view of society, according to which business has an exclusive economic function. Business does, of course, have an economic function but not only that. Business contributes in different ways to the well-being of society.

Aligned with this supra-functional view of business, CST considers economic activity as a whole, not only in economic terms, but as the service provided to people through its main activity.

> The fundamental finality of this production [of agricultural and industrial goods and of the rendering of services] is not the mere increase of products nor profit or control but

> rather the service of man, and indeed of the whole man with regard for the full range of his material needs and the demands of his intellectual, moral, spiritual, and religious life.
> *(Vatican Council II, 1965: 64)*

Even more explicitly, this orientation of economic activity to serve people, which is central in business, is expressed more explicitly in these words:

> The development of economic activity and growth in production are meant to provide for the needs of human beings. Economic life is not meant solely to multiply goods produced and increase profit or power; it is ordered first of all to the service of persons, of the whole man, and of the entire human community.
> *(Catholic Church, 2003: 2426)*

As a consequence, those responsible for business enterprises "have an obligation to consider the good of persons and not only the increase of profits" (Catholic Church, 2003: 2432). Profits themselves are, however, necessary for the ethical-social end of making possible the investments that ensure the future of a business and they guarantee employment (Catholic Church, 2003: 2432). Corporate social responsibilities, rather than something added as voluntary activities, are therefore intrinsic to business itself.

CST sometimes talks of a social function inherent to business, maybe as a way to enter into dialogue with those who defend an exclusively economic function of business. The *Compendium*, for instance, affirms that, besides their typically economic function,

> *businesses also perform a social function, creating opportunities for meeting, cooperating and the enhancement of the abilities of the people involved*. In a business undertaking, therefore, the economic dimension is the condition for attaining not only economic goals, but also social and moral goals, which are all pursued together.
> *(PCJP, 2004: 338, emphasis in original)*

Thus, "a business's objective must be met in economic terms and according to economic criteria, but the authentic values that bring about the concrete development of the person and society must not be neglected" (PCJP, 2004: 330).

The Common Good as a Principle of Moral Legitimacy

The common good—sometimes presented as its partial meaning of "general welfare"—is, according to CST, the fundamental orientation of both individuals and intermediate groups—among which is the business firm, as noted—in their activities within society. In this sense, Pope John XXIII wrote, people "both as individuals and as intermediate groups, are required to make their own specific contributions to the general welfare" (1961: 53). As a consequence individuals and intermediate groups "must harmonize their own interests with the needs of others, and offer their goods and services as their rulers shall direct—assuming, of course, that justice is maintained and the authorities are acting within the limits of their competence" (John XXIII, 1961: 53). Thus, the common good is seen as the superior criterion which permits interests to be harmonized in conflict.

It was the same John XXIII who made explicit the necessary contribution to the common good of business enterprises in addition to their specific goals. After pointing out that a healthy view of the common good must be present and operative in those invested with public authority, he added:

> We consider it altogether vital that the numerous intermediary bodies and corporate enterprises—which are, so to say, the main vehicle of this social growth—be really auton-

> omous, and loyally collaborate in pursuit of their own specific interests and those of the common good.
>
> *(John XXIII, 1961: 65)*

The common good is what gives moral legitimacy to business activity, as well as any other economic institution, such as the market. The Church "recognizes the positive value of the market and of enterprise, but…at the same time points out that these need to be oriented towards the common good" (John Paul II, 1991: 43).

Each company has its own common good related inasmuch as, according to CST, "each human community possesses a common good which permits it to be recognized as such" (Catholic Church, 2003: 1910). In business enterprises, the common good is related to its general purpose of providing goods and services, since "businesses should be characterized by their capacity to serve the common good of society through the production of useful goods and services" (PCJP, 2004: 338). This common good of the firm contributes to the common good of the society of which the business is a part.

Service to People Related to the Firm's Activity and to the Whole Society

The generic orientation to the common good to obtain moral legitimacy is, therefore, specified through the production of useful goods and services. In completion of this end, businesses serve different groups of people. Aligned with a cited text of *Gaudium et Spes* (Vatican Council II, 1965: 64), John Paul II pointed out that

> the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavoring to satisfy their basic needs, and who form a particular group at the service of the whole of society.
>
> *(John Paul II, 1991: 35)*

This is a way of expressing the fundamental orientation of business to the common good by serving stakeholders of the firm—a fundamental responsibility.

Responsibilities in a Business's Core Activities

Producing goods and services requires organized work, developing appropriate relations with stakeholders, the creation of sufficient wealth or income, and also striving for continuity and sustainability. All of this is in conformity with the common good and acting with justice and solidarity—the above-mentioned two basic values of the social responsibility of business according to CST. Thus, from CST we can infer five basic responsibilities inherent to a business's core activities:

- Offering "goods that are truly good and services that truly serve" (Goodpaster, 2011) with efficiency and justice, and, in some way, contributing to human development and to satisfying the legitimate interests of clients and consumers.
- Providing work in accordance with human dignity, together with an efficient organization and a suitable working environment so that workers can grow as human beings. The work provides opportunities for professional and human development, relationships, collaboration, and service. In this sense, it has been pointed out that the firm, in addition to its typically economic function, "also plays a social role, creating opportunities for meeting, collaborating and evaluating the capacities of the people involved" (PCJP, 2004: 338).
- Acting with ecological care and a sense of stewardship. Those responsible for business enterprises are responsible to society for the ecological effects of their operations

(Catholic Church, 2003: 2432; John Paul II, 1991: 37). This entails avoiding a negative ecological impact of their activities and acting as stewards of natural resources, being aware of our connection with the ecosystem, and having concern for current and future generations (Francis, 2015).

- Acting responsibly with its networks of interdependencies. This means being aware that the company is part of society and is interconnected with many groups. There are interconnections between workers within the organization, and their activity is connected to the work of suppliers and the customers' use of goods, in "a progressively expanding chain of solidarity" (John Paul II, 1991: 43).
- Generating wealth with prudence and justice and distributing it with equity, taking into account that "the firm creates wealth for the entire society: not only for the owners, but also for the other subjects interested in their activity" (PCJP, 2004: 338).
- Striving to maintain the continuity and sustainability of business, which is required to realize the previous ends.

Responsibility of Business to Alleviate Social Problems

According to CST, the responsibility of business is not limited to serving groups that are interdependent with the firm. The contribution of business to alleviating social and ecological problems is welcomed by CST. This is framed by a wide view of business in society: "All those involved in a business venture must be mindful that the community in which they work represents a good for everyone and not a structure that permits the satisfaction of someone's merely personal interests" (PCJP, 2004: 339). This awareness alone makes it possible to build an economy that is truly at the service of humanity. A specific way of doing this is to create programs of real cooperation and partnership among social groups (PCJP, 2004).

CST insists that a business enterprise must be a community of solidarity (John Paul II, 1991: 43) and not an entity closed within its own interests. Companies "must move in the direction of a 'social ecology' [John Paul II, 1991: 38] of work and contribute to the common good also by protecting the natural environment" (PCJP, 2004: 340). Business should be attentive to opportunities to serve people and vulnerable groups.

Vocation of the Business Leader (PCJP, 2012), a document close to CST, highlights the importance of identifying, in a spirit of solidarity, the real needs of the poor and vulnerable, including people with special needs. It adds: "The Christian business leader is alert for opportunities to serve these otherwise underserved populations, and this is not only a proper social responsibility but also a great business opportunity" (PCJP, 2012: 43).

In fact, companies find opportunities to alleviate poverty by seeking ways of acting generally related to their activities or relating them to opportunities to develop new businesses that, while alleviating poverty, allow the company to profit. Social enterprises, companies focused on the *bottom of the pyramid*, microcredits, and less radical initiatives are aligned with this approach.

A first and very elemental way of being attentive to people's needs is listening and establishing dialog with people affected by the activity of the company. Thus, in relation to projects that affect indigenous peoples, Pope Francis affirms that it is essential to show special care for indigenous communities and their cultural traditions. They are not only one minority among others, but should be the main dialog partners, especially when large projects concerned with their land are proposed (Francis, 2015: 146).

CST emphasizes that the current context of globalization "leads businesses to *take on new and greater responsibilities with respect to the past*. Never has their role been so decisive with regard to the authentic integral development of humanity in solidarity" (PCJP, 2012: 342).

Practical Wisdom in Managing Social Responsibilities

Last, but not least, following CST, it is worth emphasizing the relevance of *practical wisdom* in managing social responsibilities. Practical wisdom or prudence

> is the virtue that disposes practical reason to discern our true good in every circumstance and to choose the right means of achieving it…It is prudence that immediately guides the judgment of conscience. The prudent man determines and directs his conduct in accordance with this judgment.
>
> *(Catholic Church, 2003: 1806)*

According to Aquinas, and similarly Aristotle, both of whom CST follow, practical wisdom is "right reason in action" (Aquinas, 1981, II–II, 47, 2; cf. Catholic Church, 2003: 1806), which helps one find the right thing in any particular situation and to properly apply general principles.

The common good "calls for prudence from each, and even more from those who exercise the office of authority" (Catholic Church, 2003: 1906). This applies to business managers.

Having practical wisdom helps the manager discover particular requirements of the common good, how to specify service to different groups of people related to the firm and how to demonstrate business concern for social issues. In other words, orientation to the common good does not consist in following rules but in being aware of values and principles and the particular circumstances of each situation and acting with practical wisdom.

Similarities to and Differences from Other Approaches

The first movement to recognize the social responsibility of business, starting in the middle of the 1950s and enduring into the 1970s, emphasized that this responsibility derives from corporate power (particularly Davis, 1960, 1967). An almost contemporaneous statement of the Second Vatican Council is fully aligned to this view: "For the greater man's power becomes, the farther his individual and community responsibility extends" (Vatican Council II, 1965: 34).

In the face of this first movement on the social responsibilities of business, Milton Friedman expressed strong opposition. One of his well-known declarations expresses his position:

> in a free society…there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.
>
> *(Friedman, 1970)*

He stressed two basic duties of business executives: fiduciary duties to shareholders and compliance with laws (Friedman & Friedman, 1962; Friedman, 1970). More recently, but along similar lines, maximizing shareholder value has been proposed as the main responsibility of business, although satisfying stakeholder interest is accepted if it contributes to maximizing the long-run value of the firm (Jensen, 2001).

According to CST, compliance with fair laws is necessary but not sufficient to achieve justice. Even if it does not contradict the provisions of civil law, any form of unjustly taking and keeping the property of others is against the seventh commandment (Catholic Church, 2003: 2409). The Church also "refused to accept, in the practice of 'capitalism,' individualism and the absolute primacy of the law of the marketplace over human labor" (Catholic Church, 2003: 2425, cf. John Paul II, 1991: 10, 13, 44). Capitalism is acceptable as "an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector" (John Paul

II, 1991: 42). However, it is not acceptable, "if by 'capitalism' is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality" (John Paul II, 1991: 42).

Putting the maximization of benefits or shareholder value as a supreme criterion of responsibility, even though they indirectly entail social benefits (creating jobs, tax income, etc.), is not acceptable. Pope John Paul II recognized the legitimate *role of profit* as an indication that a business is functioning well but, he added,

> profitability is not the only indicator of a firm's condition. It is possible for the financial accounts to be in order, and yet for the people—who make up the firm's most valuable asset—to be humiliated and their dignity offended.
>
> *(John Paul II, 1991: 35)*

Pope Francis does not hesitate to condemn businesses that are oriented to profit maximization without considering the cost of resources in the future and environmental health (Francis, 2015: 195); certain abusive actions of transnational corporations in developing countries, and damage caused in the countries of origin by the exploitation of raw materials in order to create wealth in developed countries (2015: 30, 129, 183); and also exporting toxic or dangerous waste to developing countries (2015: 51).

Another approach to managing business and society is "corporate social performance," introduced by Carroll (1979) and revised by Wood (1991). A key element of Wood's model is what she terms three principles of corporate responsibility: the institutional principle or principle of legitimacy, the organizational principle, and the individual principle or principle of managerial discretion. These three principles can be found in CST but the understanding is different from Wood's. While Wood sees things from a sociological perspective, CST proposes ethical categories. The institutional principle is the principle of the common good; the organizational principles are the core business activities along with activities to alleviate social problems in accordance with the common good; and the individual principle is managerial decision making guided by practical wisdom.

Stakeholder management (Freeman, 1984) is another approach to business and society, focused on managing the organization to satisfy stakeholder interests, understanding "stakeholder" as any group with interests ("a stake") in the business. Stakeholder theory (Parmar et al., 2010) has deep libertarian roots (Freeman & Philips, 2002) and admits a plurality of theories in its development (Freeman, 1994). Analyzing stakeholder relationships and legitimate interests does not seem in opposition to CST, although the philosophical and ethical foundations of the theory can be questioned from a CST perspective. CST explicitly affirms that,

> in seeking to produce goods and services according to plans aimed at efficiency and at satisfying the interests of the different parties involved, businesses create wealth for all of society, not just for the owners but also for the other subjects involved in their activity.
>
> *(PCJP, 2004: 338)*

Benedict XVI, though reluctant to accept an ethical foundation of the social responsibility of business, adopted a positive attitude on managerial responsibilities toward stakeholders, recognizing

> a growing conviction that *business management cannot concern itself only with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute to the life of the business*: the workers, the clients, the suppliers of various elements of production, the community of reference.
>
> *(Benedict XVI, 2009: 40, emphasis in original)*

Notice that Benedict spoke of the responsibility of managers to stakeholders, but not just to satisfy the interests of the latter, whatever they may be. In other words, the relationship of managers to the firm's stakeholders must be impregnated with responsibility.

The main difference between CST and stakeholder theory is that, while the former takes as a fundamental criterion fundamental needs of persons and the common good, the latter focuses just on stakeholder interests.

Conclusion

Catholic social teaching's view of social responsibility of business takes a wide perspective and includes a holistic vision of the human being, society, and business within society. Business enterprises are seen as intermediate or mediating institutions with a generic responsibility to contribute to the common good. Thus, the common good, as noted drawing from Wood (1991), is the institutional principle—or principle of moral legitimacy—of the social responsibility of business. Social responsibilities are not added to the economic function of business; they are, instead, inherent to business activity. Being a part of society, business has to contribute to solidarity with society at large. This requires being aware of social problems and trying to contribute—within the firm's particular capacities—to solving them. Service to stakeholders and contributions to alleviating social problems are the "organizational principles" of business responsibility—again following Wood's (1991) terminology. Finally, the necessary managerial discretion should be driven by practical wisdom.

As a concluding remark, I emphasize that business is a part of society and even of the whole of humanity and social responsibilities are inherent to business; a good society depends to a great extent on the social and ecological responsibilities of business. Some may be pessimistic but, in Pope Francis's words, "There is reason to hope that humanity at the dawn of the 21st century will be remembered for having generously shouldered its grave responsibilities" (2015: 165).

Questions

(1) What ethical foundations justify CSR, according to CST?
(2) What is the rationale for the distinction between responsibilities in a business's core activities and the responsibility to alleviate social problems? Is that different from other approaches to CSR you know?
(3) Why does practical wisdom have a role in CSR?

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10

ONTOLOGICAL FOUNDATIONS OF MANAGERIAL RESPONSIBILITY

Michael Pirson

Introduction

The wide array of environmental and social crises related to business operations and decision-making has placed managers under particular scrutiny.[1] Societal actors, customers, employees, and, increasingly, investors are asking whether managers are part of the solution or part of the problem. A number of CEOs in the United States issued a statement on the purpose of the corporation in 2019, suggesting they will become more responsible to stakeholders. In 2018, Larry Fink (2018), CEO of BlackRock, one of the world's most influential investing firms, issued a letter to CEOs asking them to revisit their social purpose and corporate governance approaches. Another billionaire investor, Ray Dalio, is concerned about the systemic inequality brought about by irresponsible management (Niquette, 2019). Along with others, these investors are concerned that short-termism has undermined the responsible long-term management of corporations and societal stability. Sustainability activists, non-government organization leaders, and advocates of conscious business practices have long pushed business leaders to become more responsible (Pirson, 2020; Pirson & Steckler, 2019).

But what does it mean to be a responsible manager or a responsible business? Responsible management can mean many different things to many people. It seems every stakeholder group wants managers to take responsibility for, and be responsive to, their specific concerns (Reynolds, Schultz, & Hekman, 2006). These concerns vary widely and include short-term share value increases, sustained long-term returns, competitive compensation and benefits, safe products, fair trade practices, and healthy communities. Management researchers argue that responsible 21st-century managers must learn how to continuously anticipate stakeholder concerns and develop capacities to respond adequately (Laasch & Conaway, 2014; Maak & Pless, 2006; Miska & Mendenhall, 2018). This means current and future managers need to be equipped with capabilities to navigate an increasingly complex business environment with competing stakeholder claims and responsibility expectations that are not always complementary (Freeman, Martin, & Parmar, 2007; Miska & Mendenhall, 2018; Pless & Maak, 2011; Randles & Laasch, 2016).

In this chapter, I argue that management theory, practice, and education have been historically framed mainly, albeit not exclusively, within the narrative of economism (Ashley, 1983; Gasper, 2004; Pirson, 2017). Economism idealizes certain assumptions made to study aggregate collective human behavior in market situations and pursues maximization as the ideal (Ashley, 1983; Gasper, 2004; Pirson & Turnbull, 2011b; Pirson & Lawrence, 2010; Poruthiyil, 2013). Accordingly, the underlying assumptions of economism provide a reference point for the meaning of responsible management, namely maximization. This narrative also prevents a wider perspective on the meaning of responsibility, including ethical and sustainable business practices. Just as it is difficult to make a fish fly, I argue it is difficult to get managers to be responsible for ethical and sustainable outcomes within the economistic narrative and its epistemological and ontological framework (Painter-Morland, 2015). Thus, I contend that it is critical to understand the underlying ontological foundations to comprehend what responsible management is (Lovins, 2016; Rasche, Waddock, & McIntosh, 2013; Waddock, 2016). I suggest there are at least two distinctive perspectives to make sense of managerial responsibility. I lay out the economistic perspective, its ontological foundations, and the consequences for managerial responsibility and then etch out a humanistic alternative. I suggest that managerial responsibility in the economistic perspective focuses on maximization of a stated objective such as profit; in the humanistic perspective, it represents the balance of well-being–related outcomes for stakeholders.

Managerial Responsibility and the Limits of Prior Responses

Ever since the emergence of the professionally led corporation, the owner–manager agency problem has been central (Berle & Means, 1968). The question of responsibility lies at its core (Pirson & Turnbull, 2015). Nowadays, claims for responsible management largely echo society's wishes to align business conduct with societal goals above and beyond profit maximization. At the end of the last century, however, responsible management mainly meant a responsibility to conduct business in the interest of owners.

The structural response to the question of managerial responsibility has been anchored in corporate governance architectures and associated legislation. This strategy for upholding ownership interests has focused on establishing corporate governance systems and codes (OECD, 2001). The strategic response has been rooted in various approaches to maximizing shareholder value and includes corporate social responsibility (CSR) activities. This strategy for optimizing value has been based on adopting responsible products and services (Paine, 2003). The common denominator of the discussion concerning corporate governance and CSR is managerial opportunism (Carroll, 1999; Jensen & Meckling, 1976), and how to deal with this problem of manager interests given ever-increasing business decision-making complexity (Paine, 2003).

Corporate Governance as a Structural Response

With the rise of the manager-run corporation, the problem of managerial responsibility rose to prominence (Khurana, 2007). Corporate governance is often understood as "the system by which companies are directed and controlled" (Cadbury, 1992). Many scholars argue that the role of corporate governance is to manage constructively the conflict of interests between the shareholders, who are described in the literature as "principals," and the managers, who are described as the "agents," to create what is described as "the principal–agent" problem (Berle & Means, 1968; Jensen & Meckling, 1976). While there have been other notions of corporate governance—such as the stewardship notion (Davis, Schoorman, & Donaldson, 1997)—the agency perspective has largely dominated the discussion (Blair, 1995).

According to the agency perspective, the interest of managers can be structurally aligned with owners by issuing them with shares and/or options (Hambrick & Jackson, 2000). It is argued, however, that such shared ownership compensation schemes have led to even more managerial opportunism, hurting shareholders in the long run (Cadbury, 1992; Kirkpatrick, 2009). In the aftermath of various crises (e.g., Enron in 2001; the global financial crisis of 2007–2008), it has become obvious that such structural responses are insufficient to ensure managerial responsibility. As a consequence, the effectiveness of internal agency theory–driven solutions, as well as external regulation, has been questioned (OECD, 2009; Pirson & Turnbull, 2011a).

CSR as a Strategic Response

Another complementary response to the problem of managerial responsibility has been developed on the strategic level, namely CSR. While there has been an ongoing theoretical debate about the role of social responsibility in business, business practice has long adopted CSR in some form. With decreased regulation and more open markets post-Cold War, CSR has become an umbrella term for the need to establish increased managerial responsibility, largely through enlightened strategy (Carroll, 1999; Paine, 2003). CSR gained increasing visibility after various corporate scandals that increased the public's concern about corporate behavior overall (Paine, 2003).

Different approaches to CSR have emerged. Companies often pursue CSR to increase legitimacy with societal stakeholders that heretofore were not considered critical to business success. CSR might also be pursued to mitigate the potential for litigation, or to strengthen a firm's license to operate within and across stakeholder groups, among other motivations. At its core, CSR is expressed by the strategic choices of a company with regard to social, political, legal, and normative matters in a given location of operation (Garriga & Mele, 2004; McWilliams & Siegel, 2001).

Limitations of the Economistic Ontological Blueprint

Responsible management, as Peter Drucker said, is a pleonasm, an unnecessary qualification (Laasch & Conaway, 2014). Why then has it gained such currency? The many efforts to integrate ethics and sustainability into management practice have shown questionable results. Painter-Morland (2015) suggests that the ontological and epistemological frameworks dominating the management discourse may prevent a true paradigm shift. Waddock (2018) suggests that paradigm shifts require new narratives. According to her, narratives are woven out of core memes, elements similar to genes. Wilson and others describe the core memes of the economistic narrative as the invisible hand, *laissez-faire*, utility maximization, and individualism (Wilson, 2015; Wilson, Ostrom, & Cox, 2013; Wilson, Van Vugt, & O'Gorman, 2008).

Painter-Morland (2015) refers to the dominance of the economistic narrative. She argues that, if we see success as wealth and wealth as a measure of well-being, a causal input–output structure to manage wealth makes complete sense. Yet, it is precisely this narrative that is accused of producing irresponsible management outcomes, whereby any activity is justifiable as long as it produces wealth (Painter-Morland, 2015).

Responsibility in the economistic narrative has been framed as responsibility for effectiveness and efficiency (Lawrence & Pirson, 2015). Yet, the notion of managerial responsibility as responsibility for efficiency and effectiveness neglects the ethical domain. In fact, the ethical questions are outsourced to the political domain and ethically informed responsibility can only be imposed from the outside.

The Economistic Ontology Underpinning the Managerial Responsibility Narrative

As management practice and education are tightly coupled to the concept of the corporation, it is reasonable to believe that the ontological assumptions guiding corporate governance are relevant to the conversation about managerial conduct and responsibility (Davis, 2009; Devinney, 2009; Mintzberg, 2004, 2015). Agency theory arguably shapes the way corporate managers employ corporate responsibility strategies. Jensen and Meckling (1994) argue that the ontological specifications summarized in the Resourceful, Evaluative Maximizing Model (REMM) best support agency theory. They provide a number of postulates that serve as a "bare-bones summary" of the concept: individuality, rationality, amorality, and maximization. Jensen and Meckling (1994) state:

> [REMM] serves as the foundation for the agency model of financial, organizational, and governance structure of firms. The growing body of social science research on human behavior has a common message: Whether they are politicians, managers, academics, professionals, philanthropists, or factory workers, individuals are resourceful, evaluative maximizers.
>
> *(Jensen & Meckling, 1994: 4)*

As such, examining the underlying postulates more closely is critical and enlightening. Postulate I is:

> Every individual cares; he or she is an evaluator. (a) The individual cares about almost everything: knowledge, independence, the plight of others, the environment, honor, interpersonal relationships, status, peer approval, group norms, culture, wealth, rules of conduct, the weather, music, art, and so on. (b) REMM is always willing to make trade-offs and substitutions. Each individual is always willing to give up some sufficiently small amount of any particular good (oranges, water, air, housing, honesty, or safety) for some sufficiently large quantity of other goods.
>
> *(Jensen & Meckling, 1994: 5)*

While it is perhaps true that everyone cares, it does not necessarily logically follow that humans are inevitably and constantly trading off, as if everything is an economic exchange. In fact, most social arrangements such as friendship, marriage, or community are not part of a consistent trade-off or exchange logic. To ensure, however, that their claim can hold, Jensen and Meckling (1994) introduce the *amorality* condition, which assures trade-offs and precludes commitments. Jensen and Meckling extend Postulate I by adding I(b): there are no human *needs* as such, which cannot be exchanged, but only *wants* which can be exchanged:

> REMM implies that there is no such thing as a need, a proposition that arouses considerable resistance. The fallacy of the notion of need follows from Postulate I-b, the proposition that the individual is always willing to make trade-offs. That proposition means individuals are always willing to substitute—that is, they are always willing to give up a sufficiently small amount of any good for a sufficiently large amount of other goods.
>
> *(Jensen & Meckling, 1994: 7)*

From an evolutionary perspective, humans have developed basic needs that they cannot trade-off if they are to survive. Needs exist to the degree that they *must* be fulfilled, like eating or drinking, because without these, survival is impossible. Jensen and Meckling, however, build on this notion of wants in Postulate II:

> Each individual's wants are unlimited. (a) If we designate those things that REMM values positively as "goods," then he or she prefers more goods to less. Goods can be anything from art objects to ethical norms. (b) REMM cannot be satiated. He or she always wants more of some things, be they material goods such as art, sculpture, castles, and pyramids; or non-material goods such as solitude, companionship, honesty, respect, love, fame, and immortality.
>
> *(Jensen & Meckling, 1994: 5)*

While there are clearly extreme situations when people trade-off their personal integrity for personal survival, those situations do not represent normal human behavior. In fact, scholars have made the argument that REMM describes most accurately what psychologists call psychopaths who pursue "opportunism with guile" (Babiak & Hare, 2006; Hare, 1999; Williamson, 1985). While about 1 percent of the human population might operate under such premises, the vast majority does not (Stout, 2005). Darwin observed:

> that any animal whatever, endowed with well-marked social instincts, the parental and filial affections being here included, would inevitably acquire a moral sense or conscience, as soon as its intellectual powers had become as well, or nearly as well developed, as in man.
>
> *(Darwin, 1909: 98)*

Despite those insights, the economistic narrative views human beings as amoral actors. Responsibility within the economistic narrative is therefore by design not focused on what is right or wrong, that is, moral concerns, but on reduction of cost and increase of benefits in a quest for maximization.

This pursuit of individual-level maximization strategies is considered rational behavior, whereas any deviation is considered irrational (Ariely, 2008; Weber, Murnighan, & Malhotra, 2005). It is only a small step to equate irrational behavior with irresponsible behavior and Jensen and fellow economistic theorists argue exactly that (Jensen, 2002). Using the blueprint of REMM and extending it to corporate strategy, they argue that shareholder value maximization rather than stakeholder value orientation is the only way to be managerially responsible.

Responsibility from the Outside In

Every theory and its underlying assumptions are by necessity reductionist. The REMM ontology proposed by Jensen and Meckling (1994) is not designed to be a perfect descriptor and their authors acknowledge its limitations. Still, their work has had a remarkable impact on managerial practice. Scholars have argued that, based on research on the theory of the firm, corporate governance was redesigned, motivational schemes were developed, and stock options created (Davis, 2009; Khurana, 2007; Pirson, 2017). This structure for upholding ownership interests has focused on establishing corporate governance systems and codes (OECD, 2001). Similarly, the strategic response has been rooted in various approaches to maximizing shareholder value by legitimizing corporate behavior with CSR activities. The main approach to assure responsible management focuses on reporting related activities, such as the Global Reporting Initiative and the United Nations Global Compact.

Both responsibilization approaches are oriented towards getting managers to be responsible from the outside in: Outside expectations as formalized in various standards, codes, and reporting criteria are supposed to curb managerial opportunism and irresponsible behavior (Paine, 2003). As the theoretical design assumes amoral agents, moral, ethical, and social concerns need to be imposed.

It is argued, however, that such outside-in responsibilization schemes have led to even more managerial opportunism, hurting shareholders and society in the long run (Cadbury, 1992; Kirkpatrick, 2009). In the aftermath of various crises, it has become obvious that such structural and strategic responses to impose responsibility from the outside in are insufficient to ensure managerial responsibility. As a consequence, the effectiveness of these approaches has been questioned (OECD, 2009; Pirson & Turnbull, 2011a).

A Humanistic Narrative for Managerial Responsibility

I argue that a humanistic narrative that views ethicality as central to human behavior is a better reference point for the conversation about managerial responsibility. Narratives have the power to shape our ontological understanding as well as our epistemological approach to understanding. A narrative is a story that makes existing facts meaningful. The prominent biologist E. O. Wilson suggests that our human mind has evolved to organize human experience in stories. I suggest that the required paradigm shift for managerial responsibility can benefit from new stories about who we are as people and what we organize for.

I argue that core to this narrative shift are insights from evolutionary sciences that increasingly converge with the insights from ancient wisdom traditions and the humanities. The humanistic narrative builds on core memes contradicting the REMM model, specifically sociality, emotionality, morality, and balance.

Sociality

A core insight stemming from evolutionist accounts of why *Homo sapiens* has survived as a species so far is that we are inherently social. E. O. Wilson (2012a, 2012b) argues that our species only survived because it developed the brain to support true sociality (eusociality), which is manifest in tribal forms in which humans collaborate, live, work, and fight. Clearly individualistic tendencies exist, but the mere fact that human babies need at least 18 years to reach maturity requires a social bond with family. It is well documented what damage to the individual occurs when such important social bonds do not exist or are deficient. The fundamental social need—Paul Lawrence (2010) calls it the "drive to bond"—is hard-wired, it serves an evolutionary purpose, which is the survival of the species rather than individual benefit.

Emotionality

Insights on eusociality and its derivative—baseline empathy supported by emotions—further question REMM's basic assumptions regarding the *rational* maximization of self-interest. Showcasing evolutionary development, de Waal (2009) argues that empathy is hard-wired and that the emotional basis of empathy is critical for our sociality. We cannot live peacefully in families, communities, and tribes without having the tools to do so. Darwin suggested that hard-wired emotions represent the core of human nature drives such as empathy. In *The Expression of the Emotions in Man and Animals*, Darwin (1965) suggested that empathetic instincts must have evolved from natural selection. Wilson (2012a, 2012b) argues that humans are fundamentally emotional beings, because these emotions aided survival and reproduction. De Waal (2009) argues that the basis of our emotional sensors is hardcoded in our brains. Research suggests that emotions are a feature, not a bug, in the human operating system (de Waal, 2009). Emotions help us deal with the complexity of our eusocial life. This fundamental emotionality questions the focus on rationality in Jensen and Meckling's REMM propositions.

Morality

Eusociality and emotionality arguably make us moral to enhance our chances of survival (Greene, 2014). Rather than being amoral, much of humanity is utterly and constantly concerned with morality, as well as immorality. Morality arguably serves humanity as a compass to steer human sociality effectively and helps groups to survive (Greene, 2014; Wilson, 2012a). Greene (2014: 65) writes: "Under ordinary circumstances, we shudder at the thought of behaving violently toward innocent people, even total strangers, and this most likely is a crucial feature of our moral brains." Greene argues that, in sum, we are a caring species, albeit in a limited way, and we probably inherited at least some of our caring capacity from our primate ancestors, if not our more distant ancestors. We care most of all about our relatives and friends, but we also care about acquaintances and strangers. Wright (2010) argues in the same vein and suggests humans are moral animals. Both Wright and Greene suggest we have moral instincts hardwired in our brain originating from our hypersocial nature. Greene argues that the story of life on Earth is the story of increasingly complex cooperation. Cooperation is why we are here—and yet maintaining cooperation is our greatest challenge. Morality is the human brain's answer to this challenge (Greene, 2014). In that sense morality is a key to understanding human survival, yet REMM's amorality claim may be blinding managers in organizing and managerial contexts.

Balance

As a result of multi-level selection, *Homo sapiens* had to learn how to balance a variety of responses to existential threats, not to maximize one (Wilson, 2015). REMM, in contrast, must have unlimited wants, otherwise, the maximization of utility cannot make sense. Psychology and neuroscience research challenges the belief that the human urge to satisfy wants is unlimited. Increasing evidence shows that wanting less, for example eating less, can be healthy. Pursuing unlimited wants may be burdening and troublesome. "Affluenza," the description of the consistent pursuit of more, is considered a modern disease. According to REMM, affluenza should not exist; given that humans inherently want more, there can be no satiation. Research finds that people are happiest if they commit to a limited amount of choices (Gilbert, 2009). For example, people with one spouse and who are able to grow in that relationship are happier than those who are promiscuous. Evolutionary biology, which finds that most humans desire to have a nuclear family, supports this finding (Coleman, 2004; Diener, 1994; Diener & Seligman, 2004). While not always practically possible, a stable relationship increases the survival chances of healthy offspring (Lawrence & Nohria, 2002). If people acted according to REMM, they would desire an unlimited number of partners. As a result, good choices, those that lead to continued survival and flourishing, often entail balance rather than maximization.

Towards a Consilience of Knowledge Challenging Economism

Taken together, the findings from the natural sciences concerning human nature provide a different perspective on who we are as human beings. A number of elements considered bugs in our system in the economistic narrative are considered positive features in an alternative humanistic narrative, including sociality, emotionality, morality, and altruism. Responsibility in this narrative of human nature is a survival mechanism. The more humans can be responsible with regard to their own needs and the needs of others, the more personal and group survival is enhanced (Wilson et al., 2008; Wilson & Wilson, 2007; Wilson, 2012a).

Many of these insights that now enjoy increasing support from the natural sciences were developed over time in the humanities. In line with Darwin's observation that morality must have developed as a survival mechanism for humanity, scholars of religion and ethics have identified the principles of such shared morality, or ethics, in order to develop a global, universal ethos that can help build bridges between religions and secular people (Pinker, 2011). The theologian Hans Kueng and collaborators (Kueng, 2004) studied the leading global religious and secular groups' narratives and suggest that we can find insights into our shared, universal human nature in the respective sacred texts' aspirational statements. Kueng (2004) points out that there is a near-universal aspiration to treat people as people. Dierksmeier (2015) calls it the human dignity principle. In addition, Kueng suggests that the golden rule is a guide to develop practical wisdom in all cultures. Many anthropologists make the case that religion and creation narratives, which include rules for altruistic acts, are crucial for building a functioning society.

A Humanistic Ontology for Responsible Management

Theoretical models are helpful by reducing complexity and distilling the essence of a narrative. They are also critical as they provide a blueprint for action, such as managerial decision-making or structure including corporate governance mechanisms. These models are built on assumptions about human nature (ontology). I draw on insights from evolutionary biology and neuroscience to form the basis of a proposed new humanistic ontology. The work of Lawrence and Nohria (Lawrence, 2007, 2010; Lawrence & Nohria, 2002), as well as the collaborative work of Lawrence and Pirson (Lawrence & Pirson, 2015; Pirson & Lawrence, 2010), forms the cornerstones of this proposition. Building on their work, I integrate additional insights from the humanities and social sciences to build a model of human behavior that reflects the emerging consilience of knowledge. *The proposed model is based on four innate human drives that need to be balanced to achieve dignity and well-being*. In this light, responsible management is the balancing act of the four drives above the dignity threshold leading to the common good.

With a humanistic ontology, I present a model that is based on scientific insights rather than mere assumptions. It draws on the emerging insights into why *Homo sapiens* has survived through multi-level selection. Compared to REMM, the power of such a humanistic model is arguably twofold: It increases accuracy and it remains similarly parsimonious. The humanistic model is not a naïve rejection of the evil in human nature, but presents a comprehensive perspective that can explain good, collaborative, moral, and empathetic behavior, as well as evil, psychopathic, and immoral behavior. It is thus more realistic. By being more accurate and realistic it can provide a better frame for responsible management, as well as irresponsible management.

Baseline Model

Evolutionary biology points to four independent drives of human nature, which are critical for the survival of the species. Darwin (1909) suggests we share an evolutionary background with many animals, while neuroscience's insights point to deeply rooted neural mechanisms that reward us when we acquire and defend what we deem necessary for survival. Lawrence and Nohria (2002) label two basic drives that we share with all animals as (1) the drive to acquire (dA); and (2) the drive to defend (dD).

Lawrence (2010) argues that humans, in common with all animals, have a fundamental drive to get what they need to stay alive and have progeny: food, water, warmth, sex, and so on. Modern neuroscience provides evidence to support the biological basis of the drive to acquire (Glimcher, Camerer, Fehr, & Poldrack, 2008; Ridley, 2003). This drive is commonly acknowledged by many economic and management theorists, including Jensen and Meckling, as the basis for utility maximization.

Lawrence and Nohria (2002) claim that in most species the drive to defend is a mirror image of the drive to acquire. What needs defending is what is needed to be acquired: food, water, warmth, mates, and so on. Lawrence and Nohria (2002) further argue that, in humans, the drive to defend means far more—not only the physical necessities of life and procreation, but also relationships, cooperative efforts, and world views (Baron & Spranca, 1997; Haidt, 2012). Similar to the drive to acquire, humans can satisfy their drive to defend in a huge variety of ways, and often in cooperation with others (Lawrence, 2010).

A Humanistic Extension: Independent Drives to Bond and Comprehend

Simplified, the above two drives (drive to acquire and drive to defend) can explain the economistic perspective on human nature. Within this perspective, all other drives and interests are subordinate to the ambition to maximize the drive to acquire (Lawrence, 2007).

The novelty of the recent evolutionary findings and their importance lie in the addition of two important and *independent* drives, which have emerged as a result of multi-level selection (Wilson et al., 2008; Wilson & Wilson, 2007; Wilson, 1998). Lawrence and Nohria (2002) label these additional drives 1) the drive to bond (dB) and 2) the drive to comprehend (dC). The drive to bond (dB) enables long-term, mutually caring relationships with other humans, and the drive to comprehend (dC) allows us to make sense of the world around us and its multifaceted relations with ourselves (Pirson & Lawrence, 2010).

Why is the above argument about two different *independent* drives relevant? After all, bonding and comprehension could simply be used to acquire and defend better, thus supporting the economistic narrative. According to anthropologists and evolutionary psychologists, the independence of the drives to bond and comprehend from the basic drives is key to understanding human evolution. In fact, evolutionary scholars argue that humans have evolved a brain that can continually adapt to its *contemporary* environment, rather than relying on its adaptation to an *ancestral* environment (Diamond, 1992; Pinker, 2002; Wells, 2002). Accordingly, our brain was an adaptation to a period of extreme and comparatively rapid climatic shifts, the first occurring about two million years ago, the second occurring around 150,000 years ago (Diamond, 2005). These two major shifts explain the development of *independent* drives to bond and to comprehend; the drive to bond emerged when human ancestors transitioned from *Homo habilis* to *Homo erectus*. The drive to comprehend emerged during the shift from *Homo erectus* to *Homo sapiens* (Lawrence, 2010; Lawrence & Pirson, 2015).

In summary, the new humanistic model of human nature (ontology) builds on evolutionary science's insights. It posits four independent basic drives as ultimate motives that underlie all human decisions. In order to survive, humans need to *balance* these drives. I argue that responsible managers equally need to balance these four independent drives to ensure the survival and thriving of themselves and their organizations.

Dignity as a Universal Threshold

The four-drive model of human behavior can be enhanced if we integrate additional perspectives from the humanities. For example, Hans Kueng's (2004) findings suggest that there needs to be recognition of a human dignity baseline. Amartya Sen (1999) points out that such dignity enables human freedom. Sen argues that, if people have not fulfilled their baseline drives, they cannot be considered free. In contrast to what Jensen and Meckling claim, there are basic needs that need to be fulfilled. The fulfillment of human needs can be included in the four-drive model through what Donaldson and Walsh (2015) call a "dignity threshold." This means that the humanistic model needs to include a conceptual baseline that ensures basic human dignity as a matter of balance in the four drives. This baseline needs to be further defined, but a dignity threshold could, for example, require minimum fulfillments of the drive to acquire (enough food), drive to defend (basic shelter), drive to bond (a social connection to other people), and the drive to comprehend (a basic purpose in life). The existing literature on human rights can guide the specification of the dignity threshold further.

The dignity threshold represents a moral claim, but is also a key survival mechanism. Research shows, for example, that whenever dignity is violated the human brain reacts as if it experiences physical pain. Donna Hicks (2011) argues that dignity violations are a permanent source of conflict across the globe. Introducing the notion of baseline dignity is not only helpful but essential if the model is to help explain human survival and human flourishing.

Well-being as the Ultimate Objective

Another extension of the four-drive model of human nature relates to the purpose of human existence. In the reductionist economistic model, the ultimate objective function is wealth, status, power, or anything else that can be maximized. In the humanistic model, the ultimate purpose of human existence is flourishing and well-being. Ever since the emergence of the concepts of economics and management there has been a debate about their respective larger purpose. Aristotle, who is credited with popularizing the term "economics," distinguished *oikonomia* from sheer money-making, which he labeled *chrematistike*. *Oikonomia* should follow moral rules and ultimately enhance *eudaimonia*, the well-being of the community, or *polis*. In his viewpoint, *chrematistike* represents the relentless pursuit of more, of which he disapproved (Dierksmeier & Pirson, 2009).

When Adam Smith studied the nature and causes of wealth in *The Wealth of Nations* (1776/1937), he did so believing that wealth is a means to a higher end, which to him was the common good.[2] More recent economic thought leaders, including Ludwig von Mises, John Maynard Keynes, and Friedrich von Hayek, similarly argue that the order of economic affairs should lead to a higher level of happiness or overall well-being. The humanistic model is oriented towards a balance of the four drives, which achieves ever-higher levels of well-being and flourishing (see Figure 10.1).

Responsibility From the Inside Out

In contrast to the notion of responsibility within the economistic narrative (see Figure 10.2)—responsibility from the outside in—the humanistic narrative frames responsibility from the inside out. Responsible management based on the humanistic narrative can be viewed as the search for a balance of the four drives above the dignity threshold. The outcome of such responsible management would be an enhancement of well-being. This form of responsibility is anchored within the individual and expands to the relationship, the group, the organization, and society at large (see Figure 10.3). Responsible management can be conceptualized from the inside out: from the individual person that needs to balance his/her four drives above the dignity threshold to the relationships within dyads, groups, organizations, and beyond. This conceptualization is a relevant alternative to the economistic perspective as witnessed by accumulated evidence. A relationship that is managed to balance the four drives above the dignity threshold has been shown to be more stable, resilient, happier, and productive (Diener, 1994; Dunn, Iglewicz, & Moutier,

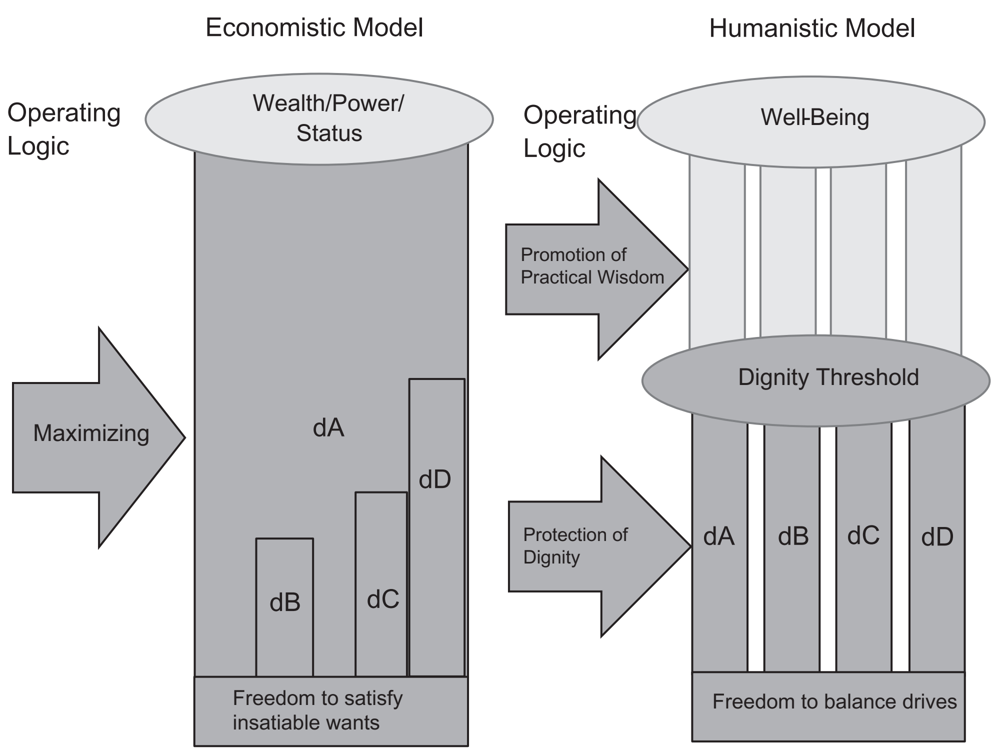

Figure 10.1 Operating logics governing economistic and humanistic ontology. Author created

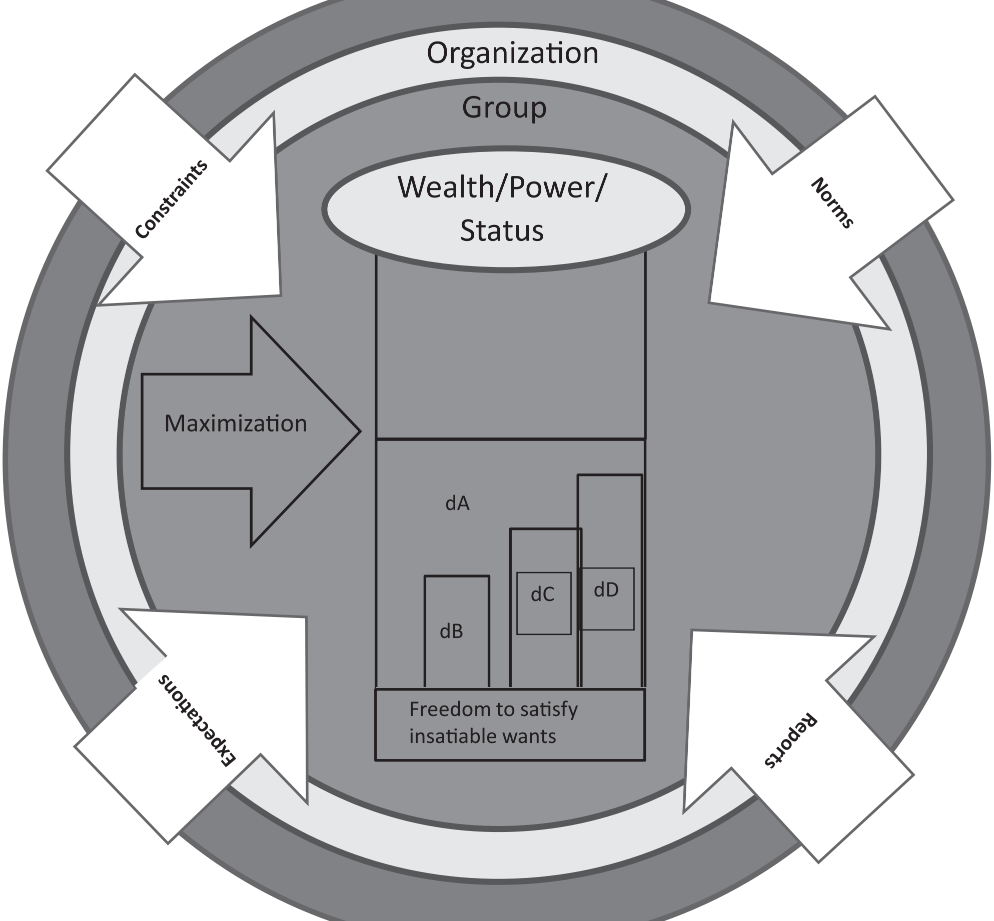

Figure 10.2 Responsibility from the outside in: economistic ontology. Author created

2008; Healy & Cote, 2001; Kasser & Ahuvia, 2002; Ryff & Keyes, 1995). Teams that are able to balance the four drives above the dignity threshold have been found to outperform others (Child, 2001; Edmondson, 1999; Jarvenpaa, Knoll, & Leidner, 1998; Senge & Society for Organizational Learning, 2004). Organizations that provide living wages (dA), psychological and physical safety (dD), trusting relationships (dB), and a higher purpose (dC) are considered built to last or excellent (Anderson & White, 2009; Collins, 2001; Collins & Porras, 2002; Mackey & Sisodia, 2014). I argue that the humanistic narrative also provides the ontological backbone to the recent emergence of novel organizational forms, such as social enterprise (Austin, Leonard, Reficco, & Wei-Skillern, 2006; Bornstein & Davis, 2010; Drayton, 2006, 2009), for-benefit corporations (Sabeti, 2008), common-good businesses (Felber, 2015; Maciariello, 2012; Naughton, Alford, & Brady, 1995) and social businesses (Yunus, 2006a, 2006b). These novel organizational forms conceptualize moral and social responsibility as foundational to their existence, not as an add-on.

I propose, furthermore, that the humanistic narrative allows us to detect commonalities in otherwise ideologically quite distinct approaches to economic and organizational redesign. I suggest that managerial responsibility is core to the more conservative and libertarian conscious capitalism approaches (Mackey, 2011; O'Toole & Vogel, 2011; Rauch, 2011), as well as the more socialistic,

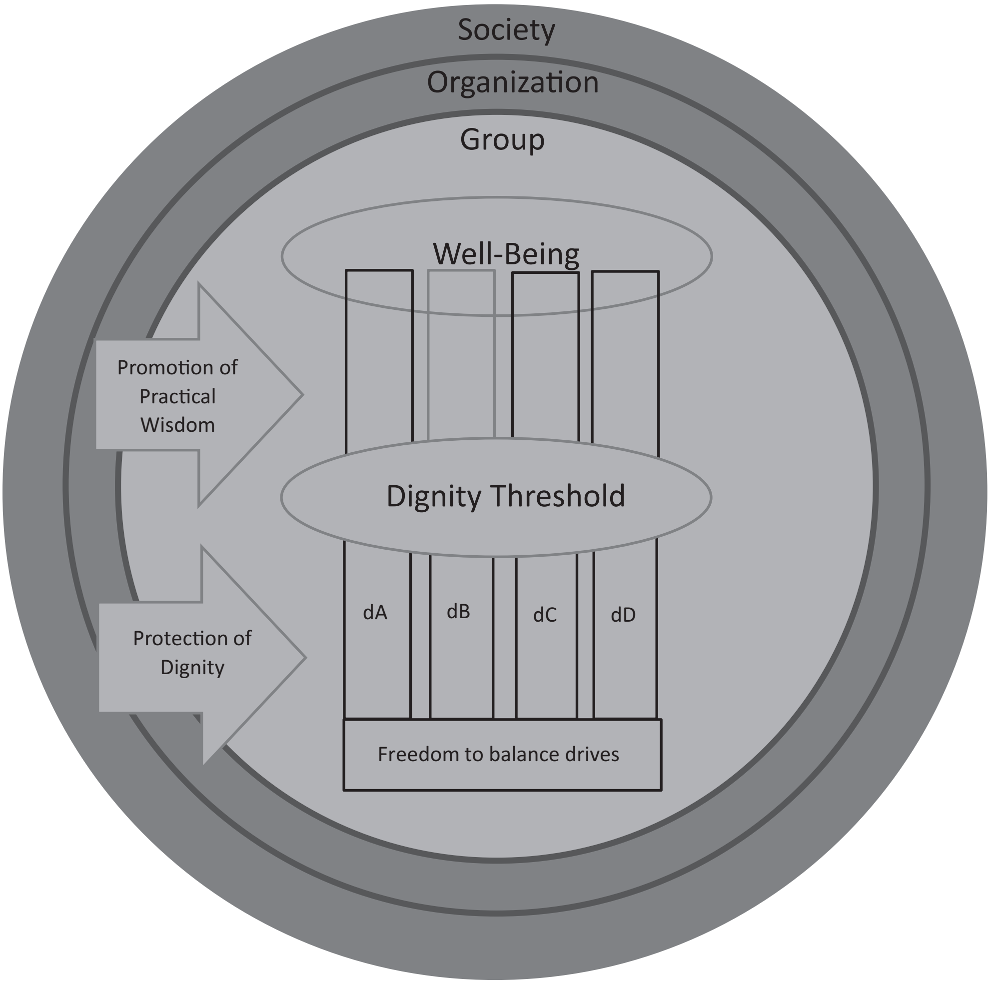

Figure 10.3 Responsibility from the inside out: humanistic ontology. Author created

liberal, and cooperative perspectives (Benello, Swann, Turnbull, & Morehouse, 1997; Logue & Yates, 2005), the secular common good–oriented approaches (Felber, 2015), and the spiritual and religious approaches such as Catholic social teaching (Naughton et al., 1995). They share a concern for the notion of dignity as intrinsic value and are oriented towards a broader conception of well-being creation, which includes but also transcends material wealth.

Conclusion

Responsible management is more necessary now than ever. How can current and future managers learn to become more responsible? I argue that they need to understand, unlearn, and transcend the limitations of the economistic narrative. The economistic narrative can support responsible management at best as enlightened profit maximization. I have outlined an alternative humanistic narrative and its respective ontological and epistemological foundations. Learning within the humanistic management narrative transcends the algorithmic approach to utility maximization and embraces the sociality of human learning. I propose that managerial learning becomes automatically responsible when conceptualized as a balance of the four drives above the dignity threshold.

I furthermore propose that such learning can be organized as a co-creative process with all stakeholders involved ensuring that the planetary boundaries are respected. By protecting stakeholder dignity and staying within the planetary boundaries, managerial action can contribute to the common good.

Questions

(1) What are the foundational assumptions about human beings and human nature within
- the economistic perspective?
- the humanistic perspective?

(2) What is the notion of responsibility in the economistic and the humanistic perspectives of management? How do they differ?

(3) What are the practical implications of both perspectives of management?

Notes

1 This chapter is, in large part, based on prior work including Pirson (2020) and Pirson and Steckler (2019).

2 As his student and first biographer Dugald Stewart puts it, Smith's interest in economic affairs was inspired by a strong concern for the "happiness and improvement of society" (Stewart, 1980/1794: I.8, cited in Huehn & Dierksmeier, 2016).

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PART 3

Political CSR and Institutional Perspectives

11

TRANSNATIONAL POWER AND TRANSLOCAL GOVERNANCE

The Politics of Corporate Responsibility[1]

Subhabrata Bobby Banerjee

Introduction

Consider the following scenario: a large multinational corporation X, in the oil and gas industry, has been operating in a developing country Y since the 1950s. Over the years, corporation X has maintained close ties with a variety of political regimes that have ruled country Y, including monarchs, dictators, military regimes, local militias, and more recently democratically elected governments. Corporation X's revenues and profits have increased substantially over the years and it is also a key contributor to country Y's economy through employment, tax payments, and royalties. In addition, corporation X has a well-developed corporate social responsibility (CSR) program: it has contributed to building roads, schools, and hospitals and is actively involved in a number of philanthropic ventures. It routinely publishes environmental and social reports and is a member of several multi-stakeholder initiatives (MSIs) involving non-governmental organizations (NGOs) and community groups. Corporation X has won numerous national and international awards for its CSR practices. It is a signatory to the United Nations Global Compact, the world's largest multi-stakeholder CSR initiative involving 9,269 companies and 164 countries, and is also a founder member of the MSI Extractive Industries Transparency Initiative (EITI), a global standard that promotes revenue transparency and accountability in the extractive sector.

Despite the company's community engagement efforts and substantial financial contributions aimed at promoting community welfare, the local Indigenous communities that live near the corporation's operating facilities have been engaged in conflicts, often violent at times, with both the corporation and the government ever since operations began. The communities have seen their sources of livelihoods disappear because of environmental damage to their lands and waters. Oil extraction has also resulted in increased social dislocation and an escalation of violent conflict between communities in the region. Despite more than 50 years of oil extraction worth billions of dollars, the community's economic, social, and environmental conditions have worsened and they continue to live in dire poverty. Economic development, which the government and the corporation promised extraction would deliver, continues to elude these communities. In recent years, armed groups emerged in the region and carried out a series of attacks on corporation X's facilities and personnel. The corporation responded by increasing security personnel, and the government by deploying the army to quell protests, resulting in the killing of 20 unarmed villagers and sparking a cycle of violence that continues to this day.

While the above example is hypothetical there is ample evidence that conflicts between extractive industries and communities impacted by their activity are widely prevalent.[2] For example, the Environmental Justice Atlas (EJOLT, 2015), a comprehensive online database that documents and catalogs environmental conflicts all over the world, lists a total of 2,019 ongoing conflicts over social and environmental impacts of projects such as mining, forestry, dams, transportation, fracking, drilling, exploration, waste management, and ore processing. In resource extraction projects alone, there are 788 cases of ongoing conflicts in more than 60 countries. Table 11.1 provides a selective list of ongoing conflicts.

The question of why the industry finds itself in conflict with the communities in which it operates despite its stakeholder engagement and CSR activities has not been satisfactorily addressed in the literature. In this chapter I address this puzzle by critically analyzing theoretical insights from the emerging literature on political CSR (PCSR). To what extent can PCSR address the needs of vulnerable stakeholders? What are the power dynamics that determine the political economy of natural resource extraction? What governance challenges arise and how should the extractive industry be governed to prevent conflicts? These are some of the questions that I will explore in this chapter, as a way of illuminating how and why CSR needs to become more responsive to marginalized stakeholders.

One central argument runs through the chapter: received knowledge about PCSR does not and cannot adequately take into account the interests of marginalized and vulnerable stakeholder

Table 11.1 Selected list of conflicts involving the extractives industries and Indigenous peoples

Company name	*Number of ongoing conflicts*	*Countries involved*
Royal Dutch Shell^+# and Shell Petroleum Development Company	66	Algeria, Brazil, Canada, Ecuador, Nigeria*, Tunisia
Chevron Corporation^#	22	Angola, Cameroon*, Canada, Chad*, Ecuador, Kazakhstan*
Rio Tinto^+#	19	Brazil, Chile, Colombia**, Indonesia, Malaysia, Mozambique*, Paraguay
Vale^+#	19	Brazil, Mozambique*, Peru*, Philippines**
Anglo Gold Ashanti^+#	15	Colombia**
Exxon Mobil Corporation^#	14	Angola, Cameroon*, Canada, Chad*, Guinea*, Kazakhstan*, Nigeria*, Papua New Guinea**,
BHP Billiton^+#	13	Botswana, Brazil, Chile, Colombia**, Peru, Philippines**
Barrick Gold Corporation^+#	12	Argentina, Chile, Peru, Philippines**, Tanzania*,
Glencore^+#	10	Argentina, Colombia**, Democratic Republic of Congo*, Peru, Philippines, South Africa
Anglo American^+#	9	Chile, Colombia**, Peru

Source: EJOLT (2015).
^ Member of the Extractive Industries Transparency Initiative Standard
+ Signatory to the United Nations Global Compact
# Signatory to the Voluntary Principles on Security and Human Rights
* Compliant with Extractive Industries Transparency Initiative Standard
** Implementing but not yet compliant with Extractive Industries Transparency Initiative Standard

groups. PCSR as a process and extension of deliberative democracy has been described 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 and deforestation" (Scherer & Palazzo, 2011: 910). It is my contention that attempts to fill the "regulatory vacuum in global governance" through PCSR (Scherer & Palazzo, 2011: 899) will not serve the interests of marginalized communities in the developing regions of the world and may even diminish their welfare. Basically, I argue that CSR does not travel well outside the Anglo-American context in which it was created and several key assumptions of CSR and stakeholder theory begin to unravel owing to the very different cultural, social, and political environments in non-European regions. The chapter also has an explicit normative goal: to develop a locally grounded bottom-up governance framework from the perspective of marginalized populations that can address the gaps that arise from a top-down PCSR governance approach.

The chapter makes two contributions. First, it contributes to theoretical development in the politicization and political role of corporations, particularly in the emerging area of PCSR. While insights from PCSR explicitly acknowledge the political role of multinational corporations (MNCs), there is very little analysis of how MNCs and their constituents exercise power in the political economy and the chapter provides a more sophisticated account of the dynamics of power in CSR discourse. Second, I extend my critique by developing a translocal governance framework that has a clear normative justification from the perspective of marginalized stakeholders. Rather than dwell on how corporations manage stakeholders in an effort to enhance shareholder welfare by reconciling "corporate responses to social misery with the neoclassical model of the firm" (Margolis & Walsh, 2003: 280), my approach is to use the social and economic tensions arising from extractive activities as a starting point for new theories and research on CSR and governance.

The chapter is structured as follows. First, I provide a brief overview of the extractive industries, followed by a critical analysis of the extant literature on the political role of corporations in a globalized world. The chapter then discusses the basic assumptions of PCSR and deliberative democracy and identifies the limits of these approaches to solving social and environmental problems particularly in the developing regions of the world. This analysis provides the basic elements of a governance framework from the perspective of vulnerable stakeholders who continue to be marginalized by PCSR. I conclude by discussing the implications of this framework and providing directions for future research.

The Business of Extraction

The global extractive industry is one of the largest in the world, with annual revenues of $5.4 trillion in 2015, operating in more than 100 countries. Non-renewable mineral resources play a dominant role in the economies of 81 countries, collectively accounting for a quarter of world gross domestic product (GDP) (World Bank, 2016). Six of the ten largest corporations in the world belong to the extractive industries based on 2016 revenues.

The extractive industries also play a key role in the "resource curse" faced by many countries in the developing world (Ballard & Banks, 2003; IBISWorld, 2013; PWC, 2013). More than 3.5 billion people, comprising half the world's population, live in resource-rich but cash-poor regions. A majority of these regions share some common features: weak rule of law, weak governmental legitimacy, large power disparities between communities and business, and the presence of diverse Indigenous populations. There is a clear pattern across Africa, the Americas, Asia, Australia, and Europe that shows the benefits from extractive projects are not shared by the communities that are most impacted by them (Ballard & Banks, 2003; Banerjee, 2008, 2011; Rees, Kemp, & Davis, 2012). In fact, most communities living in or around extractive sites have seen their sources of livelihood disappear. In the mining zones of Asia, Latin America, and Africa, between 35 and 55 percent of the population live below the poverty line despite billions of dollars of revenue generated from extractive activity (PWC, 2013).

Mining conflicts are also on the rise across the world (EJOLT, 2015). Studies of mining conflicts in Africa, Asia, Latin America, and Australia all point to a lack of participation of affected communities in decision-making and negative social, cultural, economic, and environmental impacts as key drivers of conflicts (Banerjee, 2011; Bebbington et al., 2008; Ehrnström-Fuentes, 2016; Franks et al., 2014). Most of these conflicts involve violence: a recent report has documented the killings of 908 people ("a vastly underestimated figure" according to the report) in 35 countries over environmental and land issues between 2002 and 2013 (Global Witness, 2014). Brazil accounts for more than half of these killings. In Peru alone mining conflicts have increased by 300 percent during the last five years, and there are 149 ongoing disputes involving the extractive industries (Rees et al., 2012). There is also a well-organized and well-resourced international civil society movement that aims at promoting more transparency and equity in the extractive sector and several MSIs involving non-state actors have emerged in recent times. While the extractive industries may represent an extreme case of MNC–community conflicts given their significant environmental and social impacts, power dynamics between market, state, and civil society actors provide an ideal context to examine the political role of MNCs in problematic domains.

The Politics of Political Corporate Social Responsibility

It is not my purpose to review the vast literature on CSR, which goes back nearly 60 years. Instead, I point readers to several comprehensive reviews of the field (see e.g. Aguinis & Glavas, 2012; Kolk, 2016; Scherer & Palazzo, 2011). The vast majority of the literature tends to be descriptive and instrumental, with a focus on establishing an empirical relationship between CSR and financial performance. There is a fundamental unresolved tension between normative and instrumental approaches to CSR. A majority of CSR research has focused on win-win situations and not much is known about what happens in lose-win (when integrating the needs of external stakeholders can harm wealth-maximizing opportunities of firms) or win-lose situations (when corporate wealth maximizing diminishes social welfare). Moreover, the role of firms in shaping public social or environmental agendas, their role in disempowering or delegitimizing stakeholders opposed to corporate activity, their interactions with governmental and non-governmental bodies, or power differentials between firms and marginalized stakeholders cannot adequately be explained by descriptive and instrumental approaches to CSR.

In an era of neoliberal globalization where business firms have taken on roles once the purview of governments, instrumental approaches to CSR become even less relevant. In order to understand the political role of corporations and their interaction with market, state, and civil society actors and institutions, scholars have developed notions like corporate citizenship and PCSR (Matten & Crane, 2005; Scherer & Palazzo, 2007, 2011). Scherer, Rasche, Palazzo, and Spicer (2016: 276) define PCSR as:

> those responsible business activities that turn corporations into political actors, by engaging in public deliberations, collective decisions, and the provision of public goods or the restriction of public bads in cases where public authorities are unable or unwilling to fulfill this role.

They point to examples where corporations contribute to "different areas of governance" such as public health, education, social and environmental standards, climate change, corruption, and inequality. PCSR reflects a general shift in the political economy toward market-based modes of governance where private corporations become key actors within regulatory systems (Ezzamel & Reed, 2008).

The basic normative and theoretical assumptions of PCSR are drawn from Habermas's work on deliberative democracy (Frynas & Stephens, 2015; Habermas, 1996, 1998; Mäkinen & Kourula, 2012; Scherer, 2018; Whelan, 2012). There is an underlying assumption in PCSR that a deliberative process of corporate engagement with state and civil society actors can lead to a more democratic public sphere (Scherer et al., 2016). However, as Barley (2007) points out, corporate political influence can actually undermine representative democracy because corporations regularly obstruct regulatory agencies while lobbying governments and international trade bodies for business-friendly legislation. In the extractives sector, corporations and their industry associations are powerful players in both deliberative processes and state politics, often giving them de facto political authority to negotiate with states and communities impacted by mining.

Most corporations in the extractives industries have strong CSR and stakeholder engagement policies, yet there are many studies that show that the needs of local people are not met, leading to conflicts (Bebbington et al., 2008; Kraemer, Whiteman, & Banerjee, 2013). Mining companies' engagement with local communities tends to be relegated to "community relations" departments without meaningful integration into their core business (Kemp & Owen, 2013). For instance, in her study of a conflict between the Porgera Joint Venture Gold Mine and the Indigenous Ipili, Coumans (2011) found that stakeholder engagement by the mining corporation (an example of deliberative PCSR) provided legitimacy to the corporation while undermining the goals and objectives of local actors. "Experts" brought in by the corporation (anthropologists and developmental NGOs) to resolve the conflict shaped CSR solutions that benefited the company while neglecting community concerns about environmental impacts and human rights abuses. Similarly, an ethnographic study of a mining conflict in Ecuador revealed how CSR became another source of confrontation and frustration among communities already impacted negatively by mining (Warnaars, 2012). The company's strategy of community engagement involved focusing on particular individuals and regions, and capitalizing on existing regional and community dynamics, thus contributing to the polarization of the conflict. Another study of the impact of CSR policies on extractive industries in the Peruvian Highlands found no improvements in access to basic services or improvements in housing conditions and poverty rates (Ticci & Escobal, 2015). While there were marginal increases in employment owing to mining, most jobs went to migrants with little or no opportunities for local populations, leading to increased social tensions.

In its preoccupation with identifying proper procedures for deliberation, PCSR can elide the problem of political authority. The creation of a seemingly fair and reasoned deliberative process still requires political authority to enforce resulting decisions, and this authority rests in most cases with the state. While stable state systems, the rule of law, enforceable property rights regimes, and a strong civil society are conditions that may exist in Western societies, they are certainly not universal conditions, and therein lies the fundamental problem of theorizing PCSR using a Western lens to identify problems and propose solutions. Exporting and imposing deliberative democracy to societies with deep structural inequalities does not make the process more democratic, especially if the structural inequalities restrict or deny access to deliberative processes for marginalized populations. In other words, processes might be deliberative without being democratic, which brings into question the types of legitimacy that deliberative CSR can provide (Young, 2003).

According to Scherer and Palazzo (2011: 916) PCSR can provide moral legitimacy for firms because it "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." The communicative process may well provide firms the basis for moral legitimacy but the process by which firms in the extractives industries generate moral legitimacy may be flawed because of (1) the inherent practical difficulties, if not impossibility, of making deliberative processes completely inclusive, public, and accountable; and (2) formal inclusion of marginalized stakeholders cannot overcome the structural inequalities and biases in society that impose constraints on the agenda and terms of any deliberative process

(Young, 2003). The moral legitimacy provided by deliberative CSR allows corporations to pursue their interests while undermining local community interests. For instance, Kraemer et al.'s (2013) study of a mining conflict in eastern India showed how the mining corporation was able to undermine community resistance through a divide-and-rule strategy that isolated groups opposed to mining while rewarding others through money and gifts as part of their CSR-based philanthropic activities.

Advocates of PCSR argue that the force of norms and ideas can serve as a countervailing force to corporate power in the political economy. Private regulation like "soft laws" and voluntary standards become the norm for enhancing social and environmental performance of firms. The assumption is that standards and codes of conduct will protect marginalized populations without any reflexive examination of the consequences of this approach (Newell, 2005). Voluntary standards have been criticized for enabling firms to use deceptive accounting techniques and greenwashing (Frenkel & Scott, 2002; Lantos, 1999) and as a practice of self-regulation without sanctions, subject to opportunism. In some cases there were no discernible differences in practice between companies that signed up for voluntary standards and those that did not (King & Lenox, 2000). The Forest Stewardship Council (FSC), promoted as an ideal model of PCSR, is an example of how a focus on processes that are supposed to promote democratic accountability produced the opposite outcome: a lack of transparency and accountability that favored powerful stakeholders like certification bodies, NGOs, and corporations while further marginalizing weaker stakeholders (Edward & Willmott, 2008). Analyzing the evolution of the FSC over the last 20 years, Moog, Spicer, and Böhm (2015) found that the new forestry standards neither transformed commercial forestry nor did they reverse the trend of tropical deforestation. Power imbalances between market actors and NGOs along with weak state regulation were the reasons cited for the limited effectiveness of forestry standards. It is difficult to see how these voluntary standards and MSIs can "help rebalance the power between governments and corporations" (Scherer et al., 2016: 284). Deliberative processes may seek out a plurality of voices but they do not provide spaces for dissent and conflict. As a result, "consensus" becomes more of a hegemonic accommodation to dominant interests. The "deliberative" processes of consultation in mining conflicts do not reveal the forced nature of agreements and disallow the emergence of more collectively based alternatives (Edward & Willmott, 2008: 425). And therein lies the fundamental weakness in PCSR: its lack of self-reflexivity arising from a failure to account for power asymmetries, as we will see in the next section.

Power and Legitimacy in CSR Governance

Power in CSR has not received sufficient attention in the literature, barring a few exceptions (Banerjee, 2008; Fleming & Jones, 2013; Gond, Barin Cruz, Raufflet, & Charron 2016). In their analysis of power and politics in CSR, Gond and Nyberg (2017) describe how "classical and market-centred CSR" reflects an "institutional/structural" approach to power where legitimacy is created through dominant actors and institutions in national contexts. PCSR scholars, following Habermas's notion of "postnational constellations," focus on the normative basis of power, in particular how power creates legitimacy through deliberative processes, which become the basis of global governance.

Institutional, material, and discursive power constitute the political economy and governance of resource extraction. For instance, supranational institutions like the World Bank and the International Monetary Fund provide loans to developing countries for extractive projects under conditions of "structural adjustment," which basically means providing access to mineral resources to mining corporations. A 1992 report by the World Bank entitled *Strategy for African Mining* examined the reasons for the "demise of Africa's mining performance" and advocated complete privatization of the sector to accelerate growth (World Bank, 1992: v). As Hilson (2012) argues, the financial terms of World Bank-funded extractive projects in developing countries coupled with state corruption and corporate collusion with state officials help explain why countries with thriving extractive industries continue to rank at the bottom of the United Nations Human Development Index.

Structural power of transnational mining corporations derives from their wealth and annual revenues, which often surpasses the annual GDP of the countries in which they operate. For example Royal Dutch Shell, which has a long and troubled history of oil extraction in the Niger Delta, ranked 27th on the list of the World's Top 175 Economic Entities in 2010 with annual revenues of $378 billion, whereas their host country Nigeria ranked 56th on the list with annual GDP of $193 billion (Hilson, 2012). Such wide economic disparities between host countries and mining corporations tend to consolidate the bargaining power of transnational corporations (Shapiro, Russell, & Pitt, 2007).

Finally, the discursive power of CSR serves to further consolidate corporate interests by enabling the discursive construction of legitimacy, which allows extractive industries to operate despite their negative environmental and social impacts (Ehrnström-Fuentes, 2016; Joutsenvirta & Vaara, 2015). Industry codes and standards that emerge from CSR discourse provide more legitimacy to market actors than to vulnerable populations impacted by mining, who generally lack institutional and material power (Lindsay, 2011). As Utting (2005: 383) points out, the "capacity of big business to modify its discourse is often considerably greater than its capacity to improve its social and environmental performance." In the political sphere, the structural power of corporations enables them to establish the economic rules of the game. Their relational power through their relationships with key state and non-state actors in the political economy also enables them to establish political rules that determine the process by which economic rules are made (Clegg, Courpasson, & Phillips, 2006; Marti, Etzion, & Leca, 2008). These practices are discursive in the sense that they constitute and are constituted by knowledge appearing as specific institutional and organizational practices. They become discursive because they reproduce knowledge through practices that are made possible by the structural assumptions of that knowledge—"a system of practices that sustains beliefs not a system of beliefs that sustain practices" (Clegg & Haugaard, 2009: 436).

In developing a theory of PCSR, Scherer and Palazzo (2011) and in a later formulation Scherer et al. (2016) conceptualize power mainly in relation to the declining ability of states to regulate MNCs. Their conceptualization of politics as "public deliberations, collective decisions and the provision of public goods" (Scherer et al., 2016: 276) without taking into account that all of these are outcomes of particular power relations is problematic. While they acknowledge that the "political power" of non-state institutions like NGOs and corporations has increased in recent years, there is no attempt to analyze what outcomes for society result from this shift. Instead, following Habermas, they argue that moral legitimacy that arises from a communicative process does not rely on the power of the actors involved in the process but rather on procedural design. A "better design" of communicative processes would somehow "neutralize" power differences, subjecting corporations to new forms of democratic control and providing a more democratic framework for global governance.

Such an approach to power is patently unsatisfactory because it elides relationships between power, legitimacy, and authority. One cannot assume legitimacy always exists without domination (Clegg & Haugaard, 2009). Legitimacy produced by communicative rationality—the basis of Habermasian deliberative democracy—is based on particular forms of successful power, which remain "outside" of PCSR discourses without an acknowledgment that power is constitutive of social relations (Mouffe, 1999: 753). The universalization of particular forms of legitimacy through deliberation and consensus marginalizes legitimate struggles of vulnerable populations because it does not acknowledge a pluralism of values and rationalities. As Mouffe (1999: 756) argues:

> every consensus exists as a temporary result of a provisional hegemony, as a stabilization of power, and always entails some form of exclusion. The idea that power could be dis-

> solved through a rational debate and that legitimacy could be based on pure rationality are illusions, which can endanger democratic institutions.

Deliberative political CSR (PCSR) in its quest for consensus elides the implications of the link between legitimacy and power by implicitly trusting that deliberation will lead to better and more progressive outcomes for all stakeholders.

In the context of global governance PCSR claims to "formulate conditions of legitimate political will-formation and rule enforcement in particular in contexts where governments are absent, corrupt or repressive and where private or civil regulation might be the only available forms of regulation" (Scherer et al., 2016: 283). However, such a perspective assumes that an absence of regulation implies an absence of power, which is not the case. In their study of sustainability standards in coffee production Levy, Reinecke, and Manning (2016: 389) found PCSR practices did not attain the "Habermasian ideal of public spirited business participating in an open process of deliberative democracy." Moreover, a series of hegemonic accommodations between corporate actors and NGOs transformed the meaning of sustainability itself from a radical social and environmental vision to more instrumental goals aligned with corporate interests. As in the case of the Forest Stewardship Council discussed earlier, strategic contestations over sustainability shifted the power from NGOs to corporate actors. Deliberative processes do not reveal consequences at the local level: while the evolution of sustainability standards in coffee production is an outcome of contestations and accommodations among corporate, state, and civil society actors, the process of "legitimate political will formation" can further marginalize the individual coffee farmer whose voice remains unheard or is deliberately silenced.

Competing legitimacies are at the root of many conflicts in the extractive industries, with various stakeholder groups vying to shape the legitimacy (or illegitimacy) of extractive projects (Gond et al., 2016). If legitimacy is the outcome of relations of power then it becomes important to critically analyze the legitimation processes that are deployed by market, state, and civil society actors. In the context of PCSR the legitimacy of market actors is enhanced by voluntary standards, codes of conduct, and MSIs. These practices, while conferring moral legitimacy on firms, are also aimed at generating consensus and inclusion, which are the desired outcomes of deliberative processes. However, if desired outcomes at local levels are fundamentally different (self-determination or autonomy instead of inclusion, or the right to say no to development projects, for example), then the processes that are designed to deliver consensus and inclusion can no longer be trusted.

Take, for instance, the recent conflict between the mining corporation Vedanta Limited and tribal communities in India (Kraemer et al., 2013). The company negotiated a memorandum of understanding with the state government to construct a bauxite mine in the Niyamgiri hills in the eastern state of Odisha in India. The area is a sacred site and a source of livelihood for the Dongria Kandh tribe, which has inhabited the region for thousands of years. The tribals were firmly opposed to the mine from the beginning and, refusing all offers of compensation and rehabilitation, started a local resistance movement that soon became a high-profile movement receiving wide national and international media coverage. After more than a decade of struggle using a variety of direct action tactics, legal challenges, and political pressure, the resistance movement was successful in obtaining a court order from the Supreme Court of India, which ruled that the mine could not proceed without the tribal community's approval.

From a corporate and market perspective, extracting bauxite from a mountain created wealth and provided jobs, and any environmental and social impacts could be addressed through CSR practices. Thus, the company's mission statement is perfectly legitimate:

> We believe our strategy and business objectives will harness India's high-quality wealth of mineral resources at low costs of development, positioning it as a leader on the global metals and mining map…Vedanta Limited is a socially responsible corporation that aspires to transform the lives of people surrounding its plant site. We firmly believe in making

> the local people a participant in the growth process of the organization and works as a facilitator of socio-economic transformation of rural parts of Orissa.
>
> *(Vedanta Limited, 2016)*

The problem however lies in "transform[ing] the lives of people surrounding its plant site." The tribal communities, for whom the Niyamgiri mountain carries significant cultural value and is a source of their livelihood, have a very different relationship to the "plant site." In the words of a tribal member resisting the project: "Without Niyamgiri we cannot think of life. If we lose the mountain we will end up in great trouble. We'll lose our soul. Niyamgiri is our soul. If Niyamgiri goes our soul will die" (Survival International, 2016).

These competing and incommensurable world views inevitably lead to conflict that PCSR deliberative processes cannot accommodate because, contrary to the premise of the global economic paradigm, "there can be no universal metric for comparing and exchanging the real values of nature among different groups of people from different cultures, and with vastly different degrees of political and economic power" (McAfee, 1999: 133).

Attempts to build "local legitimacy" by mining corporations through deliberative CSR processes continue to be driven by their interests. In analyzing efforts of Newmont Mining to improve their CSR practices after spillage of waste mercury at their Yanacocha mine in Peru caused health hazards and water contamination, Gifford, Kestler, and Anand (2010) described how the company hired medical specialists to conduct an independent health assessment of communities impacted by mining. The recommendations of the group included designing and implementing a "comprehensive strategy of social investment in health and development," designing a "sustainable communication infrastructure to improve healthcare," and investing in "improving healthcare facilities and equipment" (Gifford et al., 2010: 307). The question of whether the mine should expand its operations never entered the deliberative process. It was only after years of community opposition and direct action that the company finally backed down from their expansion plans (Perlez & Bergman, 2010). Consensus building, deliberative processes, and public deliberations—key elements of building legitimacy through PCSR—were simply rejected by communities negatively impacted by mining operations because their one key demand, which was to stop the expansion project, could not be accommodated in any corporate-driven deliberative process. Instead, dissent and activism become key defensive weapons, especially when dialogue was structurally biased toward powerful actors, as it inevitably is when extractive corporations and states negotiate with communities. In the long and troubled history of interactions between the extractive industries and Indigenous communities, there have been many cases where community members refused to participate in stakeholder engagement because the structural biases of the process privileged certain outcomes while rejecting others (Banerjee, 2011; Young, 2003).

Deliberative processes may be seen as democratic by market and state actors but can be undemocratic from the perspective of marginalized and dissenting minorities (Clegg & Haugaard, 2009). It is difficult to see in the face of structural inequalities and hegemonic accommodation how PCSR and MSIs can permit more "democratic control on the public use of corporate power" (Scherer & Palazzo, 2007: 1109). Rather, PCSR as a form of global governance is more likely to result in corporate capture of the public sphere (Gilberthorpe & Rajak, 2017).

At this point, it would be useful to clarify what I mean by governance. The literature on governance is vast and complex, spanning a variety of disciplines like political science, economics, law, international relations, sociology, and organization studies, and it is beyond the scope of this chapter to provide an overview of the field. While acknowledging that governance is a "code of complex colours" (Ezzamel & Reed, 2008: 597), my analysis of governance regimes in the political economy is informed by Foucault's conceptualization of governance as a contested terrain of power/knowledge relations (Foucault, 1991). The focus is *not* on corporate governance with its internal focus on fiduciary responsibilities of directors and boards, but rather on the governance *of* corporations *for* society. As discussed earlier, governance through PCSR is a practice of exercising power in the political economy through a variety of institutions and mechanisms. The discursive capacity of PCSR sets the parameters of practice for a governance framework by rearranging social relations designed to generate consent and co-optation while silencing dissent (Rajak, 2011).

I adopt Crouch's (2005: 20) definition of governance as "those mechanisms by which the behavioural regularities that constitute institutions are maintained and enforced." Such an institutionalist perspective on governance enables us to examine the exercise of power and authority in all its forms, whether through formal state and public "hard" regulation or private, informal "soft" laws such as regulatory standards or codes of conduct (Ezzamel & Reed, 2008). From this perspective practices of governance involve both regulatory and normative mechanisms where MNCs play a key role in influencing institutional development through their participation in transnational policy networks (Dahan, Doh, & Guay, 2006; Geppert, Matten, & Walgenbach, 2006).

MSIs involving market and civil society actors are key elements of private governance regimes and a fundamental assumption of PCSR is that firms' engagement with state and non-state actors will deliver better social and environmental outcomes, especially in regions where states fail to govern effectively. For example, the Extractive Industries Transparency Initiative (EITI), an MSI involving companies, governments, investors, and civil society organizations, is a global standard that promotes revenue transparency and accountability in the extractive sector. Member countries are required to disclose information on tax payments, licenses, contracts, and other information on resource extraction (EITI, 2016).

The assumption behind the EITI standard is that promoting disclosure and transparency in the extractives sector will benefit communities impacted by mining and reduce conflicts. Unfortunately, available evidence on corporate disclosure indicates otherwise. As Brown, de Jong, and Levy (2009: 572) found in their analysis of the Global Reporting Initiative Sustainability Reporting Guidelines, corporate information disclosure had "little impact in shifting the balance of power in corporate governance toward civil society." Since its launch in 2002, there have been extensive studies about the effectiveness of EITI, particularly in the conflict regions of Africa (Andrews, 2016; Haufler, 2010; Hilson & Maconachie, 2009; Smith, Shepherd, & Dorward, 2012). The results are remarkably consistent: EITI has not only failed to deliver on its stated goals of better natural resource management and a reduction in corruption and conflict, but in many cases has led to further marginalization of communities negatively impacted by mining. The voluntary nature of disclosure, variability in the accuracy of the data provided, differing stakeholder expectations, asymmetrical power relations, institutional disinterest in policy reform, and disparities between mining royalties and positive developmental outcomes were the main factors that made EITI ineffective in natural resource governance (Andrews, 2016). EITI served as a legitimating device for countries and corporations to commit to reform but did not result in delivering reforms or reducing corruption. Like the Global Reporting Initiative Sustainability Reporting Guidelines, EITI appears to be a "triumph of form over results, with real power remaining in the hands of governments and corporate elites" (Haufler, 2010: 69).

Another industry body is the International Council on Mining and Metals (ICMM), comprising 23 mining and metals companies as well as 35 mining associations, which was set up in 2001 to improve sustainable development performance in the mining and metals industry. In their 2013 report *Good Practice Guide: Indigenous Peoples and Mining*, ICMM recommended that its members "respect the rights, interests, special connections to lands and waters, and perspectives of Indigenous Peoples, where mining projects are to be located on lands traditionally owned by or under customary use of Indigenous Peoples" (ICMM, 2013: 11). The good practice guide also recommends MNCs obtain "free, prior and informed consent" before proceeding with mining projects, which is also a key clause in the 2007 United Nations Declaration on the Rights of Indigenous Peoples (United Nations, 2010).

However, these MSIs and good practice guidelines are top-down and company-focused and, while providing moral legitimacy to mining companies, do little to address the needs and aspirations of local communities. For example, in her ethnographic analysis of CSR practices of the mining giant Anglo American in South Africa, Rajak (2011: 12) shows how moral legitimacy provided by CSR also becomes translated into sources of authority in a largely privatized system of global governance, enabling the company to "transform social relations and projects to a particular set of corporate interests and values." Owen and Kemp (2014: 94) make a similar point in their analysis of free, prior, and informed consent, arguing that it focuses primarily on legal and compliance issues without any meaningful engagement with social, political, and cultural contexts.

A recent report on Indigenous communities and the extractive industries to the United Nations Human Rights Council found that the

> business model that still prevails in most places for the extraction of natural resources within indigenous territories is not one that is fully conducive to the fulfillment of indigenous peoples' rights, particularly their self-determination, proprietary and cultural rights in relation to the affected lands and resources.
>
> *(Anaya, 2013: 3)*

While the report recommended that consent should be sought in all cases, it stated that consent is not a "free-standing device of legitimation" (10) and expressed concern that "many corporations still do not commit to more than complying with national law and fail to independently conduct the relevant human rights due diligence" (15). The report also pointed to "significant imbalances of power" between Indigenous peoples and mining companies and that there was "little systematic attention by States or industry actors to address these power imbalances" (17). As we have seen, earlier deliberative processes of PCSR do little to address these power imbalances and the many ongoing conflicts and resistance movements against resource extraction can be seen as attempts by communities to assert their power.

Every company listed in Table 11.1 that is currently involved in conflicts has high-profile CSR and stakeholder engagement policies. Every company involved in conflicts is also a signatory to the EITI, which is the gold standard for responsibility in the mining sector. Twelve of the 26 countries listed in Table 11.1 are also signatories to the EITI. Every company is a signatory to the Voluntary Principles on Security and Human Rights and, except Exxon-Mobil and Chevron, every company is a signatory to the United Nations Global Compact, the world's largest multi-stakeholder CSR initiative (United Nations Global Compact, 2016). If CSR is the strategy for companies and states to engage with Indigenous communities then clearly it is not working because, despite a host of CSR policies, stakeholder engagement guides, and human rights standards, conflicts are on the rise.

Thus, PCSR governance regimes are more about regulation *for* business than regulation *of* business. The extent and scope of violent mining conflicts all over the world is an indication of the failure of communicative processes and, consequently, there is a need to understand the gaps in governance and CSR that led to these conflicts, how these conflicts can be resolved, and how future conflicts can be prevented (Kolk & Lenfant, 2013). MSIs, standards, and guidelines, along with the increasing presence of private actors that constitute the governance of resource extraction, cannot address authority, capability, and representation gaps, which often leads to conflict (Banerjee, 2014). As we have seen earlier, structural and discursive power asymmetries between local communities and mining companies privilege the latter group along with their industry associations with greater authority and capability to participate in governance. In addition, the political agency of marginalized populations is often contingent on representation by NGOs at distant national or international forums, which results in a representation gap in governance.

Thus, PCSR practices are ways of exercising power in the economy by establishing and sustaining normative criteria for legitimate processes. PCSR governance regimes may provide legitimacy to powerful market and state actors but their hegemony does not go unchallenged, as evidenced by the hundreds of ongoing conflicts over resource extraction. Conflict, dissent, even violence can be seen as a failure of hegemony because where there is power there is resistance (Laclau & Mouffe, 1985). If, as Clegg and Haugaard (2009) point out, the task of normative theory is to identify criteria for justifying authority, a normative governance framework would focus more on the needs, values, aspirations, livelihoods, and ways of being in the world of local communities rather than on top-down deliberative processes designed to obtain consent for mining projects. In the next section, I develop a translocal governance framework from this normative standpoint that does not disempower marginalized communities but may enable genuine transformative arrangements between mining corporations and the communities in which they operate.

Democracy From Below: Toward a Translocal Governance Framework

There are lessons to be learned from the numerous resistance movements against extractive industries, which can provide a preliminary framework for a more progressive approach to MNC–community relationships. If, as I have argued, deliberative democracy does not serve the interests of marginalized populations, perhaps different conceptualizations of democracy, such as Mouffe's (1999: 754) notion of "agonistic pluralism" can offer alternative insights. A preoccupation with consensus in governance can elide processes of exclusion, resulting in a displacement of the political—ironically PCSR through its attempts to explicitly address the political role of corporations leads to a depoliticization of the public sphere, resulting in a politics without politics. As Mouffe (1999: 754) argues:

> Hence the importance of distinguishing between two types of political relations: one of antagonism between enemies, and one of agonism between adversaries. We could say the aim of democratic politics is to transform an "antagonism" into an "agonism." This has important consequences for the way we envisage politics. Contrary to the model of "deliberative democracy" the model of "agonistic pluralism" asserts that the prime task of democratic politics is not to eliminate passions nor to relegate them to the private sphere in order to render rational consensus possible, but to mobilise those passions towards the promotion of democratic designs.

Resistance movements reflect the agency of communities in the face of structural inequalities and corporate and state power, and can provide insights into how locally based democratic governance arrangements can emerge. Recent examples include Newmont Mining's decision to suspend expansion plans for a mine in Cerro Quilish in Peru (Perlez & Bergman, 2010); Osisko's decision to abandon its gold mining project in La Rioja province of Argentina (BBC, 2016); and a Supreme Court decision in India reversing a prior approval given to Vedanta Limited to build a bauxite mine in the state of Odisha (Kraemer et al., 2013). These movements occurred largely outside the formal deliberative processes that tended to exclude local communities from direct participation.

Governance gaps arise between the "scope of economic forces and actors, and the capacity of societies to manage their adverse consequences," thus providing the space for corporations to commit "wrongful acts without adequate sanctioning or reparation" (Ruggie, 2008: 3). As we have seen earlier, it is naïve to expect that the interests of vulnerable stakeholders will be served if MNCs fill these governance gaps through their PCSR initiatives. Marginalized communities that are the most impacted by extractives have little or no formal authority to negotiate projects at the international or national level. Even when consultation is legally specified, it is conducted in vastly unequal conditions that favor corporations and their associations, leaving communities at a disadvantage. In a study of mining consultations with Aboriginal communities in Australia, Tatz (2003) found that communities were generally the "receivers of consultation" once a decision on mining was taken at the national level. Similar practices can be seen in other locations: in virtually all cases of "consultation" with local communities the main concern of market and state actors was to identify the conditions under which extraction could proceed—royalty payments, building infrastructure, schools, hospitals, and roads are key aspects of the negotiating process, which fails to address the fundamental concerns of most Indigenous communities: whether extraction should proceed at all, and if so what are the social, economic, and environmental impacts, and what other economic development opportunities are available (Banerjee, 2011)? These incommensurable positions mark the structural limits of deliberative processes and also become sources of conflict.

Resistance movements around the world against extractive industries are demands for community voices to be heard and for more democratic processes of decision-making. Specifically, marginalized communities need democratic processes where they are not excluded owing to institutional and political constraints, nor because their concerns, norms, and aspirations are incommensurable with market expectations and state development policies. Despite assertions that deliberative PCSR processes can accommodate diversity, there are tensions between different local contexts of democratic spaces and the universalism demanded by a global political system (Lupel, 2009). In order to ensure that the welfare of vulnerable stakeholders is not diminished, there is a need for locally based models of firm–community relations where communities set the agenda and terms of engagement. Thus, the normative basis of translocal governance is the economic, social, environmental, and cultural welfare of marginalized communities. In PCSR, the goals of deliberative processes are inclusion and building consensus among stakeholders, whereas for translocal governance the goals are coexistence, autonomy, and self-determination of the community. Table 11.2 summarizes key features of PCSR and translocal governance.

I propose that translocal governance represents a normative approach that is better suited to contexts featuring marginalized communities. I do not present this framework as a substitute for PCSR, but perhaps as a complementary approach to the governance of resource extraction. For

Table 11.2 Transnational political CSR and translocal governance

	Transnational political CSR	*Translocal governance*
Normative goal	Consensus	Self-determination, coexistence, autonomy
Main political actor	State, civil society organizations, and corporations	State, community councils
Authority	State, MSIs	State and community councils
Preferred economic outcomes	Compensation, royalties	Community-driven partnerships, rights to livelihood
Preferred negotiating outcomes	Consensus	Consensus and dissent, veto rights over developmental projects
Sources of political rights and identity	Universal human rights, citizen of nation-state, global civil society	Indigenous rights, ecological nationalisms
Source of legitimacy	Transactional: quality of communicative processes, voluntary standards	Indigenous ecology, livelihoods
Nature of representation	Represented by NGOs to information-gathering and rule-making bodies, as well as to media	Initiating partner of governance bodies, with full, direct participation
Ideologies	Social inclusion	Social justice
Possible outcomes	Hegemonic accommodation	Disruption, dissent
Property rights	Liberal private property regimes, bundle of property rights	Communal property, bundle of relationships
Political networks	Hierarchical (with lateral features)	Lateral (with hierarchical features)
Temporality	Linear and progressive	Juxtaposed temporalities

extractive industries operating in difficult regulatory environments, it may be preferable to start from the normative standpoint of marginalized communities instead of focusing on how corporations can generate moral legitimacy for themselves through deliberation. PCSR through its deliberative processes risks reinforcing the legitimacy of existing institutional arrangements that disempower local communities while silencing dissent (Young, 2003).

Translocality refers to the multiplicity of local spaces and actors and their interrelationships in a global world. The prefix "trans" refers to the ability of translocal engagements to "both transcend territorial locality and change the local spaces from which they emerge" (Banerjee, 2011: 331). Communities inhabiting these spaces interact with particular configurations of market, state, and civil society actors and form relationships with local activists, community groups, domestic and international NGOs, and political parties. These relationships are not stable but shift over time, contingent on the community's agentic efforts toward self-determination. Translocality can also be seen in the diversity of Indigenous tribes living in different nation-states yet sharing a common relationship with the land that transcends national borders.

Translocal governance networks are different from the more vertical nation-state modes of governance (Sassen, 2006), as they do not aim to embed firm–community relations in implicitly hierarchical decision-making processes. Translocal engagements primarily work in a lateral fashion: communities make alliances with other communities and local actors, and firm–community interactions tend to be direct and not mediated by participation in larger forums. For instance, communities attempting to assert self-determination over their lands within a sovereign nation-state are deploying forms of "ecological nationalisms" as a new form of political identity (Cederlöf & Sivaramakrishnan, 2005). While these identities may not challenge the sovereignty of nation-states, they can lead to new forms of local authority that can provide some means of self-determination whereby community councils can decide on any development projects on their lands. Examples can be seen in the emergence of locally derived organizational forms like *gram sabhas* in India or *los caracoloes* in Latin America, which are more representative of community concerns and that are deployed by communities to negotiate with corporations and governments. The social and political arrangements of these organizations reflect Indigenous epistemologies and ontologies where social relations are based on reciprocity and exchange rather than competition (Banerjee, 2011; Mignolo, 2007). They represent forms of democracy from below and are more participative than representative or deliberative democracy.

While translocal networks operate primarily locally, they have influences at regional and national levels. For example, in a conflict over a plant to be built by Tata Steel in Kalinganagar in the Indian state of Odisha, 12 tribal members were killed by police in 2006 while they were protesting forcible land acquisition and insufficient compensation (Pathi, 2010). The shootings were widely condemned and galvanized mobilization efforts of the community, which eventually forced the Indian authorities to rethink the land acquisition process for development projects and resource extraction, leading to the passage of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Bill in 2013 (*Indian Express*, 2013).

Focusing on the translocal as a mode of governance in the global extractive industry opens up new spaces for theories and practices of governance in two ways. First, it avoids a market/state-centric analysis of governance because it acknowledges the existence of multiple local spaces across different nation-states with differing configurations of market, state, and civil society relationships. Second, translocal spaces can create new sources of agency for communities that choose not to accept extractive modes of development, which is the hegemonic model at international and national levels. Local alliances can help strengthen the legitimacy of local concerns, thereby giving communities a stronger voice rather than a tokenistic presence in deliberations. Rather than ask under what conditions can extractive projects proceed, a governance from below framework will ask whether extraction should be allowed in the first place based on whether the project will enhance community welfare. In this model, any exploration or pre-extraction activity could proceed only if local communities consented to the project and where internal or external consultation processes reflected their cultural and social modes of decision-making. Translocal governance thus reflects communities' normative authority at the local level to make decisions about land use without disqualifying arguments, resources, and strategies important to their political success, which tends to occur in deliberative processes where other parties have hegemonic authority (Scott, 1985).

Conflicts between MNCs and communities over resource extraction are ultimately conflicts over competing legitimacies and world views. For example, a profound and challenging aspect of these struggles is Indigenous relationships and attachment to land. If relationship with the land is the fundamental basis of all conflicts involving Indigenous communities then that relationship becomes the normative basis for any locally derived governance framework where the goal is self-determination of communities. Indigenous ecology, which reflects thousands of years of Indigenous philosophies of connections with land, spirituality, stewardship, and sustainability, would be central in this framework, as would an explicit recognition of the alternate temporalities of Indigenous communities that inhabit the same space as other citizens of a state.

Juxtaposed temporalities and incommensurabilities between market and community interests over development are evident in conflicts over extractive projects. For instance, in a conflict in India discussed earlier there were competing world views about land, where a mountain is both "the soul" of the tribe for Indigenous communities and a rich source of bauxite for the mining company and the Indian state. The temporality of the corporation and the developmental nation-state and their concomitant need for economic growth sat side-by-side with alternate temporalities of Indigenous communities that inhabited the same space. Within the territoriality of the nation-state, there are differential rates of acceleration of economic activities in different spaces that produce differing temporalities (Sassen, 2006). Indigenous views of land as a bundle of relationships stand in stark contrast with the market/state nexus view of lands as a bundle of property rights.

Thus, self-determination cannot be reached without a clear understanding of how communal property rights can be articulated at international, national, and local levels of decision-making for extractive projects. While the extractive industry is aware, and sometimes even cautiously respectful, of communal and customary property rights, there are few remedies and innovative solutions that effectively speak to these issues (Banerjee, 2011). In fact, in many typical "best practice" cases, firms effectively recognize community claims, but in an aggregated individual manner. For example, the corporate concession in many extractive negotiations is for the project to go ahead, but for affected individuals to be compensated (Reuters, 2013). Compensation of individuals undermines the communal relationship between communities and their land and creates conflicts. To prevent conflicts it is crucially important that communities drive the discussion and agenda over development and land use. How this can be achieved remains a major challenge and in the concluding section I will discuss the implications of a translocal governance framework for theory and practice.

Implications and Directions for Future Research

As I have shown, deliberative processes of governance through PCSR cannot accommodate competing legitimacies that are often the source of conflicts over resource extraction. The preoccupation to reach consensus through deliberation obscures processes of domination and disallows spaces of difference and coexistence. Perhaps a translocal imagination will allow us to overcome the universalization of governance demanded by PCSR and envision instead a "pluriverse" of coexisting legitimacies (Ehrnström-Fuentes, 2016: 433). Any such normative interventionist project would be extremely ambitious, perhaps even utopian, both from the perspective of theory building and managerial or political practice. But maintaining the status quo that is deliberative CSR is problematic as well. Building a more grounded theory of governance may contribute to a more nuanced understanding of the political dynamics that underlie current conflicts between corporations and local communities in the extractive sectors.

The key challenge is to discover under what conditions such a framework can be implemented. Why would managers working in MNCs or government officials responsible for economic development consent to a "governance from below" approach? Financial losses owing to delays and stoppages, undermining of an MNC's "social license to operate" as a result of conflict, and the emergence of political organizations championing Indigenous rights could provide the impetus for a governance approach that allows for a plurality of outcomes. A recent study of company–community conflicts concluded that the cost of conflicts to the company ranged from $20 million per week to $100 million per year (Franks et al., 2014). In India, extractive projects representing an investment of £31 billion have been halted by massive protests and resistance movements (Banerjee, 2011). In the Philippines, land disputes have put at risk a $5.9 billion investment in a copper and gold mine projected to add 1 percent to national GDP (Provost, 2013). These resistance movements can serve as the catalyst for shifts in the political economy, leading to changes in social arrangements about property rights, governance, authority, and accountability, which in turn influence decision-making processes and outcomes in corporations. Localized approaches to governance may overcome weak processes of law or non-enforcement of regulation, identify potential areas of conflict, and diffuse them before they erupt.

Such a shift requires the creation of new governance regimes that protect community property rights (including the right to say no to extraction in the name of development). The struggles of communities in the extractive industry are about establishing accountability, of the state that is supposed to protect their citizenship rights, of market actors that extract wealth from their lands, and of civil society actors that represent the interests of the marginalized. Discourses of responsibility and corporate citizenship obscure the power of business in setting the CSR agenda, while notions of accountability demand a more explicit acknowledgment of the effects of asymmetrical power relations (Newell, 2005).

The normative basis of translocal governance can point the way to "polyphonic" forms of organization (Hazen, 1993), which implies the active presence of a diversity of voices and actors. Perhaps new hybrid organizational forms can emerge that integrate community leadership with corporate finance and technical staff in order to create organizations that are embedded in a system of local values. A translocal imagination would envisage organizations that are built on the basis of a nexus of relationships instead of a nexus of contracts, relationships that are informed by reciprocity, cooperation, and an enduring commitment to land and community welfare. These new organizational forms, where marginalized voices are listened to instead of being "receivers of consultation" could then be buttressed by a governance framework with regulatory features at the national level as well as "community-driven regulation" that promotes corporate and state accountability at local levels (O'Rourke, 2004).

There is a need for a more critical agenda for CSR and governance research and I point to three directions for future research. First, there is a need for empirical data that can illuminate both PCSR and translocal governance. Case studies of deliberative processes of top-down PCSR should be juxtaposed with ethnographies of anti-mining resistance movements. These narratives will yield valuable insights into the tensions, contradictions, and opportunities that arise from corporate activity in difficult regulatory situations and may show how "the respective strengths of deliberative and radical formulations of democracy may complement each other without demanding that they can be fused" (Edward & Willmott, 2008: 418). Second, there is a need to understand from a positive and normative perspective how corporations do business with repressive state regimes. If states cannot be trusted to mediate firm–community conflict fairly, where could firms and communities turn to for intercession or arbitration? Under what conditions should firms deal directly with communities that will be impacted? How should MNCs deal with the state and the community when both actors have legitimate claims to the land? The CSR literature has never engaged with these questions in any depth and there is a need for more research on this topic. Finally, the translocal governance framework has implications for theory development in corporate governance based on social impacts of corporate activity and the growing importance of multiple stakeholders (Tihanyi, Graffin, & George, 2014). Such a political model of corporate governance goes beyond prioritizing the preferences of investors and includes corporate provision of "political goods" such as human rights by giving voting rights to community groups negatively impacted by corporate activity (Whelan, 2012).

A final point: It is important to note that, in suggesting a translocal approach to the governance of PCSR, I am not privileging the local in an unproblematic way. Rather, the same reflexivity that is used to problematize CSR is required to investigate new relations of power that arise from a translocal approach. As Ballard and Banks (2003) point out, the notion of "community" is contested in terms of membership, inclusions, and exclusions, which can lead to inequalities and marginalization within communities. It would also be wise to heed Ezzamel and Reed's (2008) warning that potentially transformative governance mechanisms can have unintended consequences that can disadvantage groups they were originally meant to serve. More than 50 years ago the historian Laurence Veysey (1965: 305) wrote: "shared governance has always been a useful device whereby administrative leaders could sound out opinion, detect discontent so as to better cope with it, and further a posture of official solidarity by giving everyone parliamentary 'rights'." As we have seen, contemporary forms of CSR suffer from the same weakness. In this chapter, I have attempted to address this weakness by providing a more grounded approach with a clear normative goal: that governance is not only for the governors but should and can be shared between those who govern and those that are governed.

Questions

(1) At first sight, having corporations more actively engaged in public deliberation may seem like a step forward for CSR. What speaks against such involvement?
(2) How would you describe the role of power in the governance of CSR?
(3) If deliberative democracy does not serve the interest of marginalized stakeholders, what are the alternatives?
(4) Describe the key features of "translocal governance."

Notes

1 This chapter appeared first in *Human Relations*, Vol. 71(6), pp. 796–821. It is reprinted with permission.

2 The geographical scope of conflicts involving the extractive industries is remarkable. Countries include Angola, Argentina, Bangladesh, Brazil, Cambodia, Cameroon, Chile, China, Colombia, Costa Rica, Côte d'Ivoire, Democratic Republic of Congo, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Gabon, Ghana, Guatemala, Honduras, India, Indonesia, Jamaica, Kenya, Laos, Liberia, Madagascar, Malawi, Mali, Malaysia, Mexico, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Thailand, Tibet, Trinidad and Tobago, Tunisia, Turkey, Uganda, Uruguay, Venezuela, Vietnam, Zambia, Zimbabwe (EJOLT, 2015). And this is a partial list.

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12
GLOBAL GOVERNANCE
CSR and the Role of the UN Global Compact[1]

Christian Voegtlin and Nicola M. Pless

Introduction

Since its foundation in 2000, the United Nations Global Compact (UNGC) has witnessed an unprecedented growth (for a voluntary global governance agency). More than 10,000 participants from business and civil society form part of this network. Since its inception the discussion on the social and environmental responsibility of firms (CSR) has gained substantial momentum, with the UNGC playing an important role in putting CSR on the agenda, facilitating and fostering dialog, and establishing a consensus on global ethical standards for business via its ten general principles (see Table 12.1). However, there is also substantial critique of the UNGC, for instance with regard to free-riding and "bluewashing," meaning that membership of the UNGC is simply used to generate positive spill-over effects from the UN brand to bolster corporate image and deviate attention from a less responsible corporate reality. Against this backdrop we ask: What is the purpose of self-regulatory global governance initiatives such as the UNGC? What are their goals? How can we assess their effectiveness and legitimacy? These are pertinent questions that still challenge scholars in the field of business ethics and corporate social responsibility (see, e.g., Abbott & Snidal, 2010; Kobrin, 2009; Mena & Palazzo, 2012; Rasche, 2012; Vogel, 2008). Economic globalization transcends nation-state governance and thereby creates global governance gaps; these are deficits in global business regulation that offer corporations opportunities to exploit their workforce, the local community, or the environment. In response, global governance initiatives emerge as network structures of international organizations, civil society actors, and private business companies which try to regulate global business and compensate for market failure and the insufficient provision of public goods (Scherer, Baumann-Pauly, & Schneider, 2013).

Self-regulatory initiatives that address governance gaps on the global level have become one of the most important pillars to address negative business externalities by advocating global CSR standards for business firms (Abbott & Snidal, 2010; Waddock, 2008). However, the debate around how to best design initiatives for this aim is still ongoing, and includes questions about the best governance structure or compliance and incentive mechanisms that foster the implementation of CSR standards. The UN Global Compact is the most prominent self-regulatory global governance initiative and is often taken as an example to discuss the legitimacy and effectiveness of such design features (see, e.g., Kell & Levin, 2003; Post, 2013; Rasche, Waddock, & Mcintosh, 2013; Rasche & Kell, 2010; Williams, 2004). This debate involves those supportive of the UNGC in its current form and those more critical of its current effectiveness and legitimacy. The arguments of supporters and critics are best illustrated alongside two examples from the oil industry, namely BP

Table 12.1 The UN Global Compact principles

The UN Global Compact asks companies to embrace, support, and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment, and anti-corruption.
Human rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: Make sure that they are not complicit in human rights abuses.
Labor
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: The elimination of all forms of forced and compulsory labor;
Principle 5: The effective abolition of child labor; and
Principle 6: The elimination of discrimination in respect of employment and occupation.
Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: Undertake initiatives to promote greater environmental responsibility; and
Principle 9: Encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: UN Global Compact (2014d).

and Shell. Both companies were removed from the Dow Jones Sustainability Index (DJSI) in 2010. BP was removed due to the disaster in the Gulf of Mexico (Dow Jones, 2010) and Shell because of environmental deterioration in the Niger Delta (Reuter, 2011). BP was listed again in 2013—only three years after the disaster—as industry group leader by the DJSI (Dow Jones, 2013); while Shell is still excluded and a court in the Netherlands found that its subsidiary in Nigeria was responsible for its destructive operations in the Niger Delta.

Both companies are signatory members of the UN Global Compact and both have an active status. Being part of the UNGC requires upholding ten principles (see Table 12.1) and these include environmental protection—an obvious challenge for an extractive business. However, while Shell struggles to turn around a negative impact in Nigeria that has been occupying the media for decades, BP regained its legitimacy and a leading position in the DJSI in 2013. This raises some questions: Does the judicial decision against Shell mean that the UNGC has failed to implement its principles regarding member companies? Is this an indication that some companies join the UNGC without putting real effort into the implementation of its principles? Does this mean that BP has learned from its history? Is this partly attributable to the UNGC? In other words, to what extent and under what conditions can the UNGC function as a learning platform, as intended by Kofi Annan, the former UN Secretary-General and the UNGC's founder?

These two examples illustrate the discussion around the legitimacy and effectiveness of the UNGC. Critics argue that the UNGC remains ineffective as long as it cannot monitor the implementation of the ten principles and sanction non-compliance (Nolan, 2005; Sethi, 2003; Therien & Pouliot, 2006). In practice, companies can decouple their CSR performance from what they promise in annual "communication on progress" reports (COPs) that must be submitted to the UNGC (Behnam & MacLean, 2011). Critics further argue that socially and ecologically irresponsible companies may be inclined to join the UNGC because of its low entry barriers, thereby profiting from the moral legitimacy of the UN without actually upholding the ten principles. In this sense, companies use the UNGC to "bluewash" their poor CSR performance.

Those supporting the UNGC regard the initiative as an opportunity for dialog between international organizations, civil society groups, and private business with the aim of achieving a broad consensus on global ethical standards (Kell & Levin, 2003; Rasche, 2009; Williams, 2004). They further argue that the UNGC has to be seen as a learning platform for corporations to improve their CSR engagement (Palazzo & Scherer, 2010; Ruggie, 2001). The minimal requirements for becoming a participant enable corporations to engage with the topic of CSR without immediately introducing a comprehensive and costly program. The mere exposure of these corporations to the ten UNGC principles and the need to publicly display information about their social and environmental performance increases transparency and public pressure. This in turn can trigger learning processes within the organization. For the UNGC to be an effective platform for dialog and learning, it needs low entry barriers to encourage companies to join. The steepest learning curves occur among companies that do less well in terms of CSR.

The contribution of this chapter is twofold. Firstly, we summarize the debate about the UNGC in more detail and present a systematic overview of the arguments offered by supporters and critics as published in the *UN Global Compact Symposium* (Berliner & Prakash, 2014; Haack & Scherer, 2014; Rasche & Waddock, 2014; Sethi & Schepers 2014; Williams 2014). The *UN Global Compact Symposium* is a special section in the *Journal of Business Ethics* (volume 122, issue 2) dedicated to discussing the performance, intended outcomes, and purpose of the UNGC. The articles provide a rich opportunity to spark debate and future research on the Global Compact and voluntary global governance initiatives in general. Secondly, we evaluate the arguments in favor and against the UNGC and analyze the standpoints of the authors in light of three theoretical perspectives (economic, socio-historical, and normative). We derive future research directions that move the debate forward. The chapter is structured around this intended contribution.

The UN Global Compact

The UN Global Compact is the largest voluntary global governance initiative that addresses the social and ecological responsibilities of multinational corporations (MNCs). The UNGC was founded in 2000, after a speech by the then UN Secretary-General, Kofi Annan, at the World Economic Forum in 1999. The intention of Kofi Annan was to start a dialog with business and move the UN towards a more proactive role that regards business as part of the solution (Kell, 2013; Rasche, 2009). It is a voluntary initiative for organizations who are willing to support broader UN goals, including the Millennium Development Goals, and to bind their strategic and operative business activities to ten principles. The ten principles cover the areas of human rights, labor, environment, and the fight against corruption (the principles are displayed in Table 12.1). The principles also form the basis of the annual reports by signatory members on their achievements. Since the founding of the UNGC in 2000, the number of participants has continuously risen. Some 7,500 firms and 3,500 civil society organizations were participating in 2013 (UN Global Compact, 2013).

Companies who want to join the UNGC must write a letter of intent signed by the CEO to the UN Secretary-General indicating their willingness to commit to the ten principles (UN Global Compact, 2014b). After they have become a signatory member, companies must report on their progress once a year by publishing a "communication on progress" (COP) report. The report is displayed on the UNGC homepage. It should contain, first, a statement of continued support by the CEO; secondly, a description of what has been achieved in the four areas of human rights, labor, environment, and anti-corruption; and thirdly, a measurement of outcomes (UN Global Compact, 2014a). There are no standardized reporting requirements and no in-depth reviews of the content by the UN. In 2011, the UNGC introduced a "differentiation program." This program differentiates the engagement of participants with the ten principles by sorting them into one of three categories (learner, active, or advanced) according to their performance. Participants that do not hand in a COP in two subsequent years are listed as non-communicative after the first year and delisted from the UNGC after the second year.

The UNGC offers opportunities for learning and dialog by engaging participants primarily through three mechanisms: dialog events, learning events, and partnership projects (Rasche, 2009). At the global level, dialog events include the UNGC Leaders Summit or Policy Dialogues. The International Learning Forum Meeting represents an exemplary learning event and business firms engage with civil society actors in partnership projects dedicated to the implementation or diffusion of the ten principles (Rasche, 2009). These mechanisms of engagement are extended to the regional level through local networks that facilitate exchange between the UNGC participants.

The UNGC tries to achieve its goal of spreading the UN mission and the implementation of the ten principles by encouraging horizontal growth in numbers of signatory organizations, and vertical growth by establishing local networks and by encouraging dialog on specific policy areas (e.g. focusing on activity domains such as academic institutions and responsibility domains such as the CEO water mandate).

The Relevance of the UNGC for the Development of CSR

According to Post (2013: 53), "The United Nations Global Compact (UNGC) is an important milestone in the history of global corporate social responsibility (CSR)." Questions about the social and environmental responsibility of corporations, summarized under the umbrella term of corporate social responsibility (CSR) have generated considerable attention in public discussions, as well as in business reality and scholarly debates (Aguinis & Glavas, 2012; Crane, McWilliams, Matten, Moon, & Siegel, 2008; Scherer & Palazzo, 2011). The expectations of the institutional environment regarding the scope of responsibility of multinational corporations have changed greatly in recent years. MNCs are for example held responsible for the human rights abuses of their suppliers or for contributing to global warming. A new institutional infrastructure has emerged around the topic of CSR, ranging from global governance initiatives over self-regulatory industry standards to monitoring and consultancy firms that specialize in social and ecological sustainability issues (Vogel, 2008; Waddock, 2008). Corporations adapt to these changing expectations by taking part in the emerging CSR infrastructure and assuming proactive political roles in global self-regulation (Scherer & Palazzo, 2011).

Since its establishment in 2000, the UNGC has engaged businesses in CSR. It has succeeded in developing a broad normative consensus on global ethical values and CSR standards through its ten general principles; it is no longer questioned that companies should be responsible for upholding these principles. Further, the UNGC has become a model for global governance initiatives, even if it is viewed critically by some, and has contributed to making CSR visible globally. It has become the largest global self-regulatory initiative. It has established local networks to account for regional differences and it offers spaces for dialog and exchange among international organizations, governments, business, and civil society actors, both globally and locally. Finally, the initiative continues to spark controversy and debate, which keeps the discussion about the scope of business responsibility alive.

The UNGC has not only become the most visible global governance initiative that promotes corporate social responsibility; it is also an initiative that is widely researched. The UNGC has summarized most of the scholarly literature that focuses on the initiative. The articles listed on its homepage show that plenty of attention has already been directed towards the UNGC (UN Global Compact, 2014c). Books have appeared that focus on its relevance (Fussler, Cramer, & S. van der Vegt, 2004; McIntosh, Waddock, & Kell, 2008; Rasche & Kell, 2010) and Rasche et al. (2013) have dedicated a special issue to the assessment of the history and future of the UNGC. Scholars have analyzed the UNGC from a *historical* developmental perspective, uncovering the factors, opportunities, and constraints that led to the establishment of the UNGC in its current form

(Kell, 2005; Post, 2013); from a *learning perspective*, arguing that the UNGC can serve as a space for deliberation and dialog to foster learning among participants (Kell & Levin, 2003; Palazzo & Scherer, 2010; Ruggie, 2001); from a *global governance perspective* (Berliner & Prakash, 2012; Rasche & Gilbert, 2012), or as an *illustration for multi-stakeholder networks* (Gilbert & Behnam, 2013; Rasche, 2012). Recently, scholars have begun to analyze the impact of the UNGC empirically, focusing on the relationship between membership in the UNGC and CSR implementation (Baumann-Pauly & Scherer, 2013; Cetindamar, 2007; Schembera, 2012); on characteristics that explain participation (Berliner & Prakash, 2012); the delisting of firms (Knudsen, 2011); or the global spread of the UNGC (Bremer, 2008). Finally, critical views on the UNGC have addressed its limitations and pointed to possible improvements (Nolan, 2005; Sethi, 2003; Therien & Pouliot, 2006; Williams, 2004).

However, the main body of research on the UNGC remains theoretical, discussing predominantly the purpose, effectiveness, and legitimacy of the UNGC from different perspectives and theoretical lenses. The contributions to the *UN Global Compact Symposium* combine these arguments in an extraordinary way. The overview of the contributions in the following part of the chapter highlights the main arguments about the purpose, achievements, and critiques of the UNGC.

Different Perspectives on the UNGC: A Summary of Arguments Presented in the *UN Global Compact Symposium*

We present below a summary of the arguments of the articles in the symposium on the UNGC. The contributions exemplify the debate around the UNGC and together represent current scholarly thinking on self-regulatory global governance initiatives. The first article by Sethi and Schepers presents the reason for the emergence of this symposium. The provocative arguments of the authors triggered immediate reactions from other scholars that finally resulted in four additional contributions. The authors of the remaining articles connect with the arguments of the Sethi and Schepers article either to agree with or to refute the critique through different perspectives and theoretical lenses.

Sethi and Schepers: United Nations Global Compact: The Promise–Performance Gap

Sethi and Schepers (2014) analyze the effectiveness of the UN Global Compact in achieving its aims, that is, the implementation of the ten principles and its impact on the CSR efforts of the signatory companies. Their analysis produces a critical evaluation of the initiative and outlook:

> A careful analysis of the UN Global Compact's activities to date leads these authors to conclude that UNGC is unlikely to be an effective vehicle of change in corporate social performance amongst its signatory companies in particular and private business organizations in general. UNGC's utter failure to demonstrate any progress—beyond counting increase in the number of signatory companies—is embedded in its operating model is unlikely to change. This model is characterized by insular corporate governance, poor adherence to its own proclaimed standards, inadequate overall financing—and more notably from the corporate sector—its intended beneficiary.
>
> *(Sethi & Schepers, 2014: 15)*

The authors' provocative evaluation and arguments offer many points of friction for a critical assessment of the effectiveness, mission, and goals of the UNGC. The article provides an ideal starting point for an evaluation of the UNGC as an exemplary global governance initiative and the world's largest voluntary endeavor to encourage CSR.

Their article contains two parts. In the first part, the authors provide a framework for assessing the effectiveness of voluntary self-regulation initiatives. They devise a two-by-two matrix alongside the dimensions of "cohesiveness among sponsoring group members and commitment to the voluntary initiative" and "specificity and materiality of the voluntary code provisions and strength of governance and implantation structures." The first dimension relates the success of an initiative to the cohesiveness of the participants' purpose in fulfilling the requirements of the initiative. The authors argue that, the more participants an initiative has, the less cohesive these participants become in their purpose to fulfill the mission and the less successful the initiative becomes. The second dimension relates to rules and design features of the initiative. The more specific an initiative is in its code provisions and the more accountable participants can be made, the greater the success rate. However, specificity and accountability decrease with an increasing heterogeneity of participants. The framework explains critical issues of adverse selection and free-riding that may trouble global governance initiatives: the less cohesive the participants and the less specified the codes of voluntary initiatives, the more likely that there will be problems of adverse selection and free-riding.

Sethi and Schepers use the framework to outline their primary points of critique of the UNGC. The UNGC is placed in sector C of their framework, indicating low cohesiveness/commitment and low specificity/accountability. They argue that the low accountability and transparency of the standard creates an inability to generate a broad basis of financial support and invites companies who are particularly weak in CSR performance to join—and so creates incentives for an adverse selection of participants. The high number of signatories creates low group cohesiveness and, subsequently, fewer incentives to commit to the ten principles. Overall, they conclude that the UNGC does not offer much to counter the problems of adverse selection and free-riding.

The ineffectiveness of achieving its mission is mainly attributed to the historic development of the UNGC. In the beginning, there was only nominal involvement of UN agencies and NGOs, leaving the UNGC dominated by public sector interests. According to the authors, this led to an insular governance structure that was unable to guarantee compliance with the UNGC mission. Furthermore, the absence of a broad basis of financial support by signatory companies indicated their missing commitment to substantial change. In their article, they offer evidence for their arguments. The authors came to the conclusion that the only progress the UNGC had achieved over the last ten years was growth in numbers and diversification (diversification through new activity domains, e.g. for academic institutions, or specific responsibility domains, such as the CEO water mandate). As long as the UNGC focuses on growth in quantity of membership instead of quality of the implementation of the ten principles, the authors see little future for the initiative or potential to bridge the "promise–performance gap."

Rasche and Waddock: Global Sustainability Governance and the UN Global Compact: A Rejoinder to Critics

Rasche and Waddock (2014) engage directly with the arguments of Sethi and Schepers. They comment on Sethi and Schepers' framework for assessing voluntary self-reporting initiatives, take a closer look at the historic development of the UNGC, and advance their own arguments with regard to the challenges and achievements of the UNGC.

In their article, Rasche and Waddock center their first critique on Sethi and Schepers' framework. They argue that the dimension titled "specificity and materiality of the voluntary code provisions and strength of governance and implantation structures" contains two categories that need not be interrelated as implied by the framework. Voluntary self-regulatory initiatives can be very specific in their code provisions, while at the same time having a governance structure with only limited strength. Further, they assert that the framework is based on implicit value assumptions about the purpose of voluntary initiatives. These value assumptions already favor compliance-based initiatives over developmental initiatives. As such, the UNGC becomes by definition a flawed initiative.

The authors go on to engage with the arguments of Sethi and Schepers in that they refuse the critique that the UNGC lacks support from UN agencies and NGOs and provide counterarguments for their position. They argue that the historic development of the UN's approach to engage business in broader CSR issues developed from a reactive strategy of controlling business to a proactive involvement of business in the problem-solving process. The UNGC was created to address widening gaps in global governance through mutually beneficial collaboration between the UN, civil society, and business. The authors acknowledge problems regarding the progress of the UNGC; however, they make a positive overall assessment of the compact's achievements.

Rasche and Waddock characterize the debate about the effectiveness of the UNGC as a debate about the purpose of global governance initiatives. They identify two generic perspectives that scholars apply to evaluate the effectiveness of the UNGC: scholars either assess the UNGC from the demands of regulatory initiatives, calling for stricter compliance and monitoring; or from the demands of principle-based initiatives, emphasizing the consensus-building function. The authors go on to argue that this dichotomy overlooks the complementary nature of these two types of initiatives. It needs both types to achieve a global spread and an implementation of CSR standards. The UNGC as a principle-based initiative aims to build a global consensus on universal principles and offers a framework for developing and implementing these principles in organizations. As such it provides orientation for new participants and a platform for partnership projects between active participants.

Rasche and Waddock agree with Sethi and Schepers that improving the quality of COPs to ensure transparency, implementation, and learning remains a challenge for the UNGC. However, they demand a balance of quantitative (increase in number of participants) and qualitative (improved COPs) development if the UNGC wants to fulfill its purpose. They argue for keeping entry barriers to the initiative low. Higher entry barriers would only attract companies already performing well in terms of CSR and these are likely to be from countries with high institutional standards on CSR. However, such a development would not support the original purpose of the UNGC, that is, to offer a learning platform for development. Finally, the authors identify the integration and alignment of the growing network structure of the UNGC as an area for improvement, that is, the spread to local networks, work groups, and initiatives, and the differentiation into policy areas.

Rasche and Waddock welcome the critical view of Sethi and Schepers as sparking the debate and provide with their reply a counterpoint that helps us gain an overview of the purpose, effectiveness, and limitations of the UNGC.

Berliner and Prakash: The United Nations Global Compact: An Institutionalist Perspective

Berliner and Prakash (2014) provide a rational-choice institutionalist perspective to explain the CSR engagement of organizations. They apply this perspective to discuss the effectiveness of the UNGC and engage with the arguments of Sethi and Schepers. The authors consider CSR a *club good* and CSR initiatives such as the UNGC as clubs that provide participants with the benefits of such goods—such as positive reputational effects. Club goods are "goods that are neither fully private (rivalrous and excludable) nor fully public (non-rivalrous and non-excludable)" (Berliner & Prakash, 2014: 219). CSR goods are "traded" on the "market for virtue" (Vogel, 2005). Critical stakeholders create a demand for CSR and firms respond by supplying CSR. The UNGC offers CSR club goods as it grants membership that makes access to these goods excludable, while at the same time the goods it offers are non-rivalrous and the reputational effects can accrue to all participants without excluding others from the benefits.

Berliner and Prakash view clubs such as the UNGC as institutional mechanisms that can help correct market failures that occur when stakeholders demanding CSR cannot be sure about the quality of the product; meaning there is an information asymmetry between CSR engagement by firms and stakeholder assessment of the quality and intensity of this engagement. Global governance initiatives such as the UNGC help to reduce this asymmetry if they can credibly signal that participants comply with the requirements of the initiative. To be credible in this regard, such initiatives need to control the CSR engagement of participants and sanction non-compliance with the requirements of the initiative. In their article, the authors therefore center their main argument for assessing the effectiveness of the global governance initiative around the institutional rules provided to avoid agency problems of hidden information, action, or intention. Companies that become members of the UNGC can hide information about their compliance with UNGC rules. These participants benefit from the reputation of the initiative, while at the same time shirking on their engagement with the UNGC principles. Or as the authors put it "some strategic participants might seek to exploit these information asymmetries and free ride" (Berliner & Prakash, 2014: 221). If the UNGC cannot control shirking of participants, this will ultimately undermine the credibility of the initiative.

According to the authors, the UNGC started to address the problem of potential free-riding and shirking by participants by demanding COP reports from participants. While they regard the implementation of the COPs positively, they doubt their value as a tool for information-based regulation due to the non-standard reporting requirements. Berliner and Prakash do not agree with Sethi and Schepers on their point that adverse selection (i.e. companies with a low CSR engagement joining the UNGC) is problematic if the UNGC can enforce compliance. It is even beneficial if the UNGC can foster learning among participants and thus improve the CSR performance of these companies. However, the problem in their view is that the UNGC's current design features do not allow for the necessary control and sanctions to enforce compliance. They also argue that the UNGC loses credibility due to NGO criticism. Finally, they provide results from empirical studies they have conducted. These studies show no conclusive results for the argument that the UNGC fosters learning among its participants. The authors even find that UNGC members "make more low-cost commitments but perform even worse than non-members on the environmental and human rights dimensions which are most difficult and costly to improve" (Berliner & Prakash 2014: 228).

In line with Sethi and Schepers, they come to the conclusion that the UNGC in its current form does not provide enough mechanisms to enforce compliance and so avoid shirking and free-riding. In addition, the non-standardized approach to improve transparency by introducing COPs is insufficient to reduce information asymmetries between firms and stakeholders. Nevertheless, they regard the UNGC as a worthwhile approach to engage firms in CSR and state that the initiative has the potential to improve.

Haack and Scherer: Why Sparing the Rod Does Not Spoil the Child: A Critique of the "Strict Father" Model in Transnational Governance

Drawing on research in cognitive linguistics, Haack and Scherer (2014) theorize that evaluators of transnational governance metaphorically think and speak of the UNGC as a family, with the UNGC leadership corresponding to the parents of the family, and participating business firms corresponding to the children of the family. Evaluators are considered those actors who have a personal interest in transnational governance schemes and use their knowledge to actively evaluate those institutions, comprising, for example, scholars, civil society actors, or government representatives. Understanding by the evaluators of how a family is best organized sets different ideals or benchmarks against which actual business conduct is assessed. Specifically, Haack and Scherer describe two ideal models of "educating" business participants of the UNGC. Critics of the UNGC hold a "strict father" model of transnational governance, assuming that the proper education of inherently "bad" business firms necessitates discipline and punishment. Haack and Scherer subsume the view of Sethi and Schepers hereunder. In contrast, UNGC advocates hold a "nurturant parent" model of transnational governance that prioritizes empathy, social interaction, and motivation to provide the best possible support in the moral development of "good" business firms.

Using this metaphor as a lens for analyzing the legitimacy and effectiveness of the UNGC, Haack and Scherer argue that to be successful the UNGC requires nurturant parents, rather than strict fathers. They reason that proponents of the strict father model can become intuitive prosecutors in that the perspective these scholars adopt when evaluating the UNGC can lead them to become emotionally aroused and biased, paying attention selectively to confirming evidence. Strict fathers regard the UNGC as insufficient with regard to compliance and monitoring, resulting in unwelcome behavior by participants (e.g., adverse selection, moral hazard, or free-riding). As a consequence, moral outrage in response to such governance failure and the observed non-punishment of wrongdoing may elicit a prosecutorial mindset in evaluators who hold the "strict father" ideal and this mindset may distort the deliberate and systematic weighing of evidence.

The authors further argue that two social mechanisms support the point that following the behavioral prescriptions of the "nurturant parent" model will encourage the institutionalization of UNGC principles. The first mechanism is called "moral entrapment." Business firms that subscribe to the UNGC and publicly pledge to uphold its principles become morally entrapped by their promises. That is, by making public statements about their CSR endeavors and by knowing that they can be held accountable for these statements they "talk" themselves into their promises. However, this is not an immediate process and needs time. In an empirical study, they cite to illustrate their argument (Haack, Schoeneborn, & Wickert, 2012) companies from the finance sector who subscribed to the Equator Principles show such "creeping commitment" in their CSR engagement. Haack and Scherer argue that, for such a mechanism to be successful, it needs low entry barriers (to give poor-performing companies the chance to talk themselves into their promises) and a sufficient number of participant firms (to increase peer pressure and public scrutiny).

The second mechanism is "differentiation," which refers to the distinction transnational governance schemes draw between the CSR performances of their participants. The distinction between leaders and laggards helps to increase transparency and public scrutiny from outside evaluators. This in turn can increase the accountability perceived by participants and motivate poor-performing companies to improve their CSR efforts. The authors propose that "differentiation, combined with increasing transparency, has the potential to fuel the self-reinforcing dynamics of *moral entrapment* and *creeping commitment*" (Haack & Scherer, 2014: 244). The UNGC offers such a differentiation program, including the possibility of delisting non-communicating participants. Overall, Haack and Scherer argue that the UNGC needs to keep its low entry barriers and should continue its growth in numbers for the described social mechanisms to work effectively.

Williams: The United Nations Global Compact: What Did it Promise?

In his article, Williams (2014) argues that the UNGC can be regarded as a response to the challenges of globalization. In a globalizing world, the capacity of nation-states to guarantee the necessary regulatory framework for global business is eroding. As a consequence, there are global governance gaps emerging that allow MNCs to exploit business opportunities at the cost of the surrounding society or environment. Williams describes that, in response to these emerging governance gaps, in the late 1990s the relevant actors were searching for a consensus on new forms of governance that could provide guidelines for global ethical standards. One answer to this search was the foundation of the UNGC, which provides with its ten principles a broad catalog of relevant global ethical norms everybody can accept.

The author offers a historical perspective and explains the emergence of global governance initiatives in recent years, culminating in the UNGC. He positions the UNGC as a principle-based initiative in contrast to other forms (such as certification initiatives, reporting initiatives, or process-based initiatives). In order to understand the controversial debate around a principle-based initiative such as the UNGC it is important to understand its purpose, vision, and mission, which the author cites as:

> The *purpose* of the UNGC is to create a world where all could lead a humane life. The *vision* is to give a human face to the global market. The *mission*, the way chosen to realize the vision, is to "facilitate a dialogue."
>
> *(Williams, 2014: 249)*

Mechanisms of the UNGC to advance its mission are local networks, partnership projects, workshop opportunities, and dialog possibilities that foster the "socializing" of participants and help shape the CSR business agenda.

Williams argues that the critique of the UNGC centers mainly around its mission, that is, the means used to achieve the vision of consensus on global ethical standards for business firms. He identifies three critical viewpoints, which he then refutes: a first group of critics, who demand that economic globalization should be stopped altogether and regard the UNGC as implicitly facilitating this economic development; a second group who fear that business is becoming too influential within the UNGC; and a third group of critics who argue that insufficient monitoring and compliance requirements allow firms to decouple their promises from their CSR performance and use the UNGC to "bluewash" their reputations. Williams answers the first group of critics by arguing that globalization can be made sustainable if there is an underlying universal values base—and that the UNGC's mission is to create such a base. As global regulation through hard law is not yet possible, soft law regulations are seen as the best alternative. The second group critiques the dominance of business in the UNGC. Williams argues that this needs to be evaluated against the historical background of the UN and its relationship to business. The UNGC is the first approach to include business in the process of problem solving on a global level and assign firms responsibility for internalizing negative business externalities. The third group of critics demands stricter monitoring—for instance through the certification or auditing of COP reports. However, according to the author, this group misses the point that the UNGC was "not designed as a code of conduct," but rather as a developmental platform that tries to work towards a consensus on global ethical norms. In his line of argumentation, Williams also addresses the comments of Sethi and Schepers, as he suggests that they are drawing on arguments from the second and third group of critics.

In the final part of the article, he engages with the critique of Sethi and Schepers in more detail. He argues that the progress of the UNGC cannot be measured by how far the UNGC can assure compliance, but in how far it achieves its mission of introducing globally shared moral norms. Further, while Sethi and Schepers find no reason to believe that the UNGC improves the CSR performance of companies, Williams provides support for learning and developing CSR by citing anecdotal evidence. The author closes his argument by proposing that the UNGC is still the best initiative for providing a global consensus on moral norms.

Discussion: Theoretical Perspectives on the UNGC and Future Research Directions

In this last part of the chapter, we want to systematize the debate around the UNGC by providing a categorization of the different perspectives of supporters and critics, their underlying theories, their assumptions about the purpose of the UNGC, and the options they propose for its improvement. The categorization is depicted in Table 12.2.

Table 12.2 Theoretical perspectives on the UN Global Compact

Perspective	*Theories*	*Main focus*	*Purpose and assumptions about the UNGC*	*Opportunities for development*
Economic	Economic theory of the firm Principal agency theory	Effectiveness	The UNGC is an institution to enhance/regulate participants' CSR engagement and signal CSR efforts of firms to markets. Design should guarantee transparency and compliance. Insufficient compliance and monitoring systems create problems of adverse selection, moral hazard, free-riding, and shirking.	The UNGC could introduce stricter compliance and monitoring systems and increase transparency of signatories' CSR engagement.
Socio-historical	Learning and developmental theories Institutional theories	Legitimacy and effectiveness	The UNGC offers a platform for learning and development in CSR. The governance structure of UNGC is a historical development of the relationship between the UN and business firms. Low entry barriers and low monitoring enable learning by firms with insufficient CSR engagement.	The UNGC could enhance the effectiveness of COP reporting to guarantee transparency that allows tracking of learning and development of participants over time.
Normative	Ethical theories (universal ethics) Political theories (deliberative democracy)	Legitimacy	The goal of the UNGC is to achieve a consensus on universal moral norms. The ten principles are an important step towards such globally accepted norms. The UNGC is an initiative that offers possibilities for deliberative political processes between international organizations, national governments, and private and public actors. It provides a platform for dialog and partnership projects.	The UNGC could create further possibilities for exchange and dialog and should try to better integrate the different networks and programs.

The discussion about the promise and performance of the UNGC can be separated into three perspectives: *economic*, *socio-historical*, and *normative*. We propose that these perspectives can serve as generic distinctions with direct relevance for the evaluation of the effectiveness and legitimacy of the UNGC. The primary point of friction in the debate about the UNGC is the purpose of the UNGC, which depends on the perspective scholars use when making an evaluation. Once the perspective is chosen, it drives towards a certain purpose, which, subsequently, implies certain assumptions and design features to ensure this purpose can be achieved. As such, the categorization is not only limited to the UNGC, but can be a heuristic to analyze the debate around global governance initiatives in general.

The *economic perspective* is based on the economic theory of the firm and its associated theories, for example principal–agent theory (Jensen, 2002; Jensen & Meckling, 1976). The theory assumes a strict separation of the economic sphere and the political sphere. The main purpose of economic actors is to make profits, while political institutions should provide the regulatory environment to prevent negative externalities (Scherer & Palazzo, 2011). From this viewpoint, global governance initiatives can serve as alternative regulatory mechanisms at the global level, where the influence of the political institutions of the nation-state are limited. Thus, the main purpose of global governance initiatives such as the UNGC is to provide institutions and corporations with support and guidance that help them avoid negative business externalities globally—or in other words, to compensate for global market failure and signal to the market the CSR efforts of member companies (Berliner & Prakash, 2014). As such, the primary criteria for evaluating such initiatives are the effectiveness of the initiative in securing the CSR engagement of its participants and compliance with its rules. Therefore, scholars adopting this perspective demand that initiatives such as the UNGC need to provide structures and mechanisms to avoid principal–agent problems such as shirking, adverse selection, moral hazard, and free-riding by participants (Berliner & Prakash, 2014; Sethi & Schepers, 2014). These mechanisms include the monitoring of participants and the sanctioning of non-compliance. Scholars who adopt this theoretical perspective to evaluate the UNGC often come to the conclusion that the UNGC offers insufficient control and monitoring systems to avoid principal–agent problems and ensure the transparency of signatories' CSR engagement. It is in these areas that scholars see room for improvement.

The *socio-historical perspective* draws on sociological, historical, or institutional theories to explain the existence and development of global governance initiatives (Abbott & Snidal, 2010; Matten & Moon, 2008). Scholars consider the circumstances of the establishment and historical development as crucial for the evaluation of an initiative (Kell, 2005; Rasche et al., 2013). They examine how far its governance structure and vision are shaped by institutional pressures and historic events. Thus, scholars regard the purpose of the UNGC as being contingent on the historical development of the UN and its relationship with business. The historical conditions suggest that the UNGC was the first approach by the UN to move the relationship from confrontation to cooperation and to garner legitimacy for global CSR principles (Williams, 2004). The establishment of global CSR is considered as a process of development that needs time and prominent support (in this case of the UN). The legitimacy and effectiveness of the UNGC are evaluated against this historically evolved purpose; namely, to provide a shared base of global CSR norms and foster learning and development among member companies. Proponents of this perspective therefore often argue that low entry barriers and little monitoring are necessary to attract companies with low CSR standards in the first place and enable learning among those companies (Haack & Scherer, 2014; Rasche & Waddock, 2014; Williams, 2014). Scholars adopting a socio-historical perspective acknowledge that the UNGC needs to improve the transparency of CSR reporting by participants in that it tries to enhance the effectiveness of the COP reporting. This in turn would help to assess learning and development of participants and increase the perceived legitimacy of the initiative among private and public actors.

The *normative perspective* draws on ethical or political theories to envision an ideal for global governance and highlight the role of values and norms as an important fundament for a global CSR agenda (Garriga & Melé, 2004; Scherer & Palazzo, 2007). It is part of the normative debate to determine and justify the specific values and norms of socially responsible business by drawing on ethical theories. Scholars thereby evaluate the legitimacy of the goals, processes, and outcomes of global governance initiatives. For instance, the UNGC is often connected to the purpose of achieving a consensus on universal moral norms (Williams, 2004). The ten principles of the UNGC are regarded as an important step towards such globally accepted norms. How the purpose is achieved (e.g. the decision-making processes or the involvement of participants in global governance initiatives) is assessed by drawing on political theories—such as the theory of deliberative democracy (Bohmann & Rehg, 1997; Goodin, 2008). Deliberative democracy demands processes in which those contributing to global problems and those affected by the same problems can discuss their viewpoints and negotiate their demands. The UNGC can offer such a platform for deliberative processes in that it encourages economic, political, and societal actors to negotiate an understanding of social responsibility by business firms (Williams, 2014). This applies to the global level, its local networks, and to its smaller partnership projects. It is problematic in this regard that the UNGC platform is not used to the extent that would be needed to facilitate a global dialog on the norms and values of socially responsible business conduct. Thus, scholars adopting a normative standpoint suggest that the UNGC should create further possibilities for exchange and dialog among participants and foster the integration of the different programs and networks.

The overview of the three perspectives shows that, depending on the theoretical lens scholars and practitioners adopt, different answers appear for the development of global governance in general and the UNGC in particular.

Future Research Directions

Summarizing the debate, we derive four general research directions from the literature review and three theoretical perspectives on the UNGC that merit further scholarly attention. Firstly, future research could more clearly identify processes and influence mechanisms that explain how the UNGC impacts on participants' CSR engagement, be it through learning mechanisms, contagious processes, or compliance arrangements. Secondly, more empirical research is needed to assess the legitimacy and effectiveness of the UNGC. Thirdly, research on the effect of local networks and regional development merits further attention. Finally, we see a promising line of research in studying the role of responsible business leaders (Maak & Pless, 2006, 2009; Voegtlin, 2011) as global citizens and catalysts for change in fostering dialog, learning, and development among UNGC participants. The four research directions and exemplary topics are displayed in Table 12.3.

Firstly, one of the main areas for future research would be investigating in more detail how the processes and influence mechanisms of the UNGC impact member firms: how do firms really engage with the UNGC principles, and how and when does learning occur? This includes research that analyzes the effect of different mechanisms, for instance the impact of the new differentiation program on participant transparency efforts and CSR engagement (which is currently either critiqued as an insufficient monitoring tool or praised for enhancing transparency). In addition, it would be interesting to know how learning and CSR engagement diffuses among member companies and across different institutional levels (e.g. from the UN to industries, companies, and individuals).

Secondly, while there is a broad scholarly literature evaluating the UNGC, most of the discussion around the effectiveness and legitimacy of the UNGC remains theoretical. However, if we want to know whether the UNGC can foster learning and development of CSR (which is one of the cornerstone arguments of UNGC supporters) we need to track CSR changes by member companies over time. Empirical support for the UNGC's performance would help solve many issues currently fueling this heated debate. However, as it is difficult to discern the influence of

Table 12.3 Future research directions

Future research on the UNGC	*Topics*
Identification of processes and influence mechanisms	Which UNGC processes facilitate learning and help to secure compliance? How do these processes work in detail? Are there psychological mechanisms at work that enable learning and compliance? Level-of-analysis issues: How can values and principles cascade down from the global level? Are there contagious processes that help spread learning and the development of CSR among industries, firms, or individuals?
Empirical research on legitimacy and effectiveness	Can empirical research provide support for learning and development of UNGC participants' CSR engagement? What is the perception of the UNGC's legitimacy and effectiveness over time and by different evaluators/stakeholders? Does the publishing of COPs contribute to more transparency and credibility? What is the impact of UNGC membership on firms' reputation? What is the impact of the differentiation program on firms' CSR engagement?
Research on local networks and regional development	How can global and local networks be better integrated? How can the different programs of the UNGC communicate with each other? How do the UNGC values impact local contexts? What are CSR developments in different countries? Are there specific institutional or cultural characteristics that foster participation, learning, and development, or delisting of firms?
Research at the interface of the UNGC and responsible leadership	What role could responsible business leaders play in enabling dialog and learning among UNGC corporate members? What are the qualities needed to successfully exercise influence and sustainable positive impact among corporate members? What are factors that enable or hinder leaders to successfully implement responsible practice (in line with UN principles) within their organizations?

UNGC membership on organizational-level CSR, it is important for researchers to consider issues of causality when conducting empirical studies and to make certain that it is the influence of UNGC that fosters CSR learning and not vice versa (that companies already performing well in CSR are more inclined to join the UNGC). There are different designs for empirical studies that enable better causal attribution in field research that can be applied when studying the UNGC (see, e.g., Antonakis, Bendahan, Jacquart, & Lalive, 2010).

Thirdly, especially promising would be research that investigates the local context—as such research should be better able to analyze the detailed mechanisms of UNGC influence. We suggest two research directions within this area: one being research on contingencies affecting UNGC performance (What are the cultural differences regarding learning and development, or the effects of the institutional infrastructures in different countries on substantive adoption of UNGC goals?); and the other relating to the impact of local networks and partnership projects (What can we learn from successful partnership projects? How can the different programs and networks be better integrated?).

Fourthly, we propose that research on the interface of the UNGC and responsible leadership merits future research. We see additional potential for development in emphasizing individual companies participating in the UNGC and individual managers assuming leading roles in UNGC dialogs. Research could investigate the impact of responsible industry leaders as potential catalysts for dialog and learning, that is, analyze whether companies doing less well in CSR or companies that are only starting to engage with CSR learn from best practice in their industry—and if so, how such learning could be facilitated. Responsible leadership can further be associated with individuals, such as the responsible CEO of a company who promotes a vision for sustainable change. Research could investigate if dialog and learning can be facilitated by responsible leaders who are regarded as ethical role models, and investigate the qualities, contingency factors, and influence of responsible leadership.

Conclusion

The UNGC has become the largest voluntary global governance initiative that includes business firms. It is on its way to achieving a global consensus for the ten principles; it provides a platform for learning and development and enables the political engagement of corporations in deliberative processes. The broad literature discussion around the UNGC underscores its impact on the CSR debate. However, there are still limitations with regard to its design features.

The aim of this chapter was to analyze the limitations and prospects of the UNGC and evaluate the debate led by supporters and critics. To achieve this aim, we firstly provided an overview of the UNGC development and its relevance for the emerging global CSR infrastructure. We then briefly laid out its historical development and primary mechanisms of engagement with businesses. In a second step, we summarized the symposium contributions that are representative of the debate around the promise and performance of the UNGC. The overview of the arguments forwarded by these contributors highlighted the promises, achievements, and limitations of the UNGC. Finally, we identified three theoretical perspectives that drive the assumed purpose and evaluation of the effectiveness and legitimacy of the UNGC: *economic*, *socio-historical*, and *normative*. We argue that it is especially due to adopting a certain theoretical perspective that evaluators of the UNGC either support or critique its current performance. Overall, these assessments of the UNGC led us to conclude that there is considerable value in defining a research agenda for the UNGC. We proposed four research directions: the identification of processes and influence mechanisms; empirical research on legitimacy and effectiveness; research on local networks and regional development; and research at the interface of the UNGC and responsible leadership.

Questions

(1) What is the critique that is leveraged against the UN Global Compact?
(2) Why do its proponents still consider it a suitable and necessary CSR initiative?
(3) Based on the pros and cons of the UN Global Compact, what would be your suggestions for the global governance of CSR?
(4) How and where do you think the 10 principles of the UN Global Compact link to the other big sustainability agenda of the UN, the Sustainable Development Goals?
(5) Which of the three theoretical perspectives on the UNGC discussed in the chapter do you find most convincing and why? Would any of these arguments help you in fostering the CSR agenda of your business?

Note

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13

FROM EXPLANATION TO OUTCOME

The Use of Institutional Theory in Corporate Responsibility Research

Sébastien Mena, Valeria Cavotta, and Alessandro Niccolò Tirapani

Introduction

Institutional theory—with its emphasis on socio-cultural explanations of change and stability in and around organizations, as opposed to rational, economic ones—has become one of the main frameworks of explanation in management and organization studies (Reed & Burrell, 2019). Research on corporate social responsibility (CSR) is no exception. While in 2012, Brammer, Jackson, and Matten (2012: 4) argued that institutional theory had not been leveraged sufficiently in CSR research, this has certainly changed since then. Our aim in this chapter is to provide an overview of the use of institutional theory in CSR research in recent years. Given the number of articles in this area, ours is not a systematic review, but rather an overview of key arguments that use institutional theory to generate knowledge about CSR. Here, we take a broad understanding of CSR, defined as how firms deal (or do not deal) with social and environmental issues.

Our main contribution is to observe that institutional theory has historically been used as an explanation for the (non-)adoption of CSR practices and for variation in CSR behavior across regions, countries, or industries. Yet, more recently, institutional theory has moved to an *explanandum* rather than *explanans* in CSR research: researchers seek to understand how change can be brought about in CSR understood as an institution, dictating specific practices and structures, rather than examining adoption or variation in practices as a result of institutional factors or pressures.

We first provide a brief overview of institutional theory. We then turn to three main ways in which institutional theory has been used in CSR research. First, institutional theory has been leveraged to explain how CSR translates into specific (national) regulatory requirements, and how CSR practices can accordingly vary across countries or industries. Second, institutional theory has been used as a way to explain how organizations respond to pressures beyond regulation (e.g. by competitors, pressure groups, or consumers), and what kind of CSR outcomes result from these responses at the organizational level. Third and finally, CSR researchers have used institutional theory to study how organizations and related actors can bring about change in the institution of CSR.

A Brief Overview of Institutional Theory

Institutional theory emerged in the first half of the twentieth century, derived from the thoughts of prominent sociologists such as Marx, Durkheim, and Weber. Following some key findings by these thinkers, institutional studies at the time were interested in how structures and practices can acquire meaning (or be "infused with value") beyond their functional goals. In this respect, Philip Selznick's (1949) landmark study on the Tennessee Valley Authority (TVA) is widely understood as the starting point for modern institutional theory. Selznick showed how the TVA, a US federal organization, came to acquire significance beyond its initial, functional goal of nature preservation, and how this goal became less and less important for its members, as they prioritized other, non-technical goals over time. This version of institutional theory has been dubbed the "old" institutionalism: it is more interested in the socio-cultural processes, such as the infusion of value beyond technical goals, at play *within* organizations.

Yet, contemporary management and organization studies draw on the so-called "new" or neo-institutionalism, as initially theorized based on the "old" institutionalism in the late 1970s and early 1980s. Neo-institutionalism examines socio-cultural processes at play, not within the organization but within a population of organizations. This neo-institutional view emphasizes that organizations' structures and practices are often the results of pressures from their external environment. This external environment is understood as an "organizational field": communities of actors that come from a specific area of social life (e.g. industries, countries), including non-economic actors such as governments, unions, and civil society groups (DiMaggio & Powell, 1983). Within a given organizational field, organizational practices and structures are often adopted not for technical reasons, but because they reflect the field's values and expectations (or institutions)—echoing the key finding of Selznick's TVA study.

Neo-institutional theory started with the observation that a large number of fields post–World War II were populated by isomorphic organizations: organizations with similar structures (DiMaggio & Powell, 1983). Institutional theorists' explanation is that organizational structures and practices are adopted not because of economic rationality (as some of the theories at the time prominently argued), but because of the necessity to conform and appear legitimate. As a result, organizations often adopt some practices or structures ceremonially, rather than in a substantive fashion. There is therefore often a loose coupling or decoupling between how organizations appear and what they actually do. Organizations tend to adhere to the institutionalized "rational myths" in their field about what a successful organization looks like and how it should behave (Meyer & Rowan, 1977).

The pressures toward conformity, or isomorphism, come from three main institutional sources (DiMaggio & Powell, 1983) or "pillars" of institutions (Scott, 2001). First, regulators, and the state, in particular, provide rules, often explicit, that organizations have to abide by to appear legitimate—*coercive* pressures. Second, isomorphism also reflects the informal and implicit *normative* pressures to conform exerted on organizations by a variety of professionals, such as consultants or accountants. Finally, *mimetic* isomorphism (the result of *cognitive-cultural* pressures) describes how organizations imitate their peers that seem more successful, by adopting similar rational myths. This leads to the widespread diffusion and adoption of specific rational myths within a field (Tolbert & Zucker, 1983).

Neo-institutional theory subsequently witnessed an exponential array of efforts to refine this initial formulation. In general, later developments focused on change rather than stability, as initially formulated (Dacin, Goodstein, & Scott, 2002). Some felt the need to introduce more room for agency in the theory. For instance, to account for changes in stable and institutionalized organizational fields, DiMaggio introduced the concept of institutional entrepreneurs: actors able to momentarily escape the iron cage of institutions in order to change a field, before it goes back to stability (DiMaggio, 1988). Initially, neo-institutional theory would explain change solely in the presence of precipitating exogenous shocks or jolts (Meyer, 1982), rather than endogenous, agentic change coming from actors within fields. Later, scholars introduced the concept of "institutional work" to describe these agentic efforts at influencing—creating, maintaining, or disrupting—institutions (Lawrence & Suddaby, 2006). Others examined the variegated, non-uniform, and sometimes contradictory nature of institutional pressures on organizations. They introduced the concept of "institutional logics," the "set of material practices and symbolic constructions" providing the "organizing principles" for actors in a field (Friedland & Alford, 1991: 248), where multiple logics can co-exist that these actors have to make sense of and potentially reconcile.

Institutional theory is now a prominent framework to explain change and stability in organizational fields and is widely used in management and organization studies (Scott, 2008). It has, for example, been used to explain the effects of technological innovations and standards for market actors (Garud, Jain, & Kumaraswamy, 2002), the evolution of environmentalism and its effects on the chemical industry (Hoffman, 1999), and how new practices come to be institutionalized and change entire ways of conceiving of a given area of life, such as French gastronomy with the nouvelle cuisine movement (Rao, Monin, & Durand, 2003). But institutional theory also has been used to examine a variety of CSR-related processes, such as how firms sometimes only symbolically adopt a CSR practice without making a substantial change to their underlying behavior (MacLean & Behnam, 2010), or how new CSR practices come to be institutionalized and widely adopted, such as extra-financial reporting (Etzion & Ferraro, 2010). We now examine how these uses of institutional theory in CSR have evolved.

Institutional Theory in CSR Research

We outline three main ways in which institutional theory has been leveraged in CSR research. First, our review indicated that, early on, CSR research used institutional theory to explain how regulatory frameworks influenced CSR practice in various regions or countries. Accordingly, it also explained variation in firms' CSR engagement or performance across these organizational fields. In institutional terms, this first area of research examines *coercive pressures* for CSR and cross-field variation in CSR. Second, we found that institutional theory has been used by a number of studies to examine the two other types of institutional pressures (*cognitive-cultural* and *normative*) for CSR and their effects on firms. Such research examines how organizations respond to these pressures and differ in these responses. Third and finally, institutional theory is now increasingly used to describe CSR as the institution which needs changing—rather than looking at institutional pressures on the CSR behavior of firms. Research in this area focuses on how to make CSR norms more stringent, how to promote social innovation, or how to address global social and environmental problems by challenging current norms of responsibility. We examine these three areas of research in turn.

Coercive Pressures and Cross-Field Variation in CSR

In line with early definitions of CSR that social responsibilities are those that go beyond the law (Bowen, 1953; Carroll, 1979), CSR research has often focused on how firms manage regulatory pressures and how this potentially translates into CSR behavior. In institutional terms, coercive pressures can stem from a number of actors in the organizational fields in which companies operate, such as governments or multilateral agencies (e.g. the United Nations). Hence, for multinational firms, coercive pressures do not only come from their home country but also from countries in which they operate.

These studies examine how coercive pressures influence the degree to which a company decides to be responsible. To begin with, Campbell (2007) suggested a minimum threshold to be considered socially responsible: doing no harm and, should harm happen nevertheless, rectifying it as soon as possible. The threshold necessarily varies depending on the understanding of "harm" and "responsibility" (Gilpin, 1983; Marens, 2010). If the organizational field is characterized by a strict and enforced legal framework, clear industrial standards, and a well-informed public, then we can expect this CSR threshold to be high and widely respected (Campbell, 2007).

While Campbell provided a general argument for the relationship between coercive pressures and CSR engagement, research has also examined the specificities of different regulatory contexts. For example, according to Kaplan (2014), there are two different views on coercive pressures in the US. On the one hand, some see CSR behavior as a response to the pressure exerted by governmental agencies and NGOs on companies to push them to refine and "police" their activities in those cases where legislation is difficult or undesirable to craft. On the other hand, others argue that CSR is instead a "pre-emptive" activity put in place by companies to dissuade the government from regulating aspects of their business in a way that would be far less advantageous for them (Bartley, 2017). Corroborating the second view, Kaplan and Kinderman argue that CSR was actively exported to Britain in the late 1970s following a precise political agenda:

> CSR is applied proactively to reshape (a) the political environment, by pushing government and other elites to accept the notion of self-regulation, and (b) the social environment[.] For example, [CSR] was adopted [in Britain] as a means to fortify the social and ideological foundations of corporate capitalism.
>
> *(Kaplan & Kinderman, 2020: 445–446)*

Altogether, research points to a combination of both views in the US context. For Marens (2010), CSR in the US is based on the way US regulatory agencies conceive of the relationship between business and society, a conception that is shaped by businesses given the links between governmental agencies and major US companies. In other words, in Anglo-Saxon countries, coercive pressures for CSR have stemmed from the evolving regulations imposed on firms, which firms also actively shaped as they engaged in lobbying activities.

Further research in different contexts highlighted the idiosyncrasies of the evolution of coercive pressures for CSR in the US. For instance, Marens (2011) argues that CSR in the US has a unique character because of the role of unions and labor laws. Following the global market demands of the 1920s, unions and workers in the US were unable to win significant changes in labor protection and welfare, and the role of unions has been largely dismantled since the 1980s (Harvey, 2007). Therefore, as labor issues have not disappeared, and as the regulator was not willing or able to deploy more stringent regulation, forms of explicit CSR ("voluntary corporate policies, programs, and strategies"; Matten & Moon, 2008: 410) have blossomed in the US. Over time, this institutional arrangement has been increasingly endorsed as a way to compensate for the lack of legislation and other forms of social or environmental protection (Marens, 2011).

As industries have become more and more globalized, scholars have challenged the US-centric assumptions behind this co-evolving view of reduced coercive pressures, influenced by firms, and increased explicit CSR behavior. On the one hand, the US institutional scenario has changed radically in recent decades: weakened public opinion, looser governmental watchdogs, increasing numbers of private agencies, and increased competition have undermined the "responsibility" of companies to do no harm (Campbell, 2018). On the other hand, there has been a burgeoning of comparative studies analyzing not just how CSR changes as coercive pressures evolve within a country, but also how it differs from one country to the other and globally.

Notably, it has been argued that in Europe CSR has taken a more "implicit" form than the "explicit" US one (Matten & Moon, 2008). According to this differentiation, CSR takes an explicit form when social responsibility is enshrined in clear regulations and is formally endorsed and promoted by companies. On the other hand, CSR is said to be implicit when regulatory frameworks have already enshrined many principles that make companies responsible toward society and that companies are expected to be responsible for the direct and indirect harm they cause. Multiple studies highlight that this is the case in most of Europe, to varying degrees (e.g. Knudsen, Moon, & Slager, 2015; Maon, Swaen, & Lindgreen, 2017). Yet, some studies also show that, as for the US, institutionalized understandings of CSR have evolved over time to become more explicit even in "implicit" European countries, such as Austria (Höllerer, 2013). Matten and Moon (2008) explain the rise of explicit CSR with the advent of the multinational company: it is easier to adopt cross-country or regional practices if they are explicit. Oftentimes, these explicit CSR practices are also crafted and recommended by professionals who work across borders. Nonetheless, national laws and national regulatory agencies seem to be more effective than global and supranational coercive pressures, as the latter tend to be adopted in a ceremonial fashion and seldom lead to radical change in companies' practices (Lim & Tsutsui, 2012).

Regional and country differences have been further developed following the initial implicit–explicit distinction, in particular when it comes to economic systems. For example, Jackson and Apostolakou (2010) argue that social and economic factors have a significant impact on how companies understand their role in society. In liberal economies, companies adopt classic, explicit forms of CSR, whereas coordinated economies focus more on implicit CSR. Doh and Guay (2006) argue that NGOs play a key role in the eventual adoption of regulatory frameworks for CSR and that in Europe topics like genetically modified food or global warming tend to be highly regulated precisely due to the presence of these regulatory intermediaries (Brès, Mena, & Djelic-Salles, 2019). Nevertheless, the existence of many different national regulatory frameworks in regions such as Europe limits the adoption of binding cross-national legislation.

These studies on cross-national differences in CSR highlight that managers take into consideration different stakeholders depending on institutional expectations, and that they respond to different regulatory and social demands. In turn, the line defining the exact form taken by coercive CSR becomes increasingly blurred if we move away from the US. For instance, firms may use internationalization to take advantage of different institutional regulations, shifting their irresponsible practices abroad (Surroca, Tribó, & Zahra, 2013) or prioritizing shareholders over stakeholders in some subsidiaries (Crilly, 2010). These differences in responses to institutional pressures highlight that firms are not only subject to coercive pressures, but also normative and cognitive-cultural ones.

Cognitive-Cultural and Normative Pressures on CSR and Firm Responses

Beyond the examination of CSR behavior at the country or regional level, institutional theory has also been used in CSR research to explore how institutional pressures unfold *within* firms and affect specific CSR practices. While coercive pressures have been a main focus of the research described above (focused on how national institutions and rules shape CSR outcomes in the corresponding countries), other research has examined in more detail the cultural-cognitive and normative pressures facing companies in terms of CSR.

Research in CSR often breaks down different institutional pressures by stakeholders, a testament to the prominence of stakeholder theory in CSR research. For instance, an early study by Delmas and Toffel (2004) examines normative and cultural-cognitive pressures that stem from different stakeholder groups of a firm (such as governments, but also competitors or environmental interest groups) and how they affect the adoption of environmental management practices by this multinational firm in specific locations. CSR research has often looked at the pressures from competitors and peers to adopt CSR practices. For instance, participation in large global CSR initiatives such as the Global Reporting Initiative or the Global Compact has witnessed a steady and sometimes exponential growth as a result of such mimetic pressures (Rivoli & Waddock, 2011).

Cultural-cognitive pressures to become more responsible, or at least to adopt some CSR practices, not only stem from competitors but also other actors in the field in which a company operates. Investors and consumers play a crucial role in translating changing institutional norms into pressures, which has also been widely documented. For instance, a large number of studies on responsible investing have shown the various institutional tactics that ethical investors can engage in to make companies they invest in more responsible (e.g. Beunza & Ferraro, 2019; Gond &

Boxenbaum, 2013). The role of communities (e.g. Aguilera, Rupp, Williams, & Ganapathi, 2007), interest groups (e.g. Crilly, Zollo, & Hansen, 2012), and activists (e.g. Carberry, Bharati, Levy, & Chaudhury, 2019; Mena & Waeger, 2014) has also been highlighted. As mentioned above, these groups can push for more coercive pressures (Doh & Guay, 2006), but can also translate the prominent norms and beliefs about the responsibility of firms in a given field into cultural-cognitive pressures to adopt corresponding practices.

While a vast number of studies on the organizational impact of institutional pressures have studied cultural-cognitive pressures, some studies have started examining normative pressures on firms to behave more responsibly. Normative pressures are concerned with the diffusion of practices as the result of the work of professionals such as consultants and accountants. The number of CSR consultants has skyrocketed from the 1970s and even more so in recent years (Young, Moon, & Young, 2003). Accordingly, a growing number of studies on CSR professionals and professional bodies for CSR are looking at how these actors pressure firms to adopt some CSR practices and the form they take (e.g. Risi & Wickert, 2017). For instance, Brès and Gond (2014) show how CSR consultants in Québec create a market for CSR practices and push firms to adopt them by translating social and environmental issues into "corporate" language, creating clear boundaries for the practices and creating adaptive rules that give some freedom to corporations adopting these practices.

Along with research focusing on the different types of institutional pressures for CSR, some research has also examined how firms respond to these pressures. Institutional theorists have long shown the variety and determinants of responses possible when faced with institutional pressures, such as acquiescing, defying, or manipulating (Oliver, 1991). Similar responses have been examined in the case of CSR. Some have highlighted that firm responses to pressures for increased responsibility often start with ignorance or denial (Mena & Suddaby, 2016). Yet, as institutional theory demonstrates, firms often have to abide by the demands to some extent if they are to be perceived as legitimate. Hence, some other studies look at how firms may substantively react to these pressures and change their practices or adopt new, supposedly more responsible ones (Zheng, Luo, & Maksimov, 2015). And yet other researchers have examined how firms can decouple their CSR policies from their actual activities, showing only symbolic compliance with demands (Behnam & MacLean, 2011; MacLean & Behnam, 2010). Yet further research has shown that identifying symbolic versus substantive compliance with institutional pressures is not as black and white as it may seem. Crilly et al. (2012) highlight how managerial responses to institutional pressures depend on several internal and external factors. When the firm's stakeholders have little information about the firm's behavior (e.g. lack of transparency), managers are more likely to only symbolically adopt a CSR policy and decouple it from their activities. However, when the firm is more engaged with its stakeholders, managers "muddle through" in reaction to institutional pressures, which leads to a progressive improvement in responsible practices.

Other studies have shown that firms tend to adopt differing responses depending on the location (e.g. internal, external) of the stakeholders to which they respond. For instance, external stakeholders' demands can often be dealt with through philanthropy, whereas internal stakeholders are more demanding and require more substantive responses (Zheng et al., 2015). Firms might also face contradictory institutional pressures at the same time, where multiple institutional logics co-exist (Greenwood et al., 2011). Raynard, Lounsbury, and Greenwood (2013) show how the legacies of institutional logics in different regions of China translate into different types of pressures on firms in these regions and differing implementation by firms of a nation-wide CSR mandate by the government. Glynn and Raffaelli (2013) highlight that, when CSR practices are adopted as a result of pressures from a given institutional logic, practices that reflect that logic are more likely to be incorporated into the business units of the firm. For example, when responding to a market logic, a CSR practice will most likely be located in a "mainline" business unit (Glynn & Raffaelli, 2013).

Other research is not so interested in how responses by firms may differ due to institutional logics, but in how some organizations may hybridize as a result, that is, they incorporate aspects of different institutional logics into their operations. In the context of CSR, these hybrid organizations are often social businesses, which bridge market and social institutional logics in order to solve social issues while generating a profit (Battilana & Dorado, 2010; Smith, Gonin, & Besharov, 2013). Research has examined how these organizations navigate complexity and deal with inevitable tensions between logics, and how this affects their social and environmental behavior and practices (Pedersen & Gwozdz, 2014; Santos, Pache, & Birkholz, 2015; Waeger & Weber, 2019). Loose or "selective" coupling has been examined as one prominent response by such hybrid organizations (Pache & Santos, 2013).

How Organizations Bring About Change in the Institution of CSR

While various institutional pressures affect organizational-level CSR and trigger responses, as seen in the previous sections, firms can also carry out agentic work that eventually changes dominant institutional norms of what is considered responsible and irresponsible. Indeed, an increasing part of the research on CSR that leverages institutional theory now builds on institutional theory not as an explanation for the adoption of CSR practices, but rather as a lens to explain how new CSR institutions (i.e. norms, beliefs, and understandings of the role of business in society) are created or changed (Bies, Bartunek, Fort, & Zald, 2007; Stephan, Patterson, Kelly, & Mair, 2016). In this section, we discuss such institutional work through which organizations have actively created or changed the institutions of CSR.

The first type of institutional work considered (Lawrence & Suddaby, 2006) is standardization, a form of "soft law" or private regulation aimed at harmonizing firms' behavior in social and environmental issues (Brunsson, Rasche, & Seidl, 2012; Mena & Palazzo, 2012) and holding firms accountable for their behavior (Gilbert, Rasche, & Waddock, 2011). Standards have been created to regulate responsible behavior in several domains, such as consumer protection, labor standards, and social and environmental reporting (Bartley, 2007). While the institutionalization of standards is often initiated by non-profit organizations (Etzion & Ferraro, 2010; Mena & Suddaby, 2016), it can also be actively carried out by firms. For instance, Slager, Gond, and Moon (2012) describe the dynamics behind the creation and maintenance of the FTSE4Good Index, a responsible investment index created in 2001 and a de facto standard for CSR. They identify three major types of institutional work toward CSR standardization by different groups of actors: calculative framing, which refers to the definition of inclusion criteria by corporations; engaging, which serves to create the knowledge and the expertise needed to legitimize the standard and monitor the behavior of the adopters; and valorizing, which infuses normative value beyond technical requirements. This example highlights how an institutionalized understanding of CSR in an organizational field can be changed through the actions of a variety of actors to legitimize and enforce new CSR beliefs and norms, crystallized in an explicit standard, whose adoption by firms is voluntary. Further research highlights that, once an institution of CSR is changed in that way, similar types of pressures to the ones we described in earlier sections apply. Firms can also respond by decoupling or other types of symbolic actions in response to pressures to abide by standards, just like other coercive tools (Holder-Webb & Cohen, 2012; Stevens, Kevin Steensma, Harrison, & Cochran, 2005; Wijen, 2014).

While change in a CSR institution can occur through the standardization of new norms and corresponding behaviors, it can also manifest in the deinstitutionalization of a taken-for-granted (harmful or irresponsible) practice. For example, Maguire and Hardy (2009) studied the deinstitutionalization of DDT use by outsiders to the field who engaged in the discursive *problematization* of taken-for-granted understandings associated with DDT use. For decades, the use of DDT had been considered safe, effective, and necessary. Problematization of the safety, efficacy, and necessity of DDT along with the construction of alternatives led to changes in discourse that resulted in DDT abandonment. In addition to the problematization of existing practices, research in this area has shown several other discursive practices in the effort to change CSR institutions, such as the re-theorization of practices and actors' roles (Mena & Suddaby, 2016). As these examples highlight, deinstitutionalization is often driven by strong rhetoric and discursive strategies by opponents of the practices that re-frame the problems with the practice and suggest new, more responsible ways forward (Den Hond & De Bakker, 2007).

Institutional change in CSR, such as the creation of new standards or the abandonment of harmful practices like toxic pesticide use, can also result from the work of social entrepreneurs or enterprises. Rather than deinstitutionalizing a harmful or irresponsible practice, social entrepreneurs diffuse more responsible norms through their socially beneficial activities. They are typically considered agents who are not content to run their business responsibly but aim to change the fabric of society, for instance by tackling entrenched patterns of inequality (Mair, Wolf, & Seelos, 2016). For this reason, social enterprises often act as institutional entrepreneurs who can change incumbent institutions (Battilana, Leca, & Boxenbaum, 2009; Mair & Marti, 2006). In the case of CSR, through their alternative practices, such social enterprises challenge and sometimes eventually change norms and beliefs about the role of business in society in their organizational field. For instance, Seelos and Mair (2018) describe the work of a social enterprise, Sekem, in Egypt which has accomplished institutional change. Sekem created a new agricultural system that contributed to a new trajectory for the whole field. Since its creation, Sekem has promoted a culture of dignified jobs that was not affected by the 2008 financial crisis and has diffused biodynamic agriculture, which has spread to other Egyptian farmers. Partly as a result of Sekem's work, the Egyptian government changed its agricultural policies to radically limit the institutionalized practice of pesticide use in the country while Egypt's 2014 constitution promoted sustainable development and workers' rights (Seelos & Mair, 2005, 2018).

The literature has not only looked at single firms instigating change but also at larger and more complex situations in which a wider variety of actors is needed to bring about institutional change. So-called "grand challenges" (George, Howard-Grenville, Joshi, & Tihanyi, 2016) are described as complex, uncertain, and evaluative challenges affecting large populations negatively (Ferraro, Etzion, & Gehman, 2015), such as poverty, corruption, obesity, and climate change. These problems are characterized by interdependency and do not have a clear, unique cause and solution. For these reasons, tackling wicked problems and grand challenges requires collective action, and in particular the involvement of businesses alongside other private and public actors. Such research addresses the consequent barriers to changing the incumbent institutions of CSR so that firms can see the role they have to play in tackling such problems. For instance, Grodal and O'Mahony (2017) investigate what inhibits the realization of such initial ambition after successful mobilization. They show that, as grand challenges require the participation of diverse communities and actors, the potential for divisive interests and political dynamics—especially between business and other actors—increases over time and undermines the integrity of the initial goals. In this regard, Reinecke and Ansari (2016) show how a "field frame"—a shared view and understanding among actors in the field—on the responsibility of mining companies in the Democratic Republic of the Congo was developed by non-confrontational means. In sum, while research has looked at how businesses can be involved in tackling global challenges of today, it has also pointed to the difficulty of changing the institutionalized norms of CSR and therefore changing the role that businesses perceive they have to play in the solutions to these challenges.

Conclusion

We started our overview of the use of institutional theory in CSR research by looking at regulatory pressures on firms to engage in CSR. Notably, we described Campbell's (2007) seminal contribution, which argues that, as economic and institutional conditions change, so does the degree to which firms engage in CSR, as well as the minimum threshold below which corporate behavior is perceived as irresponsible. Stemming from this key finding, other studies have looked at variations in regulatory frameworks across organizational fields and how they affect CSR engagement by firms. Scholars have pointed to the fact that some countries, for instance in Europe, have incorporated rules for CSR into their legal frameworks and that therefore CSR seems to be more "implicit" and taken for granted than in other regions, such as the US, where corporations explicitly engage in CSR voluntarily so as to deal with a relative lack of integration of CSR into law (Matten & Moon, 2008).

We have also brought to the fore other types of institutional pressures on firms to engage in CSR. We have reviewed a number of studies looking at cognitive-cultural and normative forces that shape firms' engagement in CSR and their responses to such pressures. Typically, research shows that consumers, investors, consultants, and activist groups are important sources of institutional pressures for firms to increase their engagement with stakeholders, monitor their social and environmental performance, and re-think their role in society.

Finally, our main observation is that those two streams of research (on coercive and cognitive-cultural/normative pressures) have mostly used institutional theory as an antecedent of CSR practices and structures, trying to explain the pressures on institutionalized behavior in a given environment. In contrast, we have pointed to an increasing number of studies taking institutional theory, not as a predictor of CSR, but rather treating CSR as the institution. These studies have examined social and environmental issues, sometimes caused by firms, and the different ways in which the understanding of who is responsible for these issues can change. We have accordingly outlined some research investigating a more proactive engagement of firms and other actors in changing or creating new institutions of CSR, that is, norms and beliefs about the responsibility and role of business in society.

This rich landscape of CSR research leveraging institutional theory, despite its large number of studies, can still develop in different ways. In particular, we find that recent research has turned to examining how the institutionalized understandings of the role of business in society can be changed. This is a fruitful and worthwhile area for future research. While originally it was important to understand variations in CSR practices and behavior stemming from different types of pressures in firms' environments, these initial studies using institutional theory merely described and sometimes predicted firms' engagement in solving social and environmental issues. In contrast, recent research tackling institutional change in CSR addresses how firms can take a more proactive role in dealing with social and environmental issues, rather than looking at their reactive behavior to pressures.

One particular area that needs more attention, we argue, is how such institutional change can be made robust and sustainable. Indeed, for now, most studies examine the key moments or tipping points in the history of an organizational field where CSR norms and beliefs change, but have often ignored the longer-term consequences and repercussions. Do firms' and their managers' views of their responsibility change substantially and sustainably over a longer period of time? Or do they revert to their old ways after a few years? For instance, regarding climate change, Wright and Nyberg (2017) have recently shown how corporate responses started as revolutionary and turned mundane over time due to the contentiousness and complexity of the issue, thus warning against the sole reliance on businesses to tackle the climate crisis. Mena, Rintamäki, Fleming, and Spicer (2016) suggest that, unless collective versions of the past are actively remembered and commemorated by a large community of actors, they will be forgotten and future irresponsible behavior by firms will be very likely. Hence, to conclude, we need more research taking a long-term, historical perspective on change in the institutionalized rational myths about the role of business and society.

Questions

(1) How has institutional theory been used in CSR research over time?
(2) How does institutional theory explain similarities in CSR practices in a given organizational field?
(3) How does institutional theory explain variations in CSR practices in different organizational fields?
(4) How has institutional theory been leveraged to explain changes in CSR norms and beliefs?

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14
STRATEGIC CSR
A New Definition and New Frontiers

Debbie Haski-Leventhal

Introduction

In the last half a century, a significant transformation reshaped the way that business is led and perceived and the role that business plays in society (Aguinis & Glavas, 2012). In this chapter, I will argue that a shift occurred from a post-World War II capitalism—in which the only responsibility of a business was to maximize profit—through an era of seeing the benefits of corporate social responsibility (CSR) and utilizing it to maximize profit, to an emphasis on corporate philanthropy, and more recently to a holistic and strategic approach to CSR. These changes altered not only the way companies give time and money to the community but, more importantly, the way they align their responsibility toward society with their overall mission and strategic planning.

It is important to capture and analyze the changing context and nature of CSR, as this can inform both scholars and practitioners about what CSR is and what it can be. Oftentimes when people refer to CSR, they refer to corporate philanthropy. When Porter and Kramer (2011) compared the concept of creating shared value to CSR, they mainly captured CSR in terms of money and time given. When Indra Nooyi led PepsiCo with her "performance with purpose," she explained in a 2014 interview with David Bradley (Aspen Institute, 2014) that purpose is not CSR, because CSR is about the way you give money, not the way you make money. Therefore, CSR needs to be captured in holistic and strategic terms, a world view and a mindset that impacts every business decision and action, so they are done in the most responsible way possible. This is why the concept of strategic CSR is so important: it helps us to better understand what we mean by the social responsibility of companies and how to implement it so it becomes more holistic and impactful.

The aim of this chapter is therefore to capture the concept of strategic CSR as part of a greater shift in perceptions and managerial practice. It begins with the changes in corporate and public perceptions of corporate responsibility from a focus on profits only to a more holistic approach to CSR. It then offers a new definition of strategic CSR, which includes five main aspects or frontiers, all of which are related both to a mindset and to implementation. Each of these five aspects is then discussed, detailing the meaning and practicalities of each. Finally, the chapter concludes with some thoughts on the way forward: the future of CSR and what companies can do to lead strategic CSR and be ready for the next phase.

The Shift in CSR

What is the responsibility of business? The answer to this question continues to evolve, from the Industrial Revolution to this very day. While business usually delivers products and services for a cost, its responsibilities and purpose go beyond this basic activity. Who and what is the business responsible for? Is it just or mainly to their shareholders, maximizing shareholder value? Is it also to employees, assuring fair and safe employment? Perhaps even to the larger community, the environment, and global society? These questions and their answers have changed our perceptions of business and CSR, from a narrow to a broad to a strategic view. This shift is apparent in both academic thought and business practice, as I will show next.

The Narrow View

According to the narrow view, which was prominent in the 1970s, the only responsibility of a business is to employ people, create products and services for consumers, and maximize profits to shareholders. This view, that the only social responsibility of a business is to make money (or the business of business is business) was led by Professor Milton Friedman, a Nobel Laureate professor of economics.

In a well-known article in *The New York Times*, Friedman (1970) argued that the only social responsibility of a company is to increase financial value for its stockholders and that CSR, unless used as means to make more profit, is immoral. In this, Friedman was a strong advocate of the "narrow approach" to business responsibility, which prevailed for many decades (Haski-Leventhal, 2018).

Economic growth, development, capitalism, shareholder value, and the GDP were prioritized in many Western countries after World War II (Asher & Wainwright, 2019). After the war, economic growth seemed to be the best solution to rebuild the world, and the focus on financial return on investment led to changes in policies, regulations, and laws in the US and other parts of the world, which, in turn, led to extreme capitalism (Mackey & Sisodia, 2014). In this narrow view, profit and financial growth were to be maximized, almost at any cost, which sometimes resulted in environmental destruction and pollution, climate change, modern slavery, and human rights abuses. It is not that business was always ethical and responsible prior to this (see, for example, slavery in North America), but this led to a new magnitude of corporate social irresponsibility.

This view was also led by academic scholars on business management and even CSR. One of the foundation theories in CSR at the time was by Carroll (1979), who aimed to show that business responsibilities also include legal, ethical, and philanthropic ones, but the first one mentioned was economic responsibility. Carroll defined CSR as encompassing "the economic, legal, ethical and philanthropic expectations that society has of organizations at a given point in time" (1979: 500), positioning companies in a passive and responsive position with their CSR.

The Instrumental View and Corporate Philanthropy

The instrumental view is strongly built on the narrow view. Even Friedman (1970) supported CSR if it was used as a means to create more profit. In the 1970s, a few exceptional companies were receiving strong benefits from being known for their social responsibility. Companies like Ben & Jerry's and The Body Shop were led by people who thought they could use the power of business to address social issues, resulting in positive reputation and consumer loyalty, as they became icons of social responsibility (Austin & Leonard, 2008). As many other companies started to see the possible benefits of CSR, it became a business trend in the 1980s and 1990s.

The idea was that appearing to be good is also good for business and that companies can be more strategic in the way they market their CSR (Porter & Kramer, 2002). This view was supported by what was called "the business case for CSR" (Carroll & Shabana, 2010). The numerous benefits of CSR to the company included improved access to capital, a secure license to operate, revenue increases, cost decreases, risk reduction, increase in brand value, improved customer attraction, improved reputation, and improved employee engagement (Weber, 2008). With all these promising benefits, many companies, including multinational corporations, got on board and started hiring CSR officers, producing CSR reports, and telling the world how good they were.

However, instrumental CSR is utilitarian in nature and, while in some cases it did lead to higher levels of responsibility, in many others, it was only seen as a public relations exercise, a trend, and a means to the end of profits. With the benefits of CSR seeming so good, some companies wanted to yield these results but without genuinely changing who they are and what they do. Without changes to core enacted values and core operations, the result was too often merely greenwashing, which occurs when poor environmental and social performance is covered over by positive communication about such a performance (Delmas & Burbano, 2011) or when there is a misalignment between the company's own reporting on its social and environmental responsibility and its actions (Laufer, 2003).

The instrumental view also led to a focus on corporate philanthropy (Porter & Kramer, 2002), which was another shortcut to quick rewards without the hard work of actually changing the company and its core operations. Corporate philanthropy focuses on giving time and money, of the organization and its employees (Gautier & Pache, 2015). It is easier to write a check for a not-for-profit organization rather than to fix major issues with offshored forced labor, and it is simpler to engage employees in corporate volunteering instead of addressing environmental concerns in the supply chain. Notwithstanding the value of corporate philanthropy and the trillions of dollars given to charities doing important work, it does not replace full responsibility toward all stakeholders, society, and the environment. Consequently, a more holistic approach was needed, one which is prevalent in the strategic view.

The Strategic View

In the 2000s another shift started to occur toward a more holistic and strategic CSR. In 2002, Porter and Kramer explained that, in order for a company to yield all the aforementioned benefits, it needs to align its philanthropy and giving with its strategy. By strategy, the authors referred to the strategic planning of the firm, its mission, vision, and tactics, and its overall approach to doing business. Strategic corporate philanthropy was about tying what we give to whom we are and what we stand for. Instead of "random acts of charity," companies were encouraged to give in alignment with their position in their market (Haski-Leventhal, 2018).

However, this was still focused on corporate philanthropy and sometimes on instrumental CSR. CSR is not about the way that a company gives money, but about the way it makes this money in the first place. If money is made through social and environmental irresponsibility, including slavery, child labor, animal suffering, and environmental destruction, no philanthropy can patch these negative "externalities" for the long term. A more holistic approach was needed, one that takes full responsibility for the entire value chain and all stakeholders affected by the company's action.

The concept of strategic CSR emerged in the early 2000s, with Lantos (2001) defining it as the fulfillment of a firm's social welfare responsibilities in a way that creates a win-win situation, in which both the corporation and one or more stakeholder groups benefit. To achieve this "win-win," CSR has to be fully aligned with the company's strategy—its plans for the future, vision, mission, and tactics. Polonsky and Jevons (2009) also discussed incorporating CSR into the "brand," including in its corporate operations and supply chain. Werther and Chandler (2011) offered a more holistic definition of strategic CSR, which also included a company's core operations, long-term approach, and a broad set of stakeholders. In the same year, Porter and Kramer (2011) published the idea of creating shared value, which was about using innovative ways to align social and financial value. While there is some valid criticism of this concept (see Crane, Palazzo, Spence, & Matten, 2014), it also contributed to the notion of aligning CSR and business strategy.

For the purpose of this chapter, I offer a new and comprehensive definition of strategic CSR, which is also based on my recent book (Haski-Leventhal, 2018): strategic CSR is a holistic and long-term approach to the broad responsibilities of business, aligned with the firm's strategy and core operations, based on stakeholder integration and ethical behavior, and aimed at using the power of business to address societal and environmental issues.

This definition has five different components that will be discussed next to demonstrate how strategic CSR shifts away from the narrow view and the instrumental view toward a genuine and holistic view of the firm's responsibility to all its stakeholders. In each of these aspects I will discuss the basic approach but also some practical aspects and key questions.

The Five Main Aspects of Strategic CSR

Holistic and Long-term Approach

At the essence of strategic CSR is a holistic approach that sees business responsibility in the broadest way possible. It shifts away from corporate philanthropy or CSR as a marketing endeavor to everything that the business does in its entire value chain. As such, it requires more effort than just giving money, but it is the only way in which a business can be truly sustainable and responsible. Companies cannot harm people, animals, and the planet in one part of the business and then support social causes in another part of it. A holistic approach is embedded in every decision, policy, and action of the firm, and in its culture, values, and DNA. It is about aiming to "do no harm" but also to move into impactful contribution to address some of the societal and environmental issues we face today (which I will further discuss in the fifth aspect). CSR is not a role or a department; it is a world view about the power of business and its responsibility in society today. It is the connection between the firm's socially responsible identity and behavior and employees' identity and behavior (Haski-Leventhal, Roza, & Meijs, 2017).

In addition, strategic CSR requires a long-term approach. Paul Polman, who until recently was the CEO of Unilever, said that the world that we want is an enormous responsibility and that it cannot be achieved with short-term thinking. One of his revolutionary actions, when he joined Unilever, was to abandon quarterly reports and focus on the future of the planet, with his Sustainable Living Plan (Haski-Leventhal, 2018). One of the reasons for the negative impacts of extreme capitalism on society and the environment is the extremely short-term focus on profits only, without taking into consideration the future consequences on the environment and future generations. Strategic CSR implies that, instead of focusing on the next quarter or two, companies focus on the next 5–10 years, asking questions such as: What will the world look like in five years because of our actions? How can we mitigate the negative impact and increase the positive impact in the next decade? What do we want the world to look like by 2030 and how can we contribute to this vision?

Alignment with the Firm's Strategy and Sustainable Core Operations

As mentioned above, strategic CSR is based on aligning CSR with the strategy of the company. This is done in two ways. Firstly, it requires a full inclusion of CSR in the company's strategy. Its vision and mission need to include an aim to better humanity, to create a strong social impact, and so on. Such a vision and mission to serve can create a strong purpose and a purpose-led organization can also create stakeholder engagement and enthusiasm, particularly among younger employees (White, Yakis-Douglas, Helanummi-Cole, & Ventresca, 2017). The ability of an organization to serve a higher purpose has also been found to be related to financial performance (Stengel, 2011). In addition, CSR needs to be embedded in the company's tactics, policies, and decision-making, so every action of the company is based on responsibility and ethical values.

Secondly, strategic CSR means that the company's actions for social impact are aligned with its strategy—what it stands for, what it knows best, its brand, and the particular industry type it belongs to. Similar to ideas shared by Porter and Kramer (2002, 2006, 2011), being more strategic about CSR means that companies create social value and financial value at the same time. To illustrate, an example of a random act of charity is a fast-food company donating money for houses for seriously ill children and their families. While this work is important, it has nothing to do with the company's core business. On the other hand, strategic CSR can be seen in the example of an Australian bank shifting away from giving money and time to important but random causes, to supporting the community with microfinance and financial literacy. Money and finance are what this company knows best, so why not use their skills and knowledge to give back to society and create value? This is not only a more effective way to give, but it can also create financial value for the bank. Giving microfinance loans to people who have been unemployed for five years and unable to get a loan creates a whole new range of micro-businesses and bank clients.

In the same vein, CSR needs to be embedded in the company's core operations and supply chain. Taking the two aforementioned examples, the fast-food company needs to improve the quality of its food, so it poses less health risk to consumers, and reconsider the way it manufactures the food so the impact on the environment is not so devastating. The bank needs to consider its investment in mining and tobacco to assure its core operations—the way it makes money—are sustainable and responsible. Similarly, with an estimate of 35–40 million slaves trapped in supply chains today (Gold, Trautrims, & Trodd, 2015), responsible companies must take a good look, not only at their own supply chain (primary), but at their suppliers' supply chains as well (secondary supply chains), to ensure they are not contaminated by slavery and human suffering. Another important aspect of strategic CSR and core operations is the impact of the companies' value chains on the environment. In a brave move, in 2010 the German sportswear company Puma estimated the economic value of its externalities, or the costs to the environment that someone else will be paying for, to be €145 million (US$182 million), in order to measure its impact on the environment and reduce it (Sukhdev, 2012).

Stakeholder Integration

Stakeholder theory was developed in the 1980s to offer a different perspective to the one mentioned above by Friedman. Freeman (1984) asserted that stakeholders can be any person or group that affects the organization or are affected by it achieving its goals. This can be positively or negatively, voluntarily or involuntarily. The definition of strategic CSR encompasses stakeholder integration, which is quite different from stakeholder management or prioritization.

Stakeholder management refers to the way an organization maps its stakeholders, communicates with them, and maintains a good enough relationship to minimize potential negative behavior by these stakeholders, such as a consumer boycott or an employee strike. In the same vein, stakeholder prioritization helps to order stakeholders according to their significance to the company and allocate time and effort accordingly. It is not surprising that these exercises lead many businesses to prioritize shareholders far above everyone else and make business decisions accordingly.

Stakeholder integration, on the other hand, shifts away from both these approaches. Based on the concept of conscious capitalism (Mackey & Sisodia, 2014), it offers a more inclusive and holistic approach to stakeholders. According to this view, organizations are not in a position to "manage" their stakeholders, which assumes some level of hierarchy and control. Instead, companies can involve stakeholders, maintain a good relationship based on respect, and create mutual benefits and trust. Stakeholder integration shifts away from "zero-sum" thinking, where there are always trade-offs and benefiting one stakeholder group implies drawbacks to another. Instead, stakeholder integration suggests a win^6 option, where all six major types of stakeholders can benefit.

Ethical Behavior

Previous definitions of strategic CSR (e.g. Werther & Chandler, 2011) are missing the important component of business ethics. Similarly, the popular idea of creating shared value (Porter & Kramer, 2011) also excluded ethical behavior, which means that companies can be celebrated for creating societal and financial value simultaneously, while not behaving ethically.

Business ethics cannot be fully covered in one chapter, let alone a small section of it, but it is important to include it here. In a nutshell, ethics is the study of right and wrong, duty and obligation, moral norms, individual character, and responsibility. Business ethics is a form of applied ethics that examines ethical principles and moral or ethical problems that arise in a business environment (Haski-Leventhal, 2018). It applies to all aspects of business conduct of all employees and leaders as well as to the company as a whole.

Business ethics is guided by various levels of values, norms, cultures, and policies. At the macro level are societal norms and values, which vary from culture to culture, creating ethical relativism. At the meso (organizational) level, there are the company's values (both enacted and espoused), culture, policies, code of conduct norms, and so on. At the micro level there are individual values (Schwartz, 1992) and attitudes that guide behavior, such as the ones held by the company's leaders and employees. Individuals in certain roles and professions are also guided by the ethics and code of conduct of their profession.

Business ethics is about doing the right thing in a given situation. Of course, this is complicated because right and wrong differ by culture, organizations, and individuals. Ethical dilemmas may arise, where people need to choose not between right and wrong, but between two wrongs. There are no "one-size-fits-all" ethical guidelines and solutions. However, it is crucial that companies that want to adopt a holistic approach to CSR, such as suggested in this book and chapter, raise awareness of ethical issues and sometimes make a decision that doing the right thing by their stakeholders is more important than maximizing profit at any cost.

Using the Power of Business to Address Societal and Environmental Issues

The last component of the strategic CSR definition offered in this chapter is about purpose. Being responsible, sustainable, and ethical is not the end in itself, but the means to a higher purpose. The last component also offers the basis of the world view and mindset: it suggests that business does not only exist to sell products and make profit, but that it can exist to serve society. In their *Harvard Business Review* article on creating shared value, Porter and Kramer (2011) state that business, acting as business and not as charitable donors, can become a powerful force in addressing societal issues. This is not about corporate philanthropy and giving money to charity, but instead about utilizing the power, knowledge, talent, and resources of companies, particularly large multinational corporations, to address some of the greatest issues humanity faces today. If the leading 1,000 corporations in the world changed their core operations to omit slavery and poverty; if primary and secondary supply chains were conducted in a more sustainable way with the urgency required in the face of climate change; and if companies hired employees without any discrimination, based on full diversity and equity, our world would look completely different.

In this sense, it is important to mention that the United Nations Sustainable Development Goals (SDGs) can play an important role in helping business address societal and environmental issues and create a shared purpose on a global scale. Adopted by all heads of states in 2015, the SDGs are 17 global goals with 169 targets, representing an intergovernmental agreement to promote global sustainable development and achieve these targets by 2030. These goals include no poverty; zero hunger; health and well-being; quality education; gender equality; clean water and sanitation; decent work and economic growth; addressing industry, innovation, and infrastructure; reducing inequalities; developing sustainable cities and communities;

encouraging responsible consumption and production; taking action on climate change; and creating partnerships to achieve the goals. As such, the synergies with business are abundant and, following the same line of reasoning as above, strategic CSR can be an effective way to help achieve the SDGs, perhaps even prior to 2030. The UN estimates that the total cost of achieving the SDGs could be about $11.5 trillion ($1.4 trillion a year just to achieve SDG1), but that the SDGs could also be a $12 trillion business opportunity in four economic systems: food and agriculture, cities, energy and materials, and health and well-being (Pedersen, 2018). To be strategic about addressing the SDGs, it is important for companies to identify the SDGs that are closest to their strategy and core business and take ownership of these goals as part of their CSR.

The Way Forward

This chapter has captured a shift in CSR, from low CSR through instrumental CSR to strategic and holistic CSR. While some companies mentioned here, such as Ben & Jerry's and The Body Shop, demonstrated some of these aspects of strategic CSR from their early days (Austin & Leonard, 2008), many other companies have adopted this level of corporate responsibility only in recent years (e.g. Unilever). As well as tracing the shift in managerial practice and the growing interest from scholars (Aguinis & Glavas, 2012), it was important here to offer a working definition of strategic CSR and discuss its various aspects. As an increasing number of companies are presently adopting strategic and holistic CSR as a way to manifest their social and environmental responsibility, we can also reflect on what the future might hold in terms of CSR. While no one can fully predict the future, based on the existing literature and actual and emerging trends in CSR, two more stages will be suggested: purpose-driven CSR and transformational CSR.

Purpose-driven CSR

Purpose is the "new black." Books and media on purpose, such as *Start with Why* (Sinek, 2011) are more popular than ever. People, particularly millennials, are looking to live a meaningful life and to have meaningful jobs, and purpose-driven organizations can offer this. Purpose is an aspirational reason for being which inspires people and provides a call to action for an organization and its stakeholders in order to benefit society (EY, 2015). According to Mackey and Sisodia (2014), a purpose is a definitive statement about the difference that the company is trying to make—not what it sells or does, but what it stands for.

While people have a personal purpose, organizations hold their own purpose. Organizational purpose is the difference an organization is aiming to create as a whole. For purpose to impart meaningfulness, purpose needs to be defined around impact and making a difference (impact purpose). Patagonia's purpose, for example, is to help reimagine a sustainable world for those who come after us. The Body Shop aims to dedicate its business to the pursuit of social and environmental change. These purpose statements, when truly lived by everyone in the company and put into action through every business measure, can be truly impactful and inspirational.

Based on a global survey of 474 executives, EY (2015) found that 89% of executives agreed that a strong sense of collective purpose drives employee satisfaction, 80% believed it can help to increase customer loyalty, and 84% say it can affect the ability to transform. However, less than 50% agreed that their company had actually articulated a strong sense of purpose and used it as a way to make decisions and strengthen motivation. I believe the next phase of CSR will be based on closing the gap between strong positive views and action. With a strong organizational impact purpose, CSR can almost become obsolete. The organization in its entirety will aim and work to be as impactful and sustainable as it possibly can.

Transformational CSR

CSR, even strategic CSR in the way it was defined in this chapter, is focused inwards on the corporation—its role, its responsibility, and its stakeholders. Transformational CSR, on the other hand, will look outwards, with a focus on society and the world. Instead of focusing on corporate behavior and governance, ethics, and stakeholder management, it will concentrate on transforming the world with a vision for a better humanity and a thriving planet.

Since this is such a comprehensive mission, it cannot be undertaken by one corporation. As such, transformational CSR requires a multi-stakeholder partnership of responsible actors from all sectors of economy: business, government, not-for-profit organizations, and higher education institutions. If this becomes the next phase of CSR, it will not focus on any individual corporation, large and impactful as it may be, but on the impact of the partnership on the world. It will aim to address large-scale issues such as climate change, poverty, access to basic resources for all, and equity. When business partners are part of this movement, being ethical, sustainable, and responsible will be the basis of their contribution.

Discussion and Implications for Practice

Strategic CSR can be seen as an important stage in the evolution of CSR. In this context, it is the third wave between two previous waves and two future waves. Shifting away from no or low CSR, instrumental CSR, and corporate philanthropy, the time has come for companies to embrace a more holistic approach. Why? Because it is the only way in which we can address some of our greatest global challenges, perhaps even the only way we can survive on this planet. Because so many businesses, from small and medium enterprises to large multinational corporations, exhibit that it is possible to be more holistically responsible and impactful. Finally, with increased public awareness of social and environmental issues, consumers, employees, and other stakeholders have now come to expect companies to behave more responsibly. These stakeholders, with access to information and an ability to share information like never before, can expose corporate social irresponsibility, create stakeholder pressure, and take action against companies. Companies that do not adopt a more holistic and strategic approach and who continue to greenwash and rely on corporate philanthropy to patch up their destructive core operations may risk everything. This is why I argue that the future of CSR will be even more holistic and collaborative than it is today. We may even see CSR becoming obsolete, when social responsibility and sustainability are a given and companies are managed with a strong purpose and vision for a better humanity.

Companies that want to adopt strategic CSR need to align their social and environmental responsibility with their strategy—their plans for the future, mission, vision, and tactics. They must move away from random acts of charity to creating social impact that can also impact their business and industry. Strategic CSR requires a holistic and long-term approach, because global problems demand it. In addition, it is important to shift away from stakeholder management to stakeholder integration. All of these are important, but without ethical behavior and decision-making, it may all fall to pieces. Finally, strategic CSR has a purpose—using the power of business to address social and environmental issues.

While this may all sound difficult and challenging, there are a few important steps that companies can take to build strategic CSR:

(1) Identify and develop the company's strategy so it includes CSR and is aligned with it. This may require rewriting your mission statement and your vision, as well as the way the company delivers these.
(2) Discover key stakeholder groups and their potential representatives who can be involved in dialogue and actions toward this shift. Move beyond stakeholder mapping and management to full involvement and integration.

(3) Decide which social issues and sustainable development goals are closer to the business strategy and to whom you are as a company and make them your priority.
(4) Recruit, select, and socialize employees and managers so they can be fully involved in your CSR. It is not holistic unless it is embedded in every person, department, and branch of the company; in its DNA, culture, policies, and actions; in its identity and behavior, and in the identity and behavior of its employees.

Questions

(1) How does strategic CSR represent a shift in practice and in the purpose of business?
(2) Why is there a sense of urgency to move from instrumental CSR and corporate philanthropy to a more holistic and strategic approach?
(3) What are the urgent issues that strategic CSR can help address and why?
(4) Some say that the SDGs are the blueprint for the world that we need. Why is strategic CSR essential to address these goals by 2030?
(5) What other issues may arise in the future and what can business do to address these issues?

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MIND THE GAP
Shell's Political CSR Agenda and Challenges in Nigeria

Esther Hennchen

Introduction

Royal Dutch Shell started to assume political responsibilities that go beyond traditional philanthropy or corporate social responsibility (CSR) programs in the 1990s. This "political turn" in CSR is associated with the changing roles of private and public actors in which corporations attempt to close governance gaps at the global, regional, and local levels (Scherer, Rasche, Palazzo, & Spicer, 2016). Proponents of political CSR (PCSR) "build on a notion of politics that emphasizes deliberations, collective decisions, and a concern for (global) public goods" (Scherer et al., 2016: 274).

This case study examines the case of Royal Dutch Shell's subsidiary Shell Petroleum Development Company (SPDC) in Nigeria and addresses the following question: Which challenges does a multinational corporation like Shell face when engaging in traditional government activities in developing countries? The focus of this case is on how and why Shell has engaged in political CSR strategies in Nigeria. In more detail, the case examines the challenges the company faces with regard to its politicized role, the sustainability of its controversial industry practices, and corporate complicity in a context of a public responsibility deficit.

This case is particularly intriguing as the company is praised for its proactive and innovative CSR practices, while being a regular target of civil society activism and litigation concerned with malpractice. The analysis highlights the particular challenges that companies in controversial industries face in the context of increasing demands for PCSR. Additionally, the case points to the company's application of "double standards" and the sometimes negative consequences of much-praised practices. Specifically, it raises concerns regarding the "dark side" not only of the company's (mal)practices, but also regarding the weaknesses of the broader system of business and society, that is, democratic control over a powerful multinational corporation in a global and local context with a non-existent or weak regulatory authority. In this sense, this case, to an extent, also challenges the "bright side" bias of the numerous "best-practice" cases in the PCSR area. Shell's experience with the Ogoni crisis in the mid-1990s is often seen to have catalyzed international thinking about CSR and business ethics (e.g. Maak & Pless, 1998; Pless, 1998). The lessons from this case study are equally important to other companies assuming political responsibilities and provide a vehicle for discussion and insight on the crucial role of learning and adaption over time.

This case uses a case study methodology (Yin, 2003) based on longitudinal data from 2010 and 2014. It is based on a large variety of sources of evidence: in-depth interviews with key stakeholders, observation, and archival data. To maintain a consistent narrative, many of the sources of the organization's insights have been omitted (Davies, Doherty, & Knox, 2009).

Corporate Social and Political Responsibilities in Developing Countries

The importance of exploring the context-dependence of CSR has been accentuated in recent years (Jamali & Karam, 2018; Scherer et al., 2016). Scholars focusing on national business systems have elaborated distinct forms of CSR such as explicit CSR in economies like the United States and more implicit forms of CSR encountered across Europe (Matten & Moon, 2008). Also, Kang and Moon (2012) found that CSR is more competitive and instrumental in the liberal market economies (e.g., the US and UK) given national systems of governance emphasizing shareholder value creation. However, Jamali and Karam (2018) question whether centralizing these logics that are focused on hierarchy–market relations or explicitly tied to coherent institutions is suited for developing countries and argue that CSR in developing countries is a distinctive field of study. In particular, there is a need to explore how CSR is translated into a developing country context given the wider intra-system complexities and distinctive elements such as CSR being less formalized, more sunken and more philanthropic in nature (Jamali & Karam, 2018). In other words, there are limits to the transferability of frameworks and conclusions drawn in developed countries to those that are developing which need to be taken into account (Blowfield & Frynas, 2005).

Scholars call, in particular, for more insights concerning the African context as the continent has some of the poorest countries in the world and faces major development challenges (Muthuri & Gilbert, 2011). Also, the most pressing global issues such as climate change and environmental degradation are particularly troublesome in Africa which shows its ecological fragility (Visser, 2006). Additionally, there are multiple institutional voids such as weak regulatory environments and the absence of infrastructure and supporting institutions (Jamali & Carroll, 2017; Jamali & Mirshak, 2010). Given the "relative dearth of literature on CSR" (Amaeshi, Adi, Ogbechie, & Amao, 2006: 83) scholars contend that "a broadening of the empirical base, particularly to Africa, seems necessary" (Kolk, Rivera-Santos, & Rufin, 2014: 360).

Nigeria: A Complex Operating Environment

Nigeria presents a unique context for analysis given the complex development challenges such as "unchecked poverty; persistent hunger; uncontrolled diseases; lack of access to basic services; disregard for human rights; sub-optimal response to natural and man-made disasters; unregulated natural resources exploitation and use" (UNDP, 2016: 39).

Nigeria exemplifies the "resource curse." Seven decades of oil extraction in the country has resulted in poverty, environmental degradation, corruption, ethnic and gang violence, kidnappings, and militant activities in the Niger Delta. In 2019, Nigeria scored 98.5 in the alert category of the Fragile State Index (with 113.5 being very high alert and 16.9 very sustainable) with a decline of 1.4 from the previous year (Fund for Peace, 2019). With an estimated population of around 170 million, the poverty rate is 64%, and life expectancy at birth around 52.5 years. The adult literacy rate (15 years and above) stands at 60.8% and only 40% of the total population has access to electricity, whereby less than 20% of the rural households are covered. Furthermore, the economy contracted by 1.7%, largely due to the fall in global oil prices and decline in oil production, and the national currency, the naira, lost up to 50% of its value (UNDP, 2016).

Nigeria is also an example of a "rentier state." Instead of establishing a robust tax system, the government focuses its efforts on controlling taxes from oil production by resorting to state-imposed violence through undisciplined military, police, and security forces. Furthermore, the government secures elite compliance with instrumental benefits including public goods and services, employment opportunities, and lucrative government contracts, among others. Independent corruption indexes have corroborated the pervasiveness of corruption in Nigeria. For example, Transparency International ranked Nigeria as low as 144th (out of 180 countries) with a score of 27 (with 0 = highly corrupt and 100 = very clean) in its 2018 corruption perception index (Transparency International, 2019).

Paradoxically, the oil-producing communities in the Niger Delta suffer most from the lack of social and economic development as they bear the negative externalities of oil production while most of the oil revenue directly goes to the federal government's accounts. Different investigations report that the Niger Delta remains "one of the world's most severely petroleum-impacted ecosystems" (Federal Ministry of Environment, Nigeria Conservation Foundation, WWF UK, and CEESP-IUCN Commission on Environmental, Economic, and Social Policy, 2006: 1) as "the damage from oil operations is chronic and cumulative, and has acted synergistically with other sources of environmental stress to result in a severely impaired coastal ecosystem and compromised the livelihoods and health of the region's impoverished residents" (Federal Ministry of Environment et al., 2006: 2). As a consequence, "for many people, this loss has been a direct route into poverty, as natural resources have traditionally been primary sources of sustenance" (UNDP, 2006: 135). Concerns related to oil industry operations, its revenue and petroleum-related contamination, and unmet goals of peaceful struggle (i.e., the Ogoni movement's non-violent protests) became central to the emergence of militant groups, political tension, violence, theft, and sabotage in the Niger Delta. The grievances were further propelled by undisciplined violence by state security forces.

The Evolution of Shell's Political CSR Agenda

Shell's PCSR involvement in Nigeria represents the increasing engagement of business firms in business regulation and the production of public goods in the context of institutional incapacity. SPDC was Nigeria's largest onshore producer, controlling around 39 % of the nation's oil production. SPDC operated oil and gas production on behalf of its partners in an unincorporated joint venture between the government-owned Nigerian National Petroleum Corporation (NNPC) (55%), Shell (30%), Elf Petroleum Nigeria Ltd (10%), and Agip (5%) (Shell Nigeria, 2020).

The origins of the company's global CSR agenda essentially lay in Nigeria. The protests against Shell's poor environmental and human rights record in Nigeria and eventually the company's alleged implication in the hanging of Ken Saro-Wiwa in the mid-1990s seriously threatened SPDC's social license to operate and thus its access to the country's oil reserves along with its long-term commercial interests (Goyder & Ladbury, 2002: 3). Shell adopted a CSR agenda that went beyond traditional CSR programs and gave the company a quasi-governmental role with then-unknown challenges for its economic and political role.

The Ogoni crisis provoked a global outcry as Shell was found complicit in the military action against the Movement for the Survival of the Ogoni People's leaders and the killing and displacement of thousands of people in the region as the military used planes, boats, and weapons paid for by the company. Court documents furthermore claimed that Royal Dutch Shell, acting through its subsidiary SPDC, not only supported the Nigerian military but was also involved in designing the strategy that resulted in the unlawful execution of the "Ogoni Nine" (Evans, Merchant, Fain, & Roberts, 2013). Furthermore, Shell was also criticized for shirking its responsibilities to speak out against what was, by all standards, an unfair trial.

From August to October 1993, the Nigerian military attacked villages, killed over 1,000 people, and displaced over 20,000 more. On 22 May 1994, the Nigerian military arrested all of the leaders of the Movement for the Survival of the Ogoni People, including Saro-Wiwa. The latter led a non-violent campaign against the environmental degradation of Ogoniland's land and water by the multinational petroleum industry, especially Royal Dutch Shell. The activists were hastily tried and found guilty on all charges by a special military tribunal, which ordered that they be hung in 1995. Their trial and execution were widely seen as politically motivated and completely unfounded.

Despite its direct connection to Saro-Wiwa's arrest and its undisputed position of power in the country, the company argued that it would be "dangerous and wrong" for Shell to "intervene and use its perceived 'influence' to have the judgment overturned." Furthermore, the company insisted that it was wrong for "a commercial organization like Shell…[to] interfere with the legal processes of any sovereign state" (Human Rights Watch, 1999: 157). The way Shell handled the situation created the impression that it was collaborating with a corrupt government, provoking a global outcry and seriously damaging Shell's reputation.

Shell soon admitted that the company had grown out of touch with societal expectations. Mark Moody-Stuart, then Managing Director, stated that in this situation "we had to look deeply at ourselves and say 'Have we got everything right?'" (Guyon, 1997: 121). In response, the company embarked on a comprehensive review of its attitude and activities at different levels.

At the corporate level, in 1997 Shell adopted the core values of honesty, integrity, and respect for people as the basis for a Statement of General Business Principles. The eight principles integrate economic, environmental, and social considerations into business decision-making and describe five inseparable areas of responsibility to shareholders, customers, employees, business partners, and society (Shell Global, 2020). Shell also developed Human Rights Compliance Assessment tools, which provided a step-by-step approach to assess all potential risks of human rights violations (Jacoba Schouten, 2010). Shell then offered training to its employees on the company's business principles and code of conduct and a special course for managers to understand their responsibilities and take action to support human rights. To increase transparency, the company incorporated a commitment to business integrity and transparency in its General Business Principles (since 1976) and code of conduct (since 2006). It also supports the Extractive Industries Transparency Initiative, and publishes reports in accordance with the International Petroleum Industry Environmental Conservation Association and in line with Global Reporting Initiative guidelines. The company also established both external controls with the help of an external review committee and well-established auditing firms such as KPMG, and internal controls such as audit trails and statistical checks to ensure the credibility of its reports (Royal Dutch Shell, 2009).

The company also revised its corporate governance structures. Due to Nigeria's importance to Shell, in terms of the complexity of the local operating environment and the volume of oil produced, the company created a permanent Nigeria team at the headquarters level. Corporate responsibility governance structures were also put in place at the Board of Royal Dutch Shell Plc. The Corporate and Social Responsibility Committee assessed Shell's policies and performance with respect to the business principles, code of conduct, health, safety, security, the environment, and social performance standards and major issues of public concern on behalf of the Board of Royal Dutch Shell Plc. (Royal Dutch Shell, 2009: 6).

At the global level, Shell supported international human rights initiatives such as the Global Compact, the UN Special Representative on Business and Human Rights, John Ruggie, and the Voluntary Principles on Security and Human Rights. With regard to the latter, Shell introduced a clause based on these principles to all new and renewed security contracts and expected these contractors to apply it by 2012 (Royal Dutch Shell, 2009). Shell's engagement in global partnerships to fight HIV/AIDS included UNAIDS scenario development and the Global Business Coalition on HIV/AIDS. The company also signed the 2002 World Bank-initiated Global Gas Flaring Reduction Partnership, joined the Environmental Defense's Partnership for Climate Action, and committed itself to reduce emissions to 1990 levels by 2010.

At the local level in Nigeria, stakeholder engagement via dialogue and partnering was a cornerstone of Shell's strategy "of being a good neighbor." The company cooperated with national development programs. For example, in 2018 Shell's share of the social investment project in Nigeria was $31 million (Royal Dutch Shell, 2019). In 2006, SPDC introduced a new way of working with communities called the Global Memorandum of Understanding which placed more emphasis on transparent and accountable processes, regular communication with grassroots organizations, and greater sustainability and conflict prevention (Shell, 2012).

Mind the Gap

A cornerstone of Shell's sustainability agenda was stakeholder engagement, encouraging dialogue, partnering, and transparency as the very basis of the company's social license to operate. However, the reality was a different picture, one marked by bribery, and a lack of transparency, inclusiveness of voices in dialogue, and cooperation. Also, more recent independent investigations and legal proceedings condemned Shell's practices with regard to human rights violations, fueling violence, and environmental degradation.

Bribery and Corruption

Many civil society actors criticized the tangled links between the oil firm and politicians which lay the ground for undue political influence and corruption.

The Senior Program Advisor with the Africa Governance Monitoring and Advocacy Project criticized the fact that the economic power of multinational corporations had been translated into political power to the extent that "oil companies actively pressure the government regarding such things as tax laws" (Manby, 1999: 283). In September 2007 the Oil and Gas Reform Implementation Committee proposed the most comprehensive review of the legal framework for the oil and gas sector in Nigeria since the industry began commercial operations in the 1960s. This Petroleum Industry Bill was designed to reform the entire hydrocarbon sector to streamline the decision-making process, increase the government's share of revenue, promote local content, provide a greater share of oil revenues to the producing communities, and expand the use of natural gas for domestic electricity generation. Shell's intervention was highly criticized as the Petroleum Industry Bill seemed to grant more favorable terms to Shell and its rivals than originally imagined after much internal "lobbying." A lawmaker who was a member of the three committees in the Senate handling the Bill revealed that they were put under intense pressure by the Presidency to accommodate some of the demands of the oil majors:

> Our intention was to pass the bill as sent to us by the late President Umaru Musa Yar'adua, but these companies put us under intense pressure, they even got the American government to intervene on their behalf. Shortly after his return from the United States early this year when he was Acting President, Jonathan requested that the provisions of the bill be reviewed after which he asked the leadership of the two chambers to look at the issue of tax and reduce it to allow for "investment" in the sector.
>
> *(Hassan, 2010)*

Similarly, an academic researcher from the Revenue Watch Institute in Abuja added that Shell intervened by "bribing parliament members and paying them trips to conferences to Ghana and the US," (interview, Abuja, 2011) in which the new regulatory framework governing investment in Nigeria was discussed, excluding any participation from civil society actors. In the same line of thought an activist from the NGO Social Action claimed in an interview:

> and the officers, they would rather take their mother to court than confront Shell. With the bribes, they will give judgments in favor. So there is…the ordinary people. The voiceless people…Shell is the big oil company, the company that has so much influence on the government.

Also, a leaked confidential memo from the US embassy in Abuja revealed that Shell works deep inside the political system and is able to exploit political channels in Nigeria to its own advantage. In the memo dated 20 October 2009 Ann Pickard, Shell's then-Vice President for Sub-Saharan Africa, was quoted as telling US diplomats that Shell had seconded people to all the relevant ministries and that Shell consequently had access to everything that was being done in those government offices (US Embassy Abuja, 2009).

Human Rights Violations

Shell also allegedly paid substantial amounts of money to the Nigerian army, navy, and Mobile Police Force on a regular basis and provided transportation and accommodation for soldiers who were notorious for their record of human rights abuses. In addition, the company also awarded "surveillance" contracts or one-off payments to violent youth groups to "protect" their facilities, which exacerbated conflicts and contributed to cycles of violence for two reasons. First, as a member of the NGO Social Action explained in an interview, contracts awarded to the youth groups to "protect" the facilities from other gangs created competition and eventually conflict over contracts among the different groups. This practice became a method of pay-offs for theft or vandalism through a legitimized contract system and a "monetary" mechanism to empower some Shell-selected community members. As a consequence, traditional power structures were distorted which raised questions about the new social and financial status of "contracted personnel." Second, this system provided the wrong incentives in a context of extreme poverty in that it encouraged the communities to "create" work (that is, it incentivized sabotage). For example, interviews conducted by Friends of the Earth Nigeria and unpublished independent reports seen by *The Guardian* newspaper claimed that Shell incentivized a sabotage incident in August 2011 on the Bonny pipeline, as the company withdrew contracts to monitor and protect the pipeline (Vidal, 2011). Also, reports by the NGO Platform (2012) described how Shell's conduct in the town of Rumuekpe led to "the killing and displacement of thousands of local people" in ethnic and communal conflicts between summer 2005 and November 2008.

Shell's manager in Nigeria admitted in an interview with Platform that these one-off contracts were "just something to keep the youths busy during the Christmas period so that they [would] not be wanting to create jobs for themselves by vandalizing Shell or Elf facilities" (Platform, 2012). However, Shell's then Managing Director, Mutiu Sunmonu, did not perceive this practice as a problem as he saw the hiring of youths as a means to comply with their stakeholder engagement and promise to provide employment to host communities. For example, he responded to questions about the incidents in Rumuekpe as follows: "We are not directly involved in killings in the areas. We focused on education, we promote skill acquisition [and] create jobs for communities" (Platform, 2012).

Lack of Dialogue and Stakeholder Engagement

Many civil society actors perceived Shell's engagement with stakeholders as rhetorical manipulation that did not transcend the company's self-interested position. For example, one interviewee from civil society claimed: "they ride on the wings of CSR to gain access to oil." Similarly, the current approach based on the Global Memorandum of Understanding focused only on salient and highly visible projects that were consistent with social expectations while leaving the essential machinery of the company's core business intact. The company worked only via NGOs or community officials and thus had no direct contact with communities. An interviewee from academia explained that this was problematic as "Shell involves NGOs as contractors and not as development organizations. They represent Shell's interests and are only accountable to Shell." To address these issues, Nnimmo Bassey from Environmental Rights Action requested that

> oil and gas companies must learn to listen…The Ogoni, the Ilaje, and their fellow protesters chose the best route out of the mire that the Niger Delta has become: through nonviolent dialogue. This is what was demanded ten years ago. This demand still remains to be answered.
>
> *(Bassey, 2008)*

Environmental Degradation

SPDC's oil exploration and extraction activities cause severe air, land, and water pollution for many communities, with disastrous effects on people's health and livelihoods. Particular concerns included oil spills and gas flaring.

Responsibility for oil spills and adequate remediation efforts were very much disputed. On the one hand, all civil society organizations that were interviewed criticized the company for its continuing failure to operate fully in accordance with international best practice, local regulatory requirements, and SPDC's own procedures. Shell's corroded infrastructure and the failure to clean up subsequent oil spills was also criticized in the scientific assessment of the United Nations Environment Program (2011) and litigated in several court cases. For example, in July 2012 Nigerian authorities fined Shell US$5 billion as an "administrative penalty" over an oil spill in December 2011 at the Bonga offshore field. In August 2011, in the first case of this kind, Shell had to accept legal liability for two massive oil leaks in 2008–2009 as a result of equipment failure. And on 30 January 2013 the district court of the Hague ruled that the company was responsible for an oil spill in the Niger Delta and ordered the oil giant to pay damages to one farmer, Mr. Friday Akpan. The court found the company guilty of neglecting its duty of care as "Shell could and should have prevented this sabotage in an easy way" (Leigh Day, 2013). Martyn Day, the lawyer who represented the Nigerian Bodo community, whose claim against Shell was to be heard in the UK High Court in 2014, said:

> Over many years Shell has denied any responsibility for these types of spills resulting from "bunkering" or sabotage. The Dutch decision in relation to Mr Akpan is therefore a major step forward as it makes Shell aware in no uncertain terms that they have a responsibility to ensure that all steps are taken to ensure the illegal sabotage does not occur.
>
> *(Leigh Day, 2013)*

Ken Henshaw, a Niger Delta activist from the campaign group Social Action who closely followed the case, commented on the ruling: "a precedent has been set, it has been made known that Shell can be liable for damages and loss of livelihood" (Harvey & Hirsch, 2013). Also, a report by the University of Essex asserted that the parent company was responsible for damage done via its subsidiaries:

> Courts in the UK have recently made it clear that where a parent company undertakes responsibility for setting environmental, health and safety standards on which a particular subsidiary relies, then the parent company must do its best to make sure to follow through, making sure that those standards are implemented. The parent can be sued by victims—including victims overseas—if it falls down on what the law labels as its duty of care.
>
> *(Leader et al., 2012: 3)*

On the other hand, Shell claimed to have reduced its oil spills significantly and attributed the majority of current oil spills to sabotage and theft for which the company refused any responsibility (Royal Dutch Shell, 2010: 18). For example, in response to accusations against the company during the hearing at The Hague, Shell Netherlands President Peter de Wit replied that "Shell is doing a good job often under difficult circumstances," and insisted that the company applied "global standards" to its operations around the world (Nwachukwu, 2011). Mutiu Sunmonu added: "We welcome the court's ruling that all spill cases were caused by criminal activity" (Harvey & Hirsch, 2013). On another occasion he stated:

> Apart from sabotage, there is still a comparatively small proportion of spill due to equipment failure or human errors…But the most effective measure will depend on [the] government's ability to establish the rule of law in the Delta.
>
> *(SPDC, 2011: 6)*

The problem of ongoing gas flaring presents a similar picture. The government of Nigeria had worked to end gas flaring for several years, but the deadline to implement the policies and to fine oil companies was repeatedly postponed, the most recent deadline being December 2012. On the one hand, security risks in the Niger Delta made it difficult for oil companies to build infrastructures that would support gas monetization. On the other hand, the companies failed to obey court orders and continued illegal gas flaring. For example, in 2005, Jonah Gbemre took Shell to court over the gas flaring in his village (in the Iwherekan community, Niger Delta) and won a surprise victory in Nigeria's Federal High Court. The judge declared "that gas flaring is a 'gross violation' of the constitutionally-guaranteed rights to life and dignity," and ordered Shell and NNPC to be "restrained" and to "take immediate steps to stop further flaring in Iwherekhan" (Climate Justice Programme, 2005). However, the company has thus far ignored the ruling. Also, the 2009 Gas Master Plan that promoted new gas-fired power plants to help reduce gas flaring and provide much-needed electricity generation showed limited progress (US Energy Information Administration, 2012).

Despite Shell's attempts to engage proactively with the CSR agenda, the company remained a regular target of civil society activism and legal proceedings concerned with malpractice. "The situation has not changed from what it were in the past. In fact, it is worse." This statement from a human rights activist of the NGO Social Action reflected the frustration of most people in the Niger Delta. Paradoxically, more people live in poverty than before oil was found and the oil-producing communities have suffered the most. Lately, civil society claims have been supported in the first case of this kind by a scientific investigation by the United Nations Environment Program (UNEP, 2011) and legal sanctions against Shell in the UK, US, and the Netherlands. They increasingly questioned the company's positive political role along with its political CSR strategy in the country.

Shell's Future in Nigeria

Sir Mark Moody-Stuart described Shell's dilemma in the 1990s very well, which is still relevant for the company today: "The biggest change…for an international corporation is this extension of responsibility…beyond just paying your taxes and beyond just relating effectively to communities around your factory fence" (Valente & Crane, 2010: 62). History seemed to repeat itself. Again, the relevant question for Shell in Nigeria was "Have we got everything right?"

Assuming enlarged political responsibilities to respond to institutional voids to guarantee sustainable development required more than a one-size-fits-all solution in such a complex environment as Nigeria. The company's management challenges prompt key questions.

Questions

(1) How can a company manage the implications of the adoption of political responsibilities in an extremely complex environment such as Nigeria?
(2) How can a company in a so-called controversial industry sector align corporate practices that inherently entail persistent risks with social and environmental sustainability?
(3) How can a company avoid corporate complicity in a context of a public responsibility deficit (institutional incapacity, corruption, and militarization)?

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PART 4

CSR, Stakeholding, and Partnering

16
A NEW APPROACH TO CSR
Company Stakeholder Responsibility[1]

R. Edward Freeman and S. Ramakrishna Velamuri

The Problem: Has the Idea of Corporate Social Responsibility Outlived its Usefulness?[2]

Assume that the CEO of Firm A is asked the following:

> Well, I know that your company makes products that consumers like, and that those products make their lives better. And I know that suppliers want to do business with your company because they benefit from this business relationship. I also know that employees really want to work for your company, and are satisfied with their remuneration and professional development. And, let's not forget that you're a good citizen in the communities where you are located;[3] among other things, you pay taxes on the profits you make. You compete hard but fairly. You also make an attractive return on capital for shareholders and other financiers. However, are you socially responsible?

We confess to having absolutely no idea what "socially responsible" could mean here. If a firm is doing all the things that Firm A does, then it deserves to be applauded and offered as an example for other firms, large and small, to emulate. If it is not doing them as satisfactorily as we think it ought to, then we could perhaps offer to help it do them better, rather than appeal to actions and responsibilities that might lie outside the domain of its day-to-day activities. In summary, by talking of business and social responsibility as if they were two separate things, we might unintentionally be promoting the idea that they involve discrete thought processes and activities. In our opinion, the challenge is to promote a different way of doing business that integrates considerations of business, ethics, and society.Herein lies the problem with corporate social responsibility. Corporate social responsibility reinforces "the separation thesis," or the idea that we should separate "business" from "ethics or society." This separation is an idea that reaches very deeply into Western culture. It is reinforced by the disciplines of business, by our major theoretical frameworks in management, and by executives and business thinkers themselves. At its worst it generates an absolutely destructive idea of capitalism, that is, that capitalism is about "anything goes." After all, the theory says, "it's just business." Viewed in this way, corporate social responsibility becomes an "add-on" to ameliorate the supposedly harsh consequences of this view of capitalism.

Let us go back to the example of our Firm A, and examine its decision to hire employees. Has it done something that is "for the business"? We believe that the answer to that question is a resounding and unqualified, "Yes." Has it done something that is "for society"? We believe that the answer to that question is also a resounding and unqualified, "Yes." So, how do matters of employment count—in the social ledger or the business ledger? A similar argument can be made for customers and communities, and for suppliers and financiers as well. All these individuals and organizations are fully fledged members of society, as well as being stakeholders in Firm A. If they benefit in their dealings with Firm A, then society benefits too, both directly and in a number of indirect ways.

Corporate social responsibility is often about seeming to "do good works." And, while there is certainly nothing wrong with doing more good, there can be an implication that companies need to do good works because the underlying structure of business is not good, or morally neutral. We believe that this is a destructive idea, because it fails to recognize the central role business has played in improving the well-being and prosperity of hundreds of millions of people around the world. And, it often causes companies to act in bad faith and get involved in matters where they have little expertise.

This is not Milton Friedman's argument that the only social responsibility is to increase profits; rather it is a practical matter, that giving money to the opera does not make up (in any moral sense) for short-changing customers or communities. The focus needs to be on how value is created in the basic business proposition. How does this company make customers, suppliers, communities, employees, and financiers better off? Capitalism is a system of social cooperation—a system of how we work together to create value for each other. Seeing it any other way can lead to dangerous social policies, and to the tarnishing of the one institution—business—that still has to play a central role in lifting hundreds of millions more people out of poverty in Asia, Africa, and Latin America.

The second problem with corporate social responsibility is that it is focused on "corporate" social responsibility. Why is it not called business social responsibility? The focus on "corporate" implies that corporations, due to their size and success and perhaps their shareholding pattern, have to shoulder responsibilities that smaller and more closely held businesses do not. Why? It could be argued that large and successful corporations have a greater responsibility to society than small and less successful ones, because they have greater resources to shoulder society's burdens, and can implies ought. However, we believe that talking of responsibilities that are contingent on size and success is highly problematic.

In short, our argument is that if you take a "creating value for stakeholders" approach to business, and if you acknowledge that ethics and values are as important in these relationships as they are in our other relationships with our fellow human beings, then the idea of "corporate social responsibility" is just superfluous. There is nothing natural about categories such as economic, political, social, and so on and we want to suggest that such a conceptual scheme—which separates the social responsibilities of a corporation from its business responsibilities—has long outlived its usefulness.

We propose to replace "corporate social responsibility" with an idea we call "company stakeholder responsibility." This is not just semantics, but a new interpretation of the very purpose of CSR. "Company" signals that all forms of value creation and trade, all businesses need to be involved. "Stakeholder" goes back to the very first paragraph of this chapter and suggests that the main goal of CSR is to create value for key stakeholders and fulfill our responsibilities to them. And "responsibility" implies that we cannot separate business from ethics.[4] We will argue that taking a stakeholder approach to business is ideally suited to integrate business, ethics, and societal considerations. Stakeholder theory is about value creation and trade—it is a managerial theory about how business works. It does not subscribe to the separation thesis, so it asks at once business and ethics questions about each stakeholder relationship. The remainder of this chapter is structured as follows. The next section provides a brief history of how the stakeholder approach to management developed. The following section outlines four successive levels of commitment to the stakeholder approach to CSR: the basic value proposition, sustained stakeholder cooperation, understanding of the broader societal issues, and ethical leadership. These four levels can be considered steps that firms can take as they progressively increase their commitment to the stakeholder approach. Next we discuss ten principles of the stakeholder mindset that a firm must follow for it to reach the highest level of stakeholder commitment—ethical leadership. Finally, we summarize the argument.

A Brief History of the Stakeholder Idea[5]

A stakeholder approach to business emerged in the mid-1980s. One focal point in this movement was the publication of R. Edward Freeman's *Strategic Management: A Stakeholder Approach* in 1984, building on the process work of Russell Ackoff, Eric Trist, Ian Mitroff, Richard Mason, and James Emshoff. The impetus behind stakeholder management was to try to build a framework that was responsive to the concerns of managers who were being buffeted by unprecedented levels of environmental turbulence and change. Traditional business frameworks were neither helping managers develop new strategic directions nor were they helping them understand how to create new opportunities in the midst of so much change. As Freeman observed, "our current theories are inconsistent with both the quantity and kinds of change that are occurring in the business environment of the 1980s…A new conceptual framework is needed" (1984: 5). A stakeholder approach was a response to this challenge. An obvious play on the word "stockholder," the approach sought to broaden the concept of business beyond its traditional economic roots, by defining stakeholders as "any group or individual who is affected by or can affect the achievement of an organization's objectives" (Freeman, 1984: 46). The purpose of stakeholder management was to devise methods to manage the myriad groups and relationships that resulted in a strategic fashion. While the stakeholder framework had roots in a number of academic fields, its heart lay in the clinical studies of management practitioners that were carried out over ten years through the Busch Center, the Wharton Applied Research Center, and the Managerial and Behavioral Science Center, all at the Wharton School, University of Pennsylvania, by a host of researchers.

While the 1980s provided an environment that demonstrated the power of a stakeholder approach, the idea was not entirely new. The use of the term stakeholder grew out of the pioneering work at Stanford Research Institute (now SRI International) in the 1960s. SRI's work, in turn, was heavily influenced by concepts that were developed in the planning department of Lockheed and these ideas were further developed through the work of Igor Ansoff and Robert Stewart. Thus, the stakeholder approach is firmly rooted in the practice of management.

Giles Slinger (1998, 2001) has revisited the early history of the idea of stakeholders. Through more extensive interviews, and the examination of a number of historical documents, Slinger rewrites the history as told in Freeman (1984). The essential difference is that the early use of the stakeholder idea was not particularly oriented towards the survival of the firm.

SRI argued that managers needed to understand the concerns of shareholders, employees, customers, suppliers, lenders, and society, in order to develop objectives that stakeholders would support. This support was necessary for long-term success. Therefore, management should actively explore its relationships with all stakeholders in order to develop business strategies.

The stakeholder approach has been used extensively by business ethicists to explore the ethical consequences on stakeholders of managerial action. Donaldson and Preston (1995) proposed four different ways in which scholars had applied the stakeholder approach to business ethics: as a normative theory, which posits that managers ought to take into consideration the interests of all stakeholders; as a descriptive theory, which limits itself to describing how managers in fact treat stakeholders; as an instrumental theory, which takes the position that managers who take into consideration stakeholders' interests will enjoy better firm performance; and finally, as a managerial theory, that is, as a guide to managerial action. We believe that this fourth managerial perspective on the stakeholder approach has received the least attention in recent times, in spite of having been at the roots of the stakeholder concept at SRI.

According to Freeman and McVea (2001), the stakeholder approach has seven distinguishing characteristics. First, it offers a single strategic framework that allows a manager to deal with changes in the external environment without the need for new strategic paradigms. In this way, it is particularly suited to the dynamic environments that are so prevalent today. Second, the stakeholder approach is a strategic management process rather than a strategic planning process. The focus is less on predicting the future and more on proactively plotting the direction of the firm. Third, a central concern of the stakeholder approach is the achievement of the organization's objectives through the harnessing of support of all those who are affected by the firm's actions, as well as all those who can affect the progress of the firm. Fourth, the stakeholder approach emphasizes the critical role of values-based management, by recognizing that a diverse collection of stakeholders will cooperate with the firm over the long term only if they share a core set of values. Fifth, it is at once a prescriptive and a descriptive framework. It advocates a holistic approach to management, integrating economic, social, political, and ethical considerations. Sixth, rather than take a stylized view of stakeholders based on very general roles-based groupings (such as shareholders, suppliers, and so on), the stakeholder approach places great importance on acquiring a fine-grained understanding of the particular stakeholders of each firm. This deep understanding enables the management to develop tailored solutions for particular stakeholders, much as is done with mass customization. Finally, it starts off with the premise that a firm can exist and sustain itself only if it offers solutions that balance the interests of multiple stakeholders over time. Taking a stakeholder approach to CSR means we have to focus on integration across stakeholders and on practical managerial solutions that create value for customers, employees, suppliers, communities, and financiers.

In the section that follows, we outline four levels of commitment to company stakeholder responsibility.

Four Levels of Commitment to the Stakeholder Approach[6]

Level 1: Basic Value Proposition

At this most basic level, the entrepreneur or manager needs to understand how the firm can make the customer "better off," while at the same time offering an attractive value proposition to employees, suppliers, communities, and financiers. It is important to note that it is not possible to sustain making customers better off, without at the same time making the other stakeholders better off. For example, Naturhouse, a Spanish dietary supplements retail chain, has grown at an annual rate of between 40 and 50% for seven years in a row from 1997 to 2004, in a mature and highly competitive market. It took the company five long years, from 1992 to 1997, to develop and refine a new business model with strong value propositions to its stakeholders. Once the company had finally come up with a model that offered its suppliers a decent price, its franchisees an attractive return on investment and effort, and its customers a unique combination of products and nutritional advisory services, it was able to grow at an explosive rate. What this example highlights is so obvious that we too often take it for granted: a business model that simultaneously satisfies the different stakeholders is a prerequisite for any company to start doing business profitably. Business failure and mediocre performance are often attributable to the firm's inability to articulate strong enough value propositions simultaneously to all its stakeholders.

Level 2: Sustained Stakeholder Cooperation

Once the most basic level of stakeholder awareness has been achieved, the entrepreneur or manager must understand that the continued survival and profitability of the company depend on effectively sustaining cooperation amongst the stakeholders over time. The competitive, macro-economic, regulatory, and political environments are so dynamic that they make it necessary for the initial stakeholder arrangements to be revised on a constant basis. Each revision will invariably upset the delicate balance struck in the value propositions of the company to the different stakeholder groups. For example, the entry of a new competitor from a low-cost country such as China might mean the company has to reduce its price to its customers. This reduction might well involve a short-term reduction in the prices paid to suppliers, a reduction in the wages of employees relative to output, or a reduction in the return to financiers. It is important for the manager to have a deep understanding of how these trade-offs affect each stakeholder, the limits to the sacrifice a given stakeholder will accept, and how these current sacrifices can be compensated in the future. Indeed, management according to the stakeholder approach is the effective balancing over time of multiple stakeholder interests.

Level 3: An Understanding of Broader Societal Issues

According to Haaland-Matlary (2005), the manager today is asked to be aware of and responsive to more and more international issues, without the moral compass of the nation-state or religion to guide him or her anymore. The insecurity caused by the increase in terrorism further compounds matters. Often, companies are caught flat-footed in the face of unexpected developments:

> it was only after the fact in Nigeria that Shell took a major interest in human rights… when Amnesty International accused Telenor, a Norwegian telecommunications company, of racist policies in Malaysia, the company's management froze and responded more than a week late. Even though Amnesty International's case was poor, the damage was done. (Haaland-Matlary, 2005)

What this means is that managers can no longer decline to take positions on issues that apparently are not purely business-related. Shell paid a heavy price through loss of reputation by its refusal to use its considerable leverage with the Nigerian Government to try to halt the execution of political activist Ken Saro-Wiwa. A proactive attitude is necessary towards all stakeholder groups, both primary, that is, those that have direct business dealings with the company, and secondary, such as NGOs and political activists, who can affect the operations of the company.

Level 4: Ethical Leadership

Recent research points to a strong connection between ethical values and positive firm outcomes such as sustained profitable growth and high innovativeness. The Good Work Project, started in 1995 by three teams of investigators led by Howard Gardner, Mihaly Czikszentmihalyi, and William Damon, examined the relationship between ethics and performance. This project involved intensive, face-to-face interviews with professionals in a variety of domains: "journalism, genetics, business, jazz music, theater, philanthropy, and higher education" (Gardner et al., 2000). Based on 40 interviews with business leaders in the US, Damon (2002: 77) concludes:

> We found that a strong sense of moral purpose not only promotes a business career but also provides a telling advantage in the quest to build a thriving enterprise. In fact, a sense of moral purpose stands at the center of all successful business innovations. Far from being a constraining force that merely keeps people honest and out of trouble, morality creates a fertile source of business motivation, inspiration, and innovation.

Damon (2002) proposes three faces of morality: restrictive, philanthropic, and generative. Restrictive morality mainly consists of controlling behaviors that can be destructive, such as cheating, lying, or committing sexual harassment; it provides us with guidance about what not to do. Philanthropic morality promotes contributions to worthy social causes. Damon points out that this form of morality is triggered after the individual or organization has achieved success and profits. It is often practiced out of enlightened self-interest. The third type of morality is of the generative kind, which is based on a

> proactive promotion of positive moral initiatives, as opposed to embracing ethical postures as a way to avoid ethical breaches. A positive moral initiative may be as simple as the urge to serve customers better by bringing them a better or less-expensive product, or as complex as making the news available to everyone on earth 24 hours a day. But whether the impetus is large or small, a sense of moral purpose beats at the heart of every great business success, because it's that pulse that creates and sustains the innovation that achieves success.
>
> Generative morality arises from a deep inner belief that sparks imagination and gives birth to a new business concept. It also fosters the sense of commitment that sustains the concept during inevitable periods of doubt, stress, and temporary reversals. It provides a reason to go to the mat for an idea, a steel foundation for the persistence needed to implement any innovation. And it's the key to giving your company the moral advantage. (Damon, 2002)

We believe that this form of proactive ethical leadership is possible only if there exists a deep understanding of the interests, priorities, and concerns of the stakeholders.

We believe that there are some general principles which make up a "mindset" or "world view" that is necessary to understand and practice all four levels of company stakeholder responsibility.

Ten Principles of Company Stakeholder Responsibility

(1) We See Stakeholder Interests as Going Together Over Time

The very idea of managing for stakeholders is that the process of value creation is a joint process. Let us take the case of a typical CEO of a large international company. We will make the CEO an amalgam of a number of real CEOs, and call him Bob Collingwood, and his company, Woodland International.[7] Collingwood's company's products and services must create value for customers, first and foremost, so that they are willing to pay for them. Suppliers must be willing to do business with Woodland International, so that products and services can be created in the first place, and if the suppliers are committed to making Woodland even more effective and productive, then both will be winners. Woodland must offer employees jobs (wages and benefits) that are acceptable, and if Bob and his colleagues can get employees to share the purpose of Woodland, to come to work engaged and ready to create value, then all will be winners. Woodland needs to be a good citizen in the communities in which it operates, if for no other reason than, in a relatively free and open society, citizens can use the political process to force Woodland to be a better citizen. If on the other hand, Woodland acts as a responsible citizen it may well generate very positive good will, and be able to operate more freely. Finally, Woodland needs to show returns to its shareholders, meet obligations to debt holders, banks, and others. Profits do not conflict with other stakeholders; rather they are the scorecard which tells us how well we are managing the whole set of stakeholder relationships. Bob and his colleagues must keep these stakeholder interests in balance, hopefully mutually reinforcing each other.

(2) We See Stakeholders as Real People with Names and Faces and Children. They are Complex

Of course people are complex, and that should go without saying. However, much of the popular thinking about businesspeople assumes just the opposite. We often make assumptions that businesspeople are only in it for their own narrowly defined self-interest. One main assumption of the traditional shareholder-centered view is that shareholders only care about returns, and therefore their agents, managers, should only care about returns. Most human beings are more complicated. Most of us do what we do because we are self-interested and interested in others. Business works in part because of our urge to create things with others and for others. Working on a team, or creating a new product or delivery mechanism that makes customers' lives better or happier or more pleasurable all can be contributing factors to why we go to work each day. And, this is not to deny the economic incentive of getting a paycheck. The assumption of narrow self-interest is extremely limiting, and can be self-reinforcing—people can begin to act in a narrow self-interested way if they believe that is what is expected of them, as some of the scandals such as Enron have shown. We need to be open to a more complex psychology—one any parent finds familiar as they have shepherded the growth and development of their children. We have encountered story after story where managers "discovered" that their "adversaries" were a lot more like them than they had originally thought. In short, they discovered that these "adversaries" shared a great deal of their own humanity: a lesson which we should all remember.

(3) We Seek Solutions to Issues that Satisfy Multiple Stakeholders Simultaneously

Bob Collingwood's problem is that his world is fragmented. Issues and problems come at him and his team from lots of places, in lots of forms. He could spend his entire job just talking to customers, or employees. He needs to find a way to develop programs, policies, strategies, even products and services that satisfy multiple stakeholders simultaneously. Now the first step in that process is to actually recognize that he needs to look for simultaneous solutions. For instance, suppose that he is under pressure to make a particular service more affordable to low-income citizens. Under the traditional shareholder-centered view, he might see this as an illegitimate "tax on shareholders." Such a view would lead to not much innovation and constant friction with critics and regulators. He might take this criticism as a call for innovation and productivity, so that if he can figure something out, he can develop a new market (lower-income customers), satisfy some critics, and become a good citizen in the community. The difference in mindsets is fairly substantial, and so will be the search for a solution.

(4) We Engage in Intensive Communication and Dialog with Stakeholders—Not Just Those Who are Friendly

Obviously, we need intensive dialog through multiple methods with customers, suppliers, employees, and shareholders, but communities, critics, and other secondary stakeholders count as well. Critics are especially important dialog members. Critics are trying to give Collingwood and his team another point of view about Woodland International. One way to see critics is as representing unmet market needs, since the critic wants the company to act differently. It is the job of the executives to see if there is some underlying business model, so that this unmet need can be turned into an entrepreneurial opportunity creating wins for all stakeholders. Not every critic can be satisfied, not every critic has a legitimate point of view, and not every need can be met. But, too often executives do not meet with their critics enough to determine whether or not there is an opportunity to create value. Dialog is the foundation of a free society, and the foundation of capitalism itself. Despite fictional stories about "spot market transactions where every player just knows the prices," real business is built on a foundation of solid, honest, and open communication. Indeed, most management meetings we have been a part of for the last 25 years have all, at some point, reinforced the need for "better communication." There is no difference in adopting a managing for stakeholders view—it is just more difficult and even more intense.

(5) We Commit to a Philosophy of Voluntarism—To Manage Stakeholder Relationships Ourselves, Rather than Leaving it to Government

When executives and pundits are committed to the traditional shareholder view, there is a temptation to look at the myriad stakeholder pressures and play "blame the stakeholder." But the real problem is here is our mindset. In short, "We have met the enemy, and he is us." The challenge for us is to reorient our thinking and our managerial processes to be responsive to stakeholders. We believe that such a stakeholder mindset must be based on the idea of voluntarism. Voluntarism means that an organization must, of its own will, undertake to satisfy its key stakeholders. A situation where a solution to a stakeholder problem is imposed by a government agency or the courts must be seen as a managerial failure. Similarly, a situation where Firm A satisfies the needs of consumer advocates, government agencies, and so on better than Firm B must be seen as a competitive loss by Firm B. The driving force of an organization becomes, under a voluntarism mindset, to create as much for stakeholders as possible.

(6) We Generalize the Marketing Approach

We need to "overspend" on understanding stakeholder needs, using marketing techniques to segment stakeholders to provide a better understanding of their individual needs, and using marketing research tools to understand the multi-attribute nature of most stakeholder groups.

We might define "overspending" as paying extra attention, beyond that warranted by considerations of efficiency, to those groups who are critical for the long-term success of the firm. Overspending on stakeholders without whose support the company would fail can make sense in a number of instances. For instance, many fast-moving consumer goods companies overspend on customers, interviewing several thousand a year. Traditionally telecom companies overspent on the attention they paid to the regulatory process, which was for a long time its major source of revenue. Oil companies should, likewise, consider adopting a conscious policy of overspending on OPEC and government and stakeholders who can convey a positive image to the public. Chemical companies have recently begun to overspend on environmentalists, trying to clean up their image as "dirty companies" and "spoilers of the environment." "Overspending" is not necessarily measured in monetary terms. "Spending" may be in terms of more time or more energy or whatever the relevant resource required by a given stakeholder group.

(7) Everything That We Do Serves our Stakeholders. We Never Trade-Off the Interests of One Versus the Other Continuously Over Time

Just as many successful companies think in terms of "how to serve the customer" or "how to serve the employees," it is possible to generalize this philosophy to "how to serve our stakeholders." The "reason for being" for most organizations is that they serve some need in their external environment. When an organization loses its sense of purpose and mission, when it focuses itself internally on the needs of its managers, it is in danger of becoming irrelevant. Someone else (if competition is possible) will serve the environmental need better. The more we can begin to think in terms of how to better serve stakeholders, the more likely we will be to survive and prosper over time. A managing for stakeholders approach asks the company to clearly articulate how its basic business proposition makes its stakeholders better off.

(8) We Negotiate with Primary and Secondary Stakeholders

The basic idea behind the stakeholder approach is that if a group or individual can affect a company or be affected by a company then there needs to be some interaction and some strategic thinking. Many executives get caught up in whether or not a particular stakeholder group, especially critics, is "legitimate" or not. And, while this is an important issue for some purposes, the stakeholder mindset encourages executives to meet, interact, and negotiate with both "legitimate" stakeholders, and those whose legitimacy may be questioned from an overall point of view.

In very practical terms, groups which have some power must be taken into account, regardless of whether or not in a "pure capitalism" system they should be there at all. In our relatively free and open society, the consequence of not negotiating with a broad range of stakeholders is that they use the political process to "negotiate" indirectly by pressuring government to enact a set of rules that is not likely to be optimal to company interests. You can think of this idea as "managerial legitimacy," that is, if a group has some power to affect the company then it is legitimate to spend managerial time worrying about that group. Often, because these interactions start off with stereotypes of both business and critic behavior, careful attention to process can turn the relationship into a positive for both sides.

(9) We Constantly Monitor and Redesign Processes to Make Them Better Serve Our Stakeholders

A hallmark of the stakeholder mindset is that in today's world no one "gets it right" all the time. Whatever your interactions and strategies are with stakeholders, they can always be improved. The classic case for such improvement comes from thinking about the environment. By paying attention to the environment, and environmentalists, companies from McDonald's to 3M have radically redefined their production processes to turn waste streams into new products, realize millions of dollars in cost savings, and gain a reputation as companies that are environmentally friendly and willing to work with environmental groups.

(10) We Act With Purpose that Fulfills Our Commitment to Stakeholders. We Act with Aspiration Towards Fulfilling Our Dreams and Theirs

We believe that the key idea which holds this stakeholder mindset together is the idea that businesses can have a purpose. And there are few limits on the kinds of purpose that can drive a business. Wal-Mart may stand for "everyday low price." Merck can stand for "alleviating human suffering." The point is that if an entrepreneur or an executive can find a purpose that speaks to the hearts and minds of key stakeholders, it is more likely that there will be sustained success.

Purpose is complex. Running a purposeful business is even more complicated. Once we give up the traditional shareholder view as the only possible purpose for a business, the field is wide open. Perhaps "maximizing shareholder value" is a good purpose for a business, but surely it is not the only one. Purpose is inspirational. The Grameen Bank wants to eliminate poverty. Fannie Mae wants to make housing affordable to every income level in society. Tastings, a restaurant in Virginia, wants to bring the taste of really good food and wine to lots of people in the community. All of these organizations have to generate profits, or else they cannot pursue their purposes. And they cannot generate profits or fulfill purpose without intense engagement with their stakeholders.

A New CSR: Company Stakeholder Responsibility

We have argued that corporate social responsibility has outlived its usefulness, because it is flawed in two respects. First, it promotes the "separation thesis," the idea that business issues and social issues can be dealt with separately. This flaw promotes the potentially destructive idea that the underlying structure of business is either not good or is morally neutral. We have proposed a stakeholder approach that takes into consideration the intertwined nature of economic, political, social, and ethical issues. It is centered in the practice of management, and provides the manager with a pragmatic framework for action. The second flaw with corporate social responsibility is its focus on corporations. We do not see why social responsibility only applies to corporations, rather than to all organizational forms. The stakeholder approach that we have proposed applies as much to an entrepreneurial start-up and to a mid-sized closely held firm as it does to a corporation with diffuse ownership.

Based on the stakeholder approach we have outlined, we have proposed a new CSR—company stakeholder responsibility—as a new capability for organizations to develop. We have outlined four levels of commitment to this new CSR, and we have suggested ten principles that can help executives and business thinkers begin to apply this approach. Exhibits 1 and 2 are a summary of company stakeholder responsibility.

Exhibit 1: Four Levels of Commitment to Company Stakeholder Responsibility

- The basic value proposition: How do we make our stakeholders better off? What do we stand for?
- Principles for sustained stakeholder cooperation: What are our principles or values on which we base our everyday engagement with stakeholders?
- Broader societal issues: Do we understand how our basic value proposition and principles fit or contradict key trends and opinions in society?
- Ethical leadership: What are the values and principles that inform my leadership? What is my sense of purpose? What do I stand for as a leader?

Exhibit 2: Ten Principles for Company Stakeholder Responsibility

(1) We see stakeholder interests as going together over time.
(2) We see stakeholders as real people with names and faces and children. They are complex.
(3) We seek solutions to issues that satisfy multiple stakeholders simultaneously.
(4) We engage in intensive communication and dialog with stakeholders, not just those who are "friendly."
(5) We commit to a philosophy of voluntarism—to manage stakeholder relationships ourselves, rather than leaving it to government.
(6) We generalize the marketing approach.
(7) Everything that we do serves our stakeholders. We never trade-off the interests of one versus the other continuously over time.
(8) We negotiate with primary and secondary stakeholders.
(9) We constantly monitor and redesign processes so that we can better serve our stakeholders.
(10) We act with purpose that fulfills our commitment to stakeholders. We act with aspiration toward our dreams and theirs.

Questions

(1) What is the separation thesis, and why is it problematic?
(2) What are the key features of the stakeholder approach?
(3) What are the basic tenets of company stakeholder responsibility?
(4) Why may have CSR, in the traditional sense of corporate *social* responsibility, outlived its usefulness?

Notes

1 This chapter first appeared in Kakabadse, A. and Morsing, M. (eds.): *Corporate Social Responsibility: Reconciling Aspiration with Application.* Palgrave Macmillan, 2006 and is reprinted with permission.

2 The ideas in this paper have been developed with a number of co-authors over the years in several places. In particular see Wicks, Freeman, and Parmar (2005); Freeman and McVea (2001); Freeman et al. (2005);

and Freeman et al. (2006). We are grateful to a number of people for helpful conversations, in particular Professor Gianfranco Rusconi, Dr Valeria Fazio, Dr Mette Morsing, doctoral students at the Copenhagen Business School doctoral consortium on corporate responsibility, numerous participants in the EABIS conference in Gent, and Professors Jeff Harrison, Robert Phillips, and Andrew Wicks.

3 We admit that there are many ways of being a good corporate citizen.

4 Note that we are using "ethics" in its broadest sense to encompass obligations to employees and other stakeholders. This is sometimes referred to as an "American" usage, whereby the "European" usage is much narrower. CSR is our broad term here, and we think it is more specific and more useful than distinguishing "ethical" from "social." We are grateful to Dr Valeria Fazio for many conversations on this issue.

5 For a fuller discussion of the history of the stakeholder idea see Freeman (2005).

6 The first three levels of commitment are explored in greater detail in Wicks, Freeman, and Parmar (2005). The origins of these ideas can be found in part in Freeman (1984) in the idea of "enterprise strategy." We are grateful to our co-authors for permission to develop these ideas in the context of company stakeholder responsibility.

7 Some readers may recognize Bob Collingwood as the harried hero of Freeman (1984). In reality he is a composite of the thousands of executives who have been kind enough to have conversations with us about the ideas here.

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INCLUSIVE BUSINESS
A Private-Sector Approach to Poverty Alleviation in Developing Economies

Sally Curtis and Andrew Bradly

Introduction

Inclusive business is related to corporate social responsibility in that it is concerned with firms being socially responsible; however, inclusive business focuses on proactive engagement with poor people in the core operations of the business. Inclusive business, broadly speaking, involves business including the poor in the value chain. Globally, companies' engagement in inclusive business has seen a notable increase in the last three to five years, with some companies showing a strong commitment to inclusive business (GlobeScan, 2018). For instance, Business Call to Action, a multilateral alliance of donor governments and the United Nations Development Program, has 230 member companies working in 70 countries with inclusive business models. Despite this increased interest, inclusive business lacks conceptual clarity and this chapter seeks to address this issue and focus scholarly attention on this important idea.

References are made to the concept of inclusive business or related ideas in organization and management research such as "innovation for inclusive business" (Halme, Lindeman, & Linna, 2012), "innovation for inclusive growth" (George, McGahan, & Jaideep, 2012), and "building inclusive markets" (Mair, Martí, & Ventresca, 2012). However, to date scholars have not paid much attention to defining the concept. This clarity is important in order to build and advance knowledge on inclusive business as a theoretical concept and guide future research. A related concept, the base of the pyramid (BOP) also focuses on for-profit firms interacting with the poor. Early proponents of the BOP concept conceded that the original idea was interpreted as simply "selling to the poor" (Simanis & Hart, 2008: 2). Attempts have been made to address this issue and refocus the BOP concept so that the poor are viewed as business partners and small producers; however, in a systematic review of BOP research, Dembek, Sivasubramaniam, and Chmielewski (2019) found that research is largely focused on the poor in a consumer role. Furthermore, the BOP concept has received a great deal of criticism for failed attempts involving products designed with the poor in mind (Khavul & Bruton, 2013) and ethical concerns about the approach (Karnani, 2007a, 2007b, 2011). By focusing on inclusive business, we attempt to address these concerns by directing attention to the poor in a wider range of stakeholder groups and incorporating Amartya Sen's view of poverty as a deprivation of capabilities.

Our aim in this chapter is to draw scholars' attention to inclusive business, already popular with international institutions, define the concept, and discuss the challenges and what we know about how to overcome these challenges. In so doing we hope to avoid inclusive business becoming a buzzword that has no substantial conceptual basis, which has occurred for similar ideas such as shared value (Dembek, Singh, & Bhakoo, 2016), and to guide a future research agenda on inclusive business. The chapter is organized as follows. First, we define inclusive business, drawing on both practitioner and scholarly discourse related to the concept. Second, an overview of the challenges of inclusive business is presented followed by a discussion about how firms attempt to overcome these challenges. Finally, we suggest future research directions for inclusive business.

Defining Inclusive Business

In this section of the chapter, we draw on literature concerning inclusive business to define the concept. We begin by outlining the boundary conditions. The first boundary condition is that we focus on inclusive business in low-income countries with weak institutional environments. While this is the focus of much of the literature concerned with inclusive business, the term is also used occasionally in high-income countries (for example, in France: see Ranjatoelina, 2018). We focus on inclusive business in settings where the poor have no, or limited, access to basic services such as health and education. Second, we consider inclusive business to be part of the core business of the firm and not philanthropy or a corporate social responsibility initiative that is not directly related to the core business operations. Finally, we focus on private-sector firms that are multinational enterprises or small-to-medium-sized businesses. A distinguishing feature of inclusive business is that it is directed toward the poor and providing clarity about this group is the first step in defining the concept.

Who Is Being Included?

Literature on inclusive business typically refers to the target group of inclusive business being low-income people, the poor, or people at the base of the economic pyramid in the role of employee, customer, distributor, producer, or supplier (Asian Development Bank, 2019; Business Call to Action, 2017; International Finance Corporation, 2017; Tampubolon & Manik, 2018; WBCSD, 2019). Literature focused on the agricultural sector considers smallholders as the target group of inclusive business (Chamberlain & Anseeuw, 2017, 2019; Kelly, Vergara, & Bammann, 2015). Currently, however, the terminology surrounding the target group is vague and this limits the future research agenda. To develop a body of knowledge on inclusive business, greater clarity is needed about the target group to assist with being able to make comparisons across studies concerning inclusive business.

Inclusive business definitions refer in broad terms to poor people who are typically defined in income terms. For instance, BOP is frequently adopted in both academic and practitioner literature. "Bottom of the pyramid" became popular following the publication of Prahalad and Hart's (2002) provocative article calling for business to provide products and services to the four billion people at the bottom of the economic pyramid, now commonly referred to as the base of the pyramid (BOP). The BOP were defined as people living on less than $1,500 a year, based on purchasing power parity in US dollars (Prahalad & Hart, 2002). More recently, the BOP are considered to be the 3.5 billion people who live on less than US$10,000 a year (Prahalad, 2019). BOP terminology is now commonplace, and research concerned with the BOP often sidesteps the definition of this population altogether or simply refers to low-income people (Kolk, Rivera-Santos, & Rufín, 2014). Defining the poor only in income terms, however, misses the multiple dimensions that constitute poverty and risks misguided solutions that target the poor. For instance, approximately 35% of people in Ethiopia live on less than US$1.90 a day (the amount considered to be poor); however, almost 90% of the Ethiopian population are deprived of basic capabilities such as education, health, and living standards (Alkire & Robles, 2017). To avoid thinking of the poor only as low-income earners, we suggest that poverty should be defined more broadly to ensure that inclusive business initiatives are directed to more than income-earning solutions.

Contemporary views recognize that poverty is multidimensional and, although income measures of poverty can be useful, using only income does not adequately capture the experience of being poor and the extent of their deprivation. The *capabilities approach*, pioneered by Nobel Laureate Amartya Sen, has received a great deal of attention in international development research and practice. In the capabilities approach, poverty is seen "as a deprivation of basic capabilities rather than merely as lowness of incomes" (Sen, 1999: 87). Basic capabilities are real opportunities to avoid poverty and can be useful "in deciding on a cut-off point for the purpose of assessing poverty and deprivation" (Sen, 1999: 109). Sen (1999) suggests that there are some capabilities associated with basic needs that can be identified such as education, health, nutrition, and shelter. This approach provides the theoretical basis that underpins the United Nations Development Program's annual Human Development Reports since 1990, complemented more recently by the multidimensional poverty index. This way of thinking is also reflected in Sustainable Development Goal (SDG) 1 to "end poverty in all its forms everywhere" (United Nations, 2015). The targets and indicators for SDG 1 recognize the multiple dimensions of poverty such as a lack of access to basic services, land, natural resources, and financial services, and vulnerability to natural disasters. While any attempt to develop a list of basic capabilities will be imperfect, Sen's idea of basic needs and SDG 1 provide insight into the type of capability deprivation experienced by the poor. Defining the poor as being deprived of basic capabilities, rather than merely as having low incomes, paves the way to develop a definition of inclusive business that allows a more nuanced discussion about what "mutually beneficial" might entail that goes beyond general statements.

Mutually Beneficial Interactions

Extant literature emphasizes that inclusive business involves mutually beneficial interactions between a firm and the poor. Some refer to creating business and societal value (WBCSD, 2019) or "shared value" (Addisu & Van Tulder, 2017). A concern with using this type of language is the risk that mutual value, or inclusive business for that matter, becomes a buzzword rather than a substantive concept, as some have argued that shared value has become (Dembek et al., 2016). To avoid this, we draw on the definition of poverty as capability deprivation to present a view of what a beneficial interaction might mean for the poor. Following this, we consider the firm's perspective of a beneficial interaction. First, from the perspective of the poor, inclusive business needs to provide decent work and access to affordable products and services that improve capabilities.

Decent Work Opportunities

The poor as employees in low-income countries experience multiple disadvantages compared to the non-poor. They often have multiple occupations with low levels of pay, no opportunity to develop specialist skills, and need to temporally migrate to find work (Banerjee & Duflo, 2007). They might become entrepreneurs out of necessity and their ventures are typically small-scale and inefficient (Banerjee & Duflo, 2007). These conditions can result in adverse effects with respect to job attachment, career attainment, and job performance (Leana, Mittal, & Stiehl, 2012). This can mean that many of the working poor are trapped in a cycle with limited opportunities to escape poverty.

An important dimension of inclusive business, therefore, is to break this cycle of poverty and provide the poor with decent work opportunities. To be beneficial to the poor, inclusive business needs to incorporate decent work principles and recognize that simply providing employment opportunities is often not enough to break the cycle of poverty. The International Labor Organization define decent work as:

> opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.
>
> *(ILO, 2019)*

The principle of decent work is also one of the Sustainable Development Goals. SDG 8 is "decent work and economic growth." Inclusive business is therefore about integrating the poor as suppliers, employees, and distributors, and providing decent work that allows the opportunity for the poor to escape poverty. An example of this is Unilever's work with smallholder farmers. Unilever works with 716,000 smallholder farmers to source cocoa, tea, palm oil, vanilla, and vegetables. Unilever and Grow Asia (a multi-stakeholder partnership that aims to improve smallholder farmers' livelihoods in Southeast Asia) developed a digital platform called mFarmer to help Indonesian farmers increase yields and practice sustainable farming. Unilever also provides opportunities for distributors to increase their incomes by providing training opportunities such as the Kabisig Summit in the Philippines. Another notable example of a commitment to decent work in the supply chain is the Sustainable Apparel Coalition. This coalition includes manufacturers of many of the major textile and apparel brands who are working together to implement an industry-wide framework to assess and improve social and labor conditions.

Access to Affordable Products and Services That Improve Capabilities

The poor as consumers experience a poverty penalty in the marketplace. These penalties can be in various forms including lower quality, higher costs, inaccessible markets, and spending burdens that become catastrophic such as entering into debt to finance urgent healthcare costs (Mendoza, 2011). Poor infrastructure and service delivery in low-income countries mean that the poor are often excluded from basic services such as energy, water, transport, healthcare, and education. Furthermore, the poor are often illiterate, which means that access to information about products and services can be limited. This means that the poor make uninformed purchasing decisions, and when it comes to medication the poor face difficulties in knowing whether medication is out of date and how and when to take it (Endeva, 2012). These market failures provide the impetus for inclusive business models that provide the poor with access to affordable products and services that meet basic capabilities. There are many examples of businesses engaged in this type of inclusive business activity across a range of sectors such as health; water, sanitation, and waste management; information, communication, and technology; energy; and financial services.

One such example is Sehat Kahani, a business that aims to make healthcare more affordable and convenient to underserved communities in Pakistan. Sehat Kahani is an all-female medical network that provides healthcare services to people in need using telemedicine (Sehat Kahani, 2019). The business addresses gender inequality and access to quality healthcare. First, in Pakistan female doctors typically stop practicing when they get married and have children because of social norms. Sehat Kahani addresses this issue by providing these so-called "doctor brides" with the ability to continue working from home using videoconferencing to advise patients. Second, this business provides much-needed healthcare to females in deprived communities and the opportunity to discuss medical issues with a female doctor that they will generally not discuss with a male doctor.

An example of an inclusive business in the energy sector is Buffalo Grid. Many low-income communities do not have access to power and this makes charging a mobile phone difficult or impossible. Buffalo Grid addresses this issue by providing solar-powered hubs in low-income communities in India and sub-Saharan Africa. These hubs provide the community with reliable and affordable access to power to charge mobile phones and access the internet. In addition, Buffalo

Grid engages local small-business owners who manage the hubs as part of their business, which provides another revenue source for these businesses.

The inclusion of *capabilities* in the conceptualization of inclusive business is important as this addresses criticism concerning the nature of products and services targeted at the poor (Garrette & Karnani, 2010; Karnani, 2007a, 2007b, 2011). For instance, the poor spend a large part of their income on alcohol and tobacco (Banerjee & Duflo, 2012), which impacts the poor in negative ways and goes against the goal of inclusive business to be mutually beneficial. To address this issue, we propose that a firm is only an inclusive business if it provides access to affordable products and services with the aim of improving basic capabilities.

From the perspective of the firm, the expected benefits of inclusive business are clearer. From the firm's perspective, there is an expectation that engaging with the poor through inclusive business will be commercially viable (Asian Development Bank, 2019; Business Call to Action, 2017; Golja & Po, 2012; Lashitew, Bals, & van Tulder, 2020; WBCSD, 2019). In the case of products and services, this means that business needs to be able to make a profit. In the case of providing employment opportunities and decent work, the firm could expect that interactions with the poor will result in access to dynamic capabilities (Tashman & Marano, 2009). Providing decent work opportunities to the poor might also assist the firm to build social capital with local communities and obtain a social license to operate. Firms operating in developing countries may gain legitimacy by adopting an inclusive business approach. Research suggests that social performance is especially important in low-income markets, and initiatives such as training local entrepreneurs and building the capacity of institutions are critical for business success in these markets (London & Hart, 2004).

To summarize this point, we propose that inclusive business is where firms provide the poor, who are deprived of basic capabilities, with decent work opportunities and improved access to products and services in commercially viable ways with the aim of expanding their capabilities. In the next section, we outline some of the challenges of inclusive business.

Challenges of Inclusive Business

Weak Formal Institutions

Formal institutions refer to organizations and instruments that are legally enforceable and are usually supported with written documentation (Scott, 2008). These institutions are often weak in developing countries where regulations might exist but are not enforced and where state institutions lack capacity to provide basic infrastructure and services to the poor (Ault & Spicer, 2014; de Soto, 2001; Mair et al., 2012). The weak institutional environment poses risks for businesses and can negatively impact firm performance. For instance, Ault and Spicer (2014) found that commercial microfinance lenders experience greater difficulty in growing their client base in fragile state settings.

Corrupt state institutions can also inhibit inclusive business and are more prevalent in poorer countries (Beets, 2005). Corruption reduces investment and discourages foreign aid (Nwabuzor, 2005) and can lead to irresponsible entrepreneurship (Azmat & Samaratunge, 2009). Furthermore, the quality of education is often low in developing countries or inaccessible by the poor. This situation means that the poor have low self-efficacy, negative affectivity, and limited social capital in resourceful networks, which negatively impacts job performance (Leana et al., 2012). Furthermore, exposure to persistent poverty in childhood, often associated with low education levels, means the poor are unlikely to assume leadership roles (Barling & Weatherhead, 2016).

Informal Institutional Challenges

Informal institutions can also play a role in constraining inclusive business. Informal institutions refer to social norms, traditions, beliefs, and cultural characteristics that influence behavior and determine what is acceptable and unacceptable behavior in society (Scott, 2008). In recent years there has been recognition in the international development community that informal institutions can hinder development. For example, the poor can have traditional beliefs that influence attitudes and behaviors that work against development goals. This has been highlighted by Banerjee and Duflo (2012), who refer to the role that a lack of information and traditional beliefs can play in poor decision-making about health and agricultural practices.

Another relevant informal institution is kinship groups that exist in some cultures where individuals are obliged to share and support others within the kinship group, including income. This can be a disincentive to earn an income and engage with the formal economy (Jütting, Drechsler, Bartsch, & de Soysa, 2007). Some informal institutions can lead to discrimination where women are often disadvantaged, which can mean they are excluded from economic transactions. A notable example of informal institutions at play is Mair et al.'s (2012) empirical study in Bangladesh where women are excluded from the market due to their standing in a patriarchal social system that limits their control of property and income and their labor participation. These examples demonstrate the role that informal institutions can play in limiting the effectiveness or reach of inclusive business where the aim is to involve the poor in economic transactions.

Firm Capability Gaps and Resource Constraints

At the firm level, there are several internal factors that can inhibit inclusive business. The first involves high levels of risk, partly due to the institutional environment discussed above, which means that when faced with investment choices firms choose options that are less risky than inclusive business. Second, firms might be constrained by capability gaps within the organization. For instance, in their study of multinational corporations (MNCs) attempting to serve BOP markets, London and Hart (2004) found that those organizations without the capability of "social embeddedness" failed in BOP markets. Third, operational issues such as short-term profit interests linked to incentives schemes and business unit–based incentive structures inhibit inclusive business (Halme et al., 2012). For firms motivated to engage positively with the poor, resource constraints can make it difficult to adopt an inclusive business approach. These include shortage of time, lack of finance and appropriate expertise in the organization (Halme et al., 2012), and agency costs between the firm and local sales agents in BOP markets (Kistruck, Sutter, Lount, & Smith, 2013). Other factors that might act as constraints include corporate imperialism where business attempts to impose western models of commerce on developing countries and, as a result, well-intentioned actions have perverse effects on the poor (Hudon, 2009; Khan, Munir, & Willmott, 2007).

Financial Viability

Critics of market-based poverty alleviation solutions argue that these ventures are rarely profitable and difficult to scale (Garrette & Karnani, 2010). How do businesses profit from a group that has limited purchasing power? Furthermore, businesses that provide employment to the poor often do so to access cheap labor. A firm might provide employment to the poor but not provide decent work because it is not commercially viable. Hence, this dimension of inclusive business is particularly challenging. There is a great deal of success story rhetoric and a significant number of failed inclusive business ventures largely because of high costs, low capacity to pay, and skill deficits.

How Firms Can Address the Challenges of Inclusive Business

While the above factors can constrain inclusive business efforts, there are various coping mechanisms that can enable firms to improve the effectiveness of engaging with the poor.

Building the Business Ecosystem and Cross-Sector Partnerships

Building the business ecosystem refers to "investment in the social and economic relationships that constitute the local ecosystem" (Khavul & Bruton, 2013: 294). The term suggests building complementary and reciprocal relationships with entities outside the firm, and failure to do so may result in the failure of inclusive business initiatives (Khavul & Bruton, 2013; London & Hart, 2004). An important way of building the business ecosystem is cross-sector partnerships that have a range of positive outcomes for firms including mitigating risk, providing a competitive advantage, knowledge exchange, joint learning and problem solving, and efficiencies achieved through saving time (Reficco & Márquez, 2012). Partnership success involves co-creating learning between all partners within a shared problem domain or community of practice (Calton, Werhane, Hartman, & Bevan, 2013). Building the business ecosystem creates opportunities for firms to span traditional organizational boundaries in the design and implementation of inclusive business initiatives (Fuller, Jacobides, & Reeves, 2019).

Innovation

Innovation is a key component of the original BOP concept, particularly as it relates to MNCs (Prahalad & Hart, 2002) and there are some examples of business innovation in BOP markets. For instance, Bharti Airtel revolutionized its business model to deliver low-cost mobile phone services—one cent per minute of talk time—in India (Prahalad, 2010) and ABB's rural electrification scheme based on dispersed and sustainable energy (Halme et al., 2012). Prahalad and Hammond (2002) suggest that MNCs have young managers spend time in a BOP market, seed entrepreneurial efforts in BOP markets, and establish an internal business development task force to develop radical ideas (referred to as a "skunkworks team"). In an empirical study, Halme et al. (2012) introduce the term "intrapreneurship bricolage"—acting like an entrepreneur inside the organization—as a source of innovation to overcome resource constraints associated with inclusive business (shortage of time, lack of adequate finance, lack of access to expertise in the organization). Innovation is also considered a condition of success for recipients of microfinance, particularly where recipients demonstrate innovation that differentiates them from competitors (Bradley, McMullen, Artz, & Simiyu, 2012).

To accommodate the unique needs of BOP markets, many authors argue that firms need to engage with the poor to co-create solutions in order to develop products and services that meet their needs (Bardy, Drew, & Kennedy, 2012; Khavul & Bruton, 2013; London & Jäger, 2019; Santos, Laczniak, & Facca-Miess, 2015). In fact, in London and Hart's (2004) study of firm entry into low-income markets, firms that did not co-invent solutions either failed or performed poorly in this context. To illustrate, Prahalad (2012) discusses a British Petroleum project to develop a biomass stove for the poor in rural India. Traditionally women in this part of rural India spent two to three hours a day collecting cooking fuel (e.g. cow dung, sticks, shrubs) and the resulting pollutants from these fuels were a human health hazard. The team used video ethnography to understand the consumer and analyze their decision-making process from collecting fuel to serving the meal. This led to the design team identifying the criteria for the product design—modern, meets global safety standards, scalable, and affordable—and developing a stove to meet these criteria that was more energy-efficient with less adverse health effects. While this example appears to have been a success, Ansari, Munir, and Gregg (2012) argue that some co-creation attempts have been problematic. For instance, they are critical of the "BoP Protocol" established by the BoP Learning Laboratory at Cornell University, which they argue emphasizes brand recognition over building relationships with the poor (Ansari et al., 2012). This suggests that co-creation needs to focus on genuine input from the poor.

Reducing Costs

Inclusive business may have adverse financial effects on the firm arising from lower productivity, higher costs, or reduced operational efficiency. These costs are likely to be more of an impediment for smaller firms, which have fewer financial and managerial resources. Among the ways that firms may reduce the costs of engaging with poor suppliers, customers, and employees is through cross-subsidizing their product lines. Cross-subsidizing enables firms to absorb or offset lower margins or even losses associated with inclusive business by earning higher profits on other product lines or selling to higher-income consumers. Such practices would require firms to adopt a whole-of-organization approach to their pricing and costing.

In recent times, aid agencies have begun pursuing market-based mechanisms for poverty alleviation. For instance, aid agencies such as the United Kingdom's Department for International Development and Australia's Department of Foreign Affairs provide aid funding to the private sector to deliver market-based poverty solutions. This funding is provided for expanding an industry or growing a business that provides income-earning opportunities for the poor. While controversial, such initiatives make inclusive business more appealing by defraying the costs associated with engaging with the poor.

Future Research

In this section, we reflect on what we know about inclusive business and provide suggestions for future research. As this is an emerging field, it is impossible to cover all avenues for future research, so we focus on three broad areas that seem particularly important.

The first is financing models for inclusive business. In a recent survey of firms engaged in inclusive business initiatives, insufficient financing was cited as the main barrier to growing initiatives (GlobeScan, 2018). Our understanding of how firms overcome this barrier and finance inclusive business initiatives is limited. We know that aid donors are increasingly engaging the private sector to achieve development outcomes through impact investment funds. These funds aim to leverage private investment in businesses to reduce poverty in developing economies. Impact investing is a relatively new empirical phenomenon that has not been researched broadly, let alone with respect to inclusive business.

Second, future research needs to examine the mechanisms that might help inclusive business initiatives be successful. In this chapter, we identify several mechanisms, and it would be helpful to gain a better understanding of these mechanisms and identify others. In this respect, management and organizational scholars might need to draw on research methods and theories from disciplines such as behavioral economics and anthropology.

Our final suggestion for future research, and perhaps the most important, is research that includes the perspectives of the poor. We need to know more about the poor in the different stakeholder roles in the inclusive business definition. As informal institutions are the dominant force guiding the behavior of the poor (Banerjee & Duflo, 2012; de Soto, 2001; Mair et al., 2012), we need to understand how social norms and cultural traditions interact with inclusive business initiatives. There is evidence to suggest that social norms undermine the goals of inclusive business (Slade Shantz, Kistruck, & Zietsma, 2018). On the other hand, inclusive business initiatives can complement and work within the parameters of social norms to achieve the goals of inclusive business, such as the work of Sehat Kahani discussed earlier. Future research could focus on when social norms create impediments to inclusive business and how they can be leveraged to improve the capabilities of the poor. Further, research focused on the working poor is limited. There is evidence to suggest that the poor are different from the "textbook" worker and there is a need for organizational behavior scholars to pay attention to these differences to develop insights about managing the poor (Leana et al., 2012).

Future research also needs to acknowledge that the poor are not a homogeneous group and various research streams could emerge in various categories, for example, rural poverty, urban poverty, extreme poverty, or poverty in the context of conflict and violence. Research could also begin to be clustered around particular outcomes that inclusive business initiatives seek to achieve. In this respect, the SDGs could be a useful way of developing clusters of inclusive business research focused on particular outcomes such as good health and well-being (SDG 3), gender equality (SDG 5), and so on.

Conclusion

The aim of this chapter has been to provide conceptual clarity to the term "inclusive business," an idea that is increasingly popular with international institutions, aid donors, businesses, and, to some extent, organization and management scholars. We hope that this conceptual clarity, focused on decent work opportunities and access to products and services that seek to improve the capabilities of the poor, goes some way to ensuring that inclusive business is more than a buzzword. It is exciting to see some of the existing inclusive business initiatives and the growing momentum in this area. It is now time to develop a more substantial knowledge base to ensure that the goals of inclusive business are achieved for both the firm and the poor.

Questions

(1) Why is it important to define poverty beyond a lack of income?
(2) What is the meaning of inclusive business? Why is it important to move beyond simplistic language such as "shared value" and "win-win" to describe inclusive business?
(3) This chapter outlines some of the challenges of an inclusive business approach. What other challenges can you identify for firms that choose to adopt an inclusive business approach?
(4) Apart from the approaches identified in the chapter, what other actions can firms take to become more inclusive in their operations?
(5) Discuss some of the ethical dilemmas that might exist for a firm that implements an inclusive business approach.

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18

IN PURSUIT OF DIGNITY AND SOCIAL JUSTICE

Changing Lives Through 100 Percent Inclusion—An Example of Responsible Leadership and Sustainable Rural Development[1]

Nicola M. Pless and Jenny Appel

Preamble

The case study is about Gram Vikas (GV), an award-winning social enterprise and rural development organization headquartered in Orissa, one of India's poorest states. The organization's vision is to achieve an equitable and sustainable society where people can live in peace with dignity. In this case, we investigate one of its innovation approaches, which is to help communities in rural villages gain access to clean water and set up and maintain water and sanitation systems as a basis to improve health, restore dignity, empower women, and break the vicious circle of poverty, thereby contributing to the UN Sustainable Development Millennium Development Goals.[2] Setting up the infrastructure is a joint endeavor of GV and the community, which requires that all community members—regardless of gender, class, caste, or religion (100 percent inclusion)—get access to the infrastructure, participate in the project and contribute to its implementation. GV provides villagers with the knowledge, expertise, training, and access to funding needed to set up and maintain the infrastructure. GV's key innovation and driver of success is the concept of 100 percent inclusion. With this democratic concept GV initializes a process of societal change towards greater social and gender equality. This is achieved through the establishment of participatory decision-making processes, shared responsibility-taking, and equal opportunities. This sets off a positive chain reaction of socio-economic development within the villages and the region. The case concludes by putting forward the challenges of attracting and retaining top talent, ensuring financial sustainability, and scaling up the venture.

While the Gram Vikas case has already been studied from a strategic perspective of social innovation (Chowghury & Santos, 2010), we focus specifically on the normative aspects of Gram Vikas' approach. Our research focus is on examining how Gram Vikas tries to realize the vision of achieving better living conditions at the individual level and bringing dignity to the poor, while fostering social justice and change at the societal level. The case we present is based on multiple rounds of data collection conducted during 2005 and 2012. We applied a case study methodology (Yin, 2003) and used a large variety of sources of evidence: a six-week research visit to Gram Vikas in Orissa, including 11 site visits to local villages; 37 individual interviews and 11 group interviews during and after the field research; a workshop with 45 regional managers, and direct and participant observations during the site visits; and retrieval of archival documents (for more information on the research methodology, see Pless & Appel, 2012). To ensure that the case can be read as a story, we have followed the approach of Davies, Doherty, and Knox (2009) and have suppressed many of the sources of the organization's insights to maintain a consistent narrative.

Introduction

According to Shammas and Wang (2010: 333),

> around 1.1 billion people globally do not have access to improved water supply sources whereas 2 billion people still do not have access to basic sanitation facilities such as toilets or latrines…More than 1.5 million people die every year due to diarrhoeal diseases, most of them are children less than 5 years of age…The most affected are the populations in developing countries, living in extreme conditions of poverty, normally rural inhabitants or peri-urban dwellers.

Indeed, Dr Joe Madiath, the founder and Executive Director of the social enterprise Gram Vikas, states that through his work at the helm of the Orissa-based development organization and by

> working in partnership with tribal people and other marginalized groups, I have witnessed almost 30 years of human rights violations. Yet I have not lost the capacity to be shocked by the variety and degree of injustice suffered by these people.
>
> *(personal conversation)*

Driving through the southeastern Indian state of Orissa, one comes across poverty and misery. One passes village ponds in which villagers bathe, wash their clothes, and draw water for drinking and cooking. There is neither a safe water supply nor a proper sewage system. Children often play around open drains by the roadside. It is common to see women and young girls carrying one or more pitchers of drinking water on their heads to supply their families with fresh water. The trips are often long and arduous as the pitchers are very heavy when full.

According to UNICEF (2009):

> Women and girls are the world's "water haulers". On average, women and girls in developing countries walk 6 kilometres a day, carrying 20 litres of water, greatly reducing the time they have for other productive work or for girls to attend school.

Furthermore, "Lack of safe water and sanitation is the world's single largest cause of illness" (UNICEF, 2009). Another hard-to-imagine consequence of the lack of water supply and sanitation systems is that people in developing countries have to search for places and times (often at dawn or dusk) to defecate in the open. This is not only unhygienic but also exposes these women and young girls to the danger of being raped on such occasions.

For Gram Vikas, a social enterprise based in Mohuda and active in rural Orissa, access to clean water and sanitation is not only a development issue but a basic human right. By bringing water and sanitation infrastructure to rural communities, GV aims to restore the dignity lost by villagers through decades of marginalization, exploitation, and seemingly hopeless poverty. Gram Vikas acts as a facilitator, beginning a sustainable, self-reinforcing development process that is taken up and carried on by the community. GV's social innovation rests on 100 percent inclusion. GV employs this concept to start a process of societal change fostering greater social and gender equality. This is achieved by setting up participatory decision-making, providing equal opportunities, and getting people to share responsibility. This sets off a chain reaction of sustainable socio-economic development within villages and the region as a whole.

Background

Orissa, located in eastern India on the Bay of Bengal, is the poorest state in India with a population of just above 40 million (of which 86 percent lives in rural areas). Much of the population (40 percent) lives below the poverty line. Many people found at the bottom of the heap belong to "scheduled tribes" (Adivasi)[3] and "scheduled castes" (Dalits).[4] Together, they comprise about 39 percent of the total population (scheduled tribes 22.5 percent and scheduled castes 16.5 percent). People belonging to these two groups have been deprived of social, educational, and economic opportunities for many decades. In Orissa, the average per capita income is significantly lower than the already low national average. According to *The Telegraph* it "has been estimated at Rs 13,329 per annum, which accounts for only 71% of the national average" (Das, 2010). Also, economic development lags behind the national average. According to a recent World Bank study, Orissa is still the second-poorest state in the country with one of the lowest levels of urbanization, despite recent progress. Over 45 percent of its people live in poverty with almost half of them (22 percent) belonging to the scheduled tribes (STs).

> Most STs live in tiny villages or remote habitations in the hills where their geographical isolation underlies much of their poverty. Rural electrification is among the lowest in the country; some 18,000 villages and 5 million households have yet to get electricity. Learning levels in schools are low, and the burden of ill health too high.
>
> *(World Bank, 2011: 5)*

In 1971, a severe cyclone hit the coastal regions of Orissa, killing about 10,000 people and rendering around one million homeless. A group of students from the Young Students' Movement for Development at Madras University hurried to Orissa to take part in the relief operations and deliver immediate aid to the victims. Joe Madiath, the group's leader, and a few other students then decided to stay in Orissa after they had seen the misery in which the region's rural population lived. The group initiated small development projects, for example on communal forestry, to boost long-term local development and to foster self-sufficiency. In 1979, the group formally founded the organization Gram Vikas, which literally means "village development," with its headquarters in Mohuda, Ganjam. Joe Madiath has been the organization's Executive Director ever since its inception.

In the 1980s, GV's work focused on community forestry, rural habitat development, and education. The organization quickly won a reputation for pioneering biogas, with about 55,000 micro biogas plants built in Orissa, supplying cooking fuel to households. During these years, GV's team realized that there were two main causes of the persistent poverty and low quality of life in rural Orissa. These were poor infrastructure and ill health. The latter is largely caused by the lack of safe drinking water. This led Joe Madiath to conclude that building water and sanitation infrastructure would be the single most effective way of changing people's lives.

Following a successful pilot project in 1992 that covered five villages, GV started its Water and Sanitation Program based on strong community self-management systems. Its aim was to improve rural communities' quality of life by preventing sickness and boosting productivity. The number of villages covered by GV grew quickly in the 1990s (as of 2011 GV had impacted 1,099 villages and 66,564 households) and its Water and Sanitation Program is a 20-year success story in fostering health and inclusive development:

- around 55,422 families (as of 2011) in around 900 villages with their own toilets and access to a clean, safe running water supply that works 24/7
- an 85 percent reduction in the occurrence of water-borne diseases in villages with GV's water and sanitation infrastructure

- lower levels of diseases and reduction of the morbidity rate in the villages covered
- increased awareness of hygiene issues

As a result of a self-initiated external evaluation in 2003, a strategic approach to scaling up the outreach was adopted. It went under the name of MANTRA (Movement for Action Network for Transformation of Rural Areas). MANTRA sets the ambitious target of reaching one percent of Orissa's population (about 100,000 households or around 400,000 people) by 2020. The aim is to thereby create critical masses of rural people with the potential to influence the government effectively and lobby for the provision of better social, educational, and economic opportunities. GV is already one of the largest NGOs in Orissa.

GV clearly owes much of its success to its founder Joe Madiath, who has devoted his entire life to helping the poor and the outcast. A charismatic, strong-willed man with an entrepreneurial mindset, he has always pushed the organization further and has overcome every obstacle in its path. Asked about his motivation, he said: "My motivation was always the self-satisfaction that I get when I can in some way change the lives of people for better, relying mostly on their own efforts." He was awarded Outstanding Social Entrepreneur 2001 by the Schwab Foundation for Social Entrepreneurship and received the Social Lifetime Achievement Award at the Godfrey Phillips Red & White National Bravery Awards 2004–2005. GV has also received numerous awards, including the Skoll Award in 2007; the India NGO Award (NGO of the Year) in 2006; and the Kyoto World Water Grand Prize in 2006. These and many other awards are evidence of international recognition of GV's remarkable accomplishments.

Gram Vikas

Vision, Mission, and Core Values

GV's vision is "an equitable and sustainable society where people live in peace with dignity." To realize this vision, GV works with Orissa's impoverished rural communities, guided by the following social mission: "To promote processes which are sustainable, socially inclusive and gender equitable, to enable critical masses of poor and marginalised rural people or communities to achieve a dignified quality of life." Their goals are:

(1) Inclusion. This means that all households must be involved in the development process and must benefit equitably. Participation of all households in the settlement is a non-negotiable condition of the program.
(2) Social equity. This goal is directed towards representation of all sections of the community in decision-making processes across caste, economic status, and other barriers to ensure that a level playing field is created.
(3) Gender equity. This goal aims at equal representation and participation of men and women in community-level decision-making and control.
(4) Sustainability. At Gram Vikas development processes have built-in institutional and financial mechanisms for sustainability and are necessarily based on sound environmental values.
(5) Cost sharing. This means that poor people are empowered and supported to pay for beneficial development services. However, there are some social costs which society at large must meet.

This vision and mission show the broader picture and overarching goals that Joe Madiath and GV pursue.

To achieve its mission of a "dignified quality of life," GV focuses on developing communities and empowering them to help themselves. GV works in five areas: (1) community health (preventive and curative); (2) education (assured access to basic and high school education); (3) livelihoods (proper nutrition/food security and opportunities for additional income generation);

(4) livelihood-enabling infrastructure and renewable energy (provides infrastructure for enhanced income generation and for sustainable use and management of natural resources); and (5) water and sanitation. These programs not only immediately improve the quality of life of villagers, but serve a higher human and moral purpose (gender and social equality, and restoring people's dignity).

In this case we will specifically focus on GV's Water and Sanitation Program as a way to create sustainable community development. While building water and sanitation infrastructure addresses an urgent need in many communities, GV is also particularly concerned to facilitate further long-term changes and development processes in the communities. Accordingly, GV assists communities to set up an inclusive, self-governing democratic system that ensures all villagers are included in the program as well as other decision-making processes at village level, regardless of caste, gender, or socio-economic status. Everyone takes part in the decision-making and then the setting up of the water supply and sewage system. Before turning to the Water and Sanitation Program we will provide an overview of the other four action areas.

GV's Areas of Action

(1) Community Health

In the rural areas in which Gram Vikas operates, lack of access to clean and safe water is one of the major causes of illness and death. Therefore, the Water and Sanitation Program stands at the core of Gram Vikas' approach to improving the lives and health of rural people. More information on the program is provided in the following sections. In addition, Gram Vikas actively engages in hygiene training in the communities where it operates. This is necessary to sensitize people to the risks of open defecation and other hygiene issues. A village committee is created that ensures that villagers use the toilets and keep them clean at all times. Community social pressure is created to reach full compliance with the new sanitary rules. Also, school children are educated about hygienic practices so that they can foster change within their families.

Access to safe water along with hygiene training reduces water-borne diseases in the villages. The installation of individual sanitation facilities allows villagers to defecate privately and wash themselves properly. This has also led to a decrease in gynecological diseases among women. Furthermore, Gram Vikas trains local health workers and traditional birth attendants, so that they can monitor the health of villagers, advise sick people, and supply them with basic medication (e.g. for malaria or tuberculosis). A special goal is to reduce the death toll from malaria by distributing mosquito nets, promoting early blood testing, and distributing malaria medication. Village health committees (often self-help groups [SHGs]) are assisted to pressure the local government to provide basic government health services in remote areas.

The results of 30 years of health promotion are:

- Around 44,700 families have their own toilet.
- Around 22,000 have a 24/7 clean and safe running water supply.
- There has been an 80 percent reduction of the incidence of water-borne disease in villages with GV's water and sanitation infrastructure.
- The morbidity rate has reduced in those villages.
- Regular immunization has significantly reduced infant mortality.
- Villagers are more aware of hygiene issues.

(2) Community Education

Education is a key to rural development and poverty alleviation. On a macro scale, education is a necessary condition for a country's social and economic development. Gram Vikas actively promotes education in the villages where it operates. In villages where governmental schools exist, but often malfunction, Gram Vikas encourages communities to take responsibility for educational services. Education committees are formed to oversee the functioning of the school, such as ensuring that the government teachers do regularly come to work. Villages are encouraged to enhance the educational service themselves, for example by using communal funds from community horticulture or forestry to pay for materials, or an extra teacher, and to pressure local governments to ensure well-functioning schools.

In the remote, mostly tribal villages, where the government fails to deliver basic educational services, Gram Vikas establishes education centers that are managed by the community and paid for from community resources. Preschools and village-level elementary schools are established. The schools' facilitators are regularly trained by Gram Vikas to ensure that they can meet their responsibilities. The schools are scheduled to respect village routines to boost attendance. Schools incorporate active approaches to education and extracurricular activities.

Gram Vikas operates four residential schools, which provide secondary education up to tenth grade (15–16-year-old students). In these boarding schools, tribal children are provided with quality secondary education by teachers employed by Gram Vikas. As the recognition of the value of education has increased among tribal communities, enrolment has steadily risen. Since Gram Vikas removed enrolment fees for female students, girls' enrolment has also surged.

In many villages, demand for adult education is also on the rise. Where sufficient demand exists, adult literacy courses are offered under the guidance of local Gram Vikas staff. Over the last five years or so, Gram Vikas has set up village libraries to provide villagers with the opportunity to explore books and widen their horizons.

The results of 30 years of fostering education are:

- Over the years, children and adult students have gained valuable skills that have the potential to improve their lives.
- Barriers to school attendance have been removed, especially for girls.
- Gram Vikas schools play an important role in fostering a wider understanding of tribal culture and heritage.
- 123 preschools and 132 elementary schools were established, servicing 166 villages.
- Around 1,300 students have gained education through Gram Vikas boarding schools.
- Some 220 students from tribal communities have successfully passed the Tenth Standard Board Exam and some students went on to pursue higher education.

(3) Livelihoods

While self-governing people's institutions enhance collective management and bargaining power, health and education are prerequisites for social and economic development. Such development aims at overcoming poverty and creates new opportunities for generating income. Gram Vikas encourages sustainable land, water, and forestry management practices to ensure food security, and promotes income-generating activities through training and skill building.

Social forestry is promoted as an environmentally friendly form of forest management. The local community manages forests in a sustainable fashion and allocates the rights to grow timber for fuel, to grow other timber, fruit, and cashew trees, and to sow fodder crops in the forest. Communities collectively manage their social forest plantations and share the benefits. Gram Vikas also trains communities to engage in sustainable agriculture. "Slash and burn" farming is especially common on tribal lands. Gram Vikas experts analyze soil conditions and choose suitable crops. The villagers receive field training, credit support, and seeds or seedlings. The growing of cashews, pineapples, mangos, jackfruits, and vegetables is promoted, given that these crops provide a steady source of income. Watershed management systems are also developed in cooperation with Gram Vikas' experts and local communities. To enhance income from livestock, Gram Vikas facilitates access to better livestock strains, and trains villagers in various aspects of improved livestock husbandry. People are encouraged to insure their livestock. The measures regarding social forestry, sustainable agriculture, and livestock husbandry improve villages' food security and generate additional income for the villagers.

The results of 30 years of promoting livelihood and food security are:

- Through skill-building courses and supporting income-generating activities, GV has contributed towards long-term economic sustainability.
- Over 3,000 previously unskilled villagers have been trained in masonry and are now engaged in full-time work.
- With loans from SHGs, many villagers have begun a wide variety of income-generating activities.
- GV has promoted sustainable management of natural resources by helping villagers to improve their farming methods and adapt these to the local setting.

(4) Sustainable Energy

In the context of its other activities, Gram Vikas is also promoting sustainable energy solutions in villages to supply the energy needed to pump water and to improve rural electricity supplies. Gram Vikas's community-based energy systems are based on biodiesel, biogas, micro hydro, improved cook stoves, and solar photovoltaic applications. Gram Vikas helps communities capitalize on their natural resources in a sustainable manner. Micro hydro systems are the most cost-effective solution for rural electrification. Gram Vikas trains local youth to independently design, manufacture, and manage micro hydro systems for the local market. Solar LED lighting systems offer cost-effective lighting for rural communities. GV also boosts local capabilities to produce and distribute this technology. Furthermore, a project in cooperation with a Canadian NGO has taught young locals how to make biodiesel from local underused oil seeds.

In order to reduce indoor air pollution (and the damage to health it causes) cleaner, more energy-efficient cooking stoves have been designed. The stoves are made on-site by the household's women under the guidance of trained staff. Finally, Gram Vikas helps communities build disaster-proof houses by facilitating access to bank loans and government schemes as well as by providing technical knowledge.

The results of around 30 years (1979–2010) of promoting sustainable energy were:

- Between 1983 and 1993 Gram Vikas built 55,000 bio-gas plants (80 percent of the bio-gas plants built in Orissa during that ten-year period).
- Biodiesel production was successfully demonstrated in three villages and will now be carried on as an enterprise by local people.
- Smokeless and energy-efficient stoves have been established in 12,000 households and have a direct positive effect on women's and children's health.
- Between 2007 and 2010 over 170 LED lighting systems were installed, and many more since then.
- Up to 2010, Gram Vikas had implemented four community-based micro hydro projects.
- Five solar-powered water pumping systems are working and in 2010 three others were installed.

GV's Water and Sanitation Program: A Systems Approach for Improving Health and Living standards

In the rural areas in which GV works, lack of safe drinking water is one of the major causes of illness and death. About 80 percent of local diseases are water-borne. According to UNICEF (2012), 900 million people do not have access to safe drinking water, and 2.6 billion people live without proper sanitation. Furthermore, about one in four people in developing countries defecate in the open (UNICEF, 2009). Caryl Stern, President and CEO of the US Fund for UNICEF, noted: "in the developing world, 24,000 children under the age of five die every day from preventable causes like diarrhea contracted from unclean water" (UNICEF, 2009). In fact, some 88 percent of diarrheal deaths worldwide are attributable to unsafe water, inadequate sanitation, and poor hygiene and can be easily prevented by access to clean water and good hygiene practices (UNICEF, 2009). In addition to immunization and breastfeeding, improved water supply quantity and quality, handwashing with soap,[5] and promotion of community-wide sanitation are effective prevention methods (UNICEF, 2009). This is the starting point for GV's Water and Sanitation Program.

For over 20 years, GV has helped communities in Orissa to get access to clean water by installing water and sanitation systems. This provides each household with a toilet, a shower, and running water supplied by an overhead village water tank. The building of these facilities is overseen by GV's staff, who mobilize communities to build their own water and sanitation infrastructure. In this process, GV acts like a consultant (albeit for free), by selling an idea and a service, creating and disseminating knowledge, and then coaching the village community to build the actual infrastructure.

In this sense, the relationship between GV and the communities is built on the idea of a client–consultant relationship, where the consultant must serve the client. Villagers agree to receive a package of services from GV (including technical, health-related, and self-management training) and pay for some of the agreed costs of the water and sanitation program (covering both the infrastructure and system operation and maintenance costs). This provides communities with dignity as people are given an active and important role in the project. Furthermore, they receive skill development opportunities.

Setting up the infrastructure is a joint effort by GV and the community. It requires substantial training. GV provides the knowledge and expertise to set up the infrastructure and to get governmental funding and micro credits. In addition, GV manages the whole process and helps build capacity. The villagers then do the actual work and build the infrastructure (water tank, pipe system, toilet/shower houses) under the guidance of GV's masons and also supply all locally available materials. The villagers contribute 60–75 percent of the project costs in-kind and in cash; the difference between government subsidies plus village contribution and the total project costs is covered by GV.

The government funds cover the costs of the elevated water reserve (overhead water tank), and the main distribution pipeline; GV supplies materials that cannot be substituted by local materials (e.g. toilet pans).[6] Villagers also receive plumbing and masonry training so that they can repair and expand the facilities. Since the whole community is involved in building and paying for the facilities, a strong sense of ownership emerges.

GV makes villagers aware of the risks of defecating in the open. It also delivers health and hygiene training to adults and schoolchildren; the latter acting as agents of change and to foster better hygiene in their families. A village committee is set up and monitors the proper use of the toilets and regular cleaning. Program implementation also creates community social pressure on villagers to comply with the new sanitation rules.

An inclusive, democratic system of self-governance (see below) ensures whole-hearted commitment and avoids the kind of dependence engendered by the "giver–receiver" relationship often found between development agencies and beneficiaries. GV's approach empowers people, and fosters a spirit of citizenship and a sense of belonging. This helps communities improve the opportunities of every community member and overcome inequalities rooted in gender, class, and socioeconomic status.

Ultimately, the benefits of the access to clean water and safe sanitation are manifold. Access to safe water along with hygiene training reduces water-borne diseases in the villages significantly. It also frees women from the drudgery of spending four to five hours per day fetching clean water for the household from far away. The time saved can now be used to engage in other income-generating activities, which boost household income and let children attend school (the children too are freed from household chores). Further, the installation of individual sanitation facilities provides privacy and gives them back their self-respect. The installation of a shower now also allows people to wash themselves properly; this has also led to a drop in gynecological disease among women. As living conditions improve and new income-generation channels emerge, there is also less migration to the cities. Beyond that, an interesting phenomenon can be seen in the villages where Gram Vikas undertakes water and sanitation programs. As it dawns on communities what they can achieve if they pool resources and work together, an upward spiral of communal development begins, raising the self-esteem of communities that have suffered from decades of marginalization and grinding poverty. Formerly apathetic communities rapidly begin to take a hand in forging the future.

How GV Implements the Notion of 100 Percent Inclusion

According to Joe Madiath, exclusion practiced over centuries has instilled the feeling among those excluded that it is their "destiny" or "fate," while those excluding feel that it is their "right" to exclude.

A program starts when a community has committed itself to the water and sanitation project and the terms applicable (100 percent inclusion: see below). GV sets up a democratic infrastructure, which provides a self-governing management system at the community level.

Creation of a Democratic, Self-Governing Management System

An important mechanism for a smooth and sustainable set-up and running of the water and sanitation program is the development of a democratic self-governing management system. As part of this system GV facilitates the creation of self-governing people's institutions. In many of the communities GV works with, people have seldom had the chance to influence decisions affecting their lives. When GV starts working with a community, the first step is the establishment of a village general body (VGB). Every household of the community is represented in the VGB by one male and one female. The VGB has to vote unanimously for the implementation of the water and sanitation program if GV is to get involved. The VGB also becomes a platform for discussing and deciding other community issues. Equal representation and participation by men and women is an important step in raising women's profiles in communities and including them in decision-making.

A village executive committee (VEC) is then elected by the VGB. The VEC's membership is based on certain diversity criteria. The VEC needs to comply with the 100 percent inclusion concept and must have an equal number of men and women, who proportionally represent all different castes and economic groups. The VEC is then registered as a legally recognized village society. This enables the village to undertake financial transactions, to obtain government funding and other assistance, and to enter into contracts. Subcommittees are elected to assist the VEC on specific topics such as education, health, and water supply and sanitation. The work of all committees is disclosed to the VGB to ensure transparency and accountability.

An important VEC function is the raising and management of the village sustainability fund, which is a key element in the water and sanitation program. The fund is raised before project work begins. Each household is asked to contribute 1,000 Indian rupees.[7] Wealthier households are asked to pay more to cover the shortfall for those households unable to pay this amount. Once the required amount has been raised, the VEC invests the sustainability fund in a local bank. The fund's purpose is to ensure that each new household in a village (e.g. through marriage) receives a small subsidy from the fund's interest, to be used for the external materials needed for the new household. Thereby expansion is ensured and the project is financially self-sustainable. In turn, new households have to contribute equally to the fund. This ensures project sustainability and the inclusion of all households. Further, a monthly fee, a harvest fee, or the yield from village resources are contributed towards a maintenance fund.

Another part of the management system is self-help groups (SHGs). GV strongly encourages women to set up such groups. SHGs function as saving groups, where each member saves a jointly decided amount of money each month. The joint savings are then used to make small loans to group members to start income-generating activities or to help out when times are hard. GV also helps more mature groups to get low-interest loans from local banks to start new business activities (such as broom binding, sewing, tailoring, horticulture, livestock farming, or fish farming) and helps out by offering the training needed. SHGs also empower, creating forums for women to interact freely, discuss community issues, and gain the confidence to take a bigger role in community decision-making. In many communities, SHGs become the main catalyst for change. As women gain access to funding and improve their income, this enhances their influence within village society and even leads to increased status and bargaining power within the household.

Members of the village committees and the SHGs are supported by GV through training sessions, workshops (for example on leadership, or numerical or basic accounting skills), and practical support. Furthermore, GV raises awareness on the functioning of the Panchayat Raj—the local government system.

The Project Cycle

GV's approach in any given community includes all five of the project areas mentioned above (health, education, livelihood/food security, infrastructure/energy, and water and sanitation) and the creation of self-governing people's institutions. A project begins when GV presents its approach to rural development to communities. The typical project cycle lasts between three and five years. The project begins with the formation of the VGB and election of village committees. Work in the project areas can begin once the community has unanimously voted for the implementation of the water and sanitation project (entry point) and the sustainability fund has been raised. Applications are made for government schemes and villagers' and communal resources are raised. Local materials are collected and GV brings outside materials to the village. People from every household then work together on building the water and sanitation infrastructure under the guidance of GV staff.

While the works are underway, SHGs are formed, there are public awareness workshops on health and hygiene topics, and a village committee is set up to monitor the proper use of toilets and regular cleaning. Once the building work is finished (this usually takes about a year), GV staff help the village to develop and improve its community management structures. Members of village committees and SHGs are given further training in leadership skills and numerical and accounting skills. They also receive issue-specific practical support to become more independent. The community and GV take additional measures to improve health and education standards, including pressuring local authorities.

GV further conducts skill-building activities in and training on sustainable forestry, agriculture, and livestock husbandry as well as on other income-generating activities. People who complete GV's training (e.g. in masonry, plumbing, bar bending, stone dressing, brick molding, and house painting) are in high demand in rural Orissa and can usually double or triple their income within a year or two. Trained villagers often develop strong entrepreneurial skills, boost their household income, and have a positive impact on the community.

All aspects of a project such as specific training courses and workshops are context specific and are tailored to each village's special needs and potential. Over time, the village's dependence on external development initiatives lessens. The village goes on to set norms and rules for its institutions and begins new measures on its own. This is when GV staff begin to take a back seat, limiting themselves to providing consultancy services if and when needed. GV initiates and facilitates a development process which is borne and reinforced by communities. The new-found optimism, self-esteem, and dignity maintain the momentum of development.

Over the years, word of the success of such projects has spread. In the beginning, GV had to "sell" programs to communities. Now communities are queuing up for them.

Principles

GV's key innovation and the reasons for its program success lie in its unwavering insistence on 100 percent inclusion throughout. In this respect, GV is a force for societal change. Full inclusion is ensured by the three tenets that pervade every aspect of GV's approach to rural development: (1) equal opportunity; (2) participatory decision making; and (3) shared responsibility.

(1) Equal Opportunity

In rural Orissa social mobility is very low. The family a child is born into and its socio-economic position usually determine the child's future. This is not true of the villages in which GV operates. Water supply and sanitation give every household exactly the same facilities. This has an important psychological impact and puts all members of the community on an equal footing. All components of GV's Water and Sanitation Program (committees, SHGs, training) and other activities (e.g. schools) are open to all. This means that everyone, regardless of gender, religion, or caste can get an education, participate in committees or SHGs, and can even become the president of a village executive committee. The only requirement is that he or she receives the majority of votes from members of the VGB. For instance, it is not unusual to find historically disadvantaged people, who were traditionally excluded from all village activities, as presidents of VECs representing their villages to the wider world. This leads to a level of equal opportunity that has never been seen before in these rural communities. Equal opportunity stands at the core of 100 percent inclusion and strongly enhances social and gender equity.

(2) Participatory Decision-Making

This is established through GV's creation of self-governing people's institutions. Decision-making was traditionally the right of the males from the more privileged economic groups and castes. Through the introduction of new community management structures (in particular, the VGB), women and lower castes are represented in community-level decision-making—often for the first time. They now have an equal say and hence become more visible and more powerful within their communities. The concept of equality becomes a prominent one in the community given that not only the VGB but also village-level committees have to meet rules covering equal participation across caste/socio-economic class and gender divides. Establishing de facto equal participation by all does not happen overnight. During this process, all sides have to get used to their new roles and rights. However, there is clear evidence of increasingly active participation by all groups at village meetings in those communities where GV has been operating for a few months.

An interesting observation regarding GV's projects is that the old monopoly decision-makers often slowly realize just how valuable a contribution the newcomers make. The involvement of all stakeholders leads to more holistic and effective solutions to many communal problems, thus yielding greater benefits for the village. The concept of equal participation of all social groups and both genders in village-level decisions becomes part of the collective psyche. This process is a twofold one. The former monopoly decision-makers get used to the new decision-making processes and start to see their benefits. Simultaneously, those who were formerly excluded slowly get used to their new roles, rights, and bargaining power. GV tries to help the women in particular to actively participate in the specialized committees, to summon the courage to reflect upon the issues and make their arguments count. The formerly excluded are psychologically empowered as a result and this spurs them to reflect upon their roles. The equal representation of men and women, as well as all castes and socio-economic groups, generates a redistribution of traditional rights and challenges socially constructed roles and norms. This leads to further empowerment and a movement towards greater equality, ensuring that 100 percent inclusion is maintained.

(3) Shared Responsibility

A cornerstone of GV's approach is that the community is encouraged to manage its own development. This requires a shared sense of responsibility among community members. This is fostered by GV's Water and Sanitation Program from the very beginning. It starts with the need for the villagers' unanimous agreement on the project. It is followed by building collective governance and tackling other communal development issues on a joint basis. Each villager is included in the program and is expected to take part in managing community resources and tackling development issues. This is a cultural shift in a system long based on gender exclusion and castes, and with people who believe that their lives are steered by fate and destiny. Rather than waiting for externally generated improvements, community members now act to make the necessary improvements themselves (e.g. improving education by taking income from communal land to pay for another teacher or for school materials). The principle of shared responsibility is also applied to maintenance committees, which ensure water and sanitation systems work properly. SHG members not only monitor and mentor each other to keep their own sanitary facilities clean and ensure the improved health and education of their children; they also take responsibility for the broader community by jointly saving money and deciding on the next member to receive a loan. Shared responsibility also shows in the notion of cost sharing of development and maintenance costs, with each household paying according to its means.

The principles of equal opportunity, participatory decision-making, and shared responsibility are the building blocks of an inclusive community culture and the cornerstone of sustainable development.

Challenges

Human Resource Development

GV is a complex organization led by its Executive Director, supported by a management team comprising the Adviser to the Executive Director, program managers for the field operations, and staff support units. GV's field operations are organized as 24 project areas. Each project area is managed by a regional coordinator who has a team of 12 to 15 field staff and is also in charge of supporting the volunteers in that project area. The units' accounting, PMED (planning, monitoring, evaluation, and documentation), training, IT (information technology), resource mobilization, and purchasing are based at the head office and support the field projects. The Finance Accompaniment Team backs up the finance systems of the organization. Most of GV's staff is naturally located in the project areas, which are usually remote areas with relatively low living standards (no/erratic electricity, no internet, maybe a kiosk, but no shops, restaurants, cinemas, etc.). The head office itself is also rather isolated but at least it provides a comfortable living standard and a nearby town.

One of GV's biggest assets is the dedicated, experienced people working for the organization. These staff members are the key to GV's success. As of 2011, GV employed 353 people (288 men and 65 women) and was further supported by several volunteers at the village level. Due to Orissa's low education standards, many employees are hired from other regions. However, attracting and retaining staff has become a key challenge for GV due to the competitive labor market and higher salaries paid for well-educated people in India. GV's unattractively remote location does not help. Well-educated graduates generally prefer the bright lights and amenities of the cities, where they can earn a much higher salary in either the public or private sectors. While a number of graduates are willing to work for GV for a few years, they quickly yearn for city life after a brief spell in rural

Orissa. This makes it difficult to build a management and leadership "pipeline." As Joe Madiath put it:

> We do not have much turnover at junior management level. Our high turnover is at village supervisor level, who are posted in villages. Because we have chosen to work in very remote tribal areas with, most often, no physical or electronic connectivity and very little infrastructure like electricity, a comfortable place to stay, etc., we will find it rather difficult to get people to work in such areas. As we depend on grants to support the staff and these grants are becoming smaller and rarer, we cannot also give them a remuneration that would have compensated for the hardship.

Another issue is the under-representation of women in the organization. Women only make up about 20 percent of the total workforce and there are none at the middle management level (all regional coordinators are men). Recruiting local women has proved difficult to date given low education standards and traditional mindsets. Recruiting well-educated women from other regions or from abroad is often difficult for several reasons. The idea of a single woman living on her own is very unusual in Orissa's traditional rural society, and in the case of a married woman, it is often hard to move the family to Orissa and find job opportunities for the spouse.

GV tries to approach the recruitment and retention challenge by making great efforts to hold on to potential junior management staff. Furthermore, GV tries to raise more funds so it can pay higher salaries and recruit better-qualified staff. However, the economic crisis makes it harder to meet this challenge (see next section). Accordingly, training and management development programs have also been launched to develop less-qualified staff for management functions. A further reaction is the plan to move parts of the headquarters away from isolated Mohuda to Orissa's capital Bhubaneswar, giving staff access to city amenities—something that is particularly important for recruiting and keeping managers. A further advantage is that it would put GV much closer to the state government, which helps with lobbying and fundraising activities.

Getting women into management positions is in line with GV's vision and aims. In the longer term, democratic community development is also likely to have this effect. The more villages install water and sanitation facilities, the fewer girls and women will waste their time lugging water, giving them the chance to attend school and get the kind of education that will make them potential GV employees.

Financing Gram Vikas

GV has been very successful in raising funds, which has so far underpinned the organization's finances. Through operational excellence GV is delivering higher-quality, more cost-effective solutions than other local NGOs or the state-run development agency in Orissa (which has its own water and sanitation program). As described earlier, GV's approach is that the beneficiaries must pay part of the development costs and GV helps them get government funds (from GV's standpoint, after all, governments are supposed to improve citizens' living conditions and economic opportunities). However, even though beneficiaries' and the government's contributions lead to a considerable amount of project cost recovery, GV is still dependent on donor funding to subsidize projects and to pay for organizational overheads. The funding environment in which GV operates is getting tougher and this poses a major threat to GV's financial sustainability and is a hurdle to scaling up its outreach.

According to Joe Madiath, generally around 75 percent of project costs are covered by government grants for water supply infrastructure (overhead water tanks, pipe system, etc.). The remaining 25 percent of project costs are covered by beneficiaries and GV. Of this residual amount, 75 percent is covered by beneficiaries through the labor and materials they contribute to the sustainability fund. The remaining 25 percent of the residual amount is subsidized by GV. This approach ensures GV recovers the lion's share of projects' costs.

However, GV needs donor funding to finance itself as an organization. Funding is essential to cover project subsidies; training and skill-building activities; health and education aspects of the program; research and development; miscellaneous overheads (salaries, staff development, costs of buildings/offices, vehicles, etc.). GV is funded through grants from international and national foundations, individual donations, and surpluses from a fund to which all employees donate a fraction of their salaries.

At the project financing level, the biggest risk currently lies in the peculiarities of Indian bureaucracy. For the past three years there have been massive delays in disbursements of government funds to GV's projects. This has been caused by overlapping competences, complex procedures, as well as inefficiency and corruption. The failure of a government agency to allocate funds has set GV at least three years behind its ambitious targets to scale up its outreach. Unfortunately, GV can do very little to put pressure on government agencies to speed things up. GV has a strict policy of avoiding corrupt practices and does not pay any bribes. The difficulties of accessing government funds are a key challenge for project implementation, and some external funding is necessary to bridge unexpected payment defaults. The other cost-recovery mechanism, contributions by beneficiaries, is fairly stable but there is no scope for increasing these to cover the shortfall in governmental funding.

GV is facing an increasingly competitive funding environment. Whereas international donor funding used to be more stable and long-term, it is becoming more volatile and short-term. As Indian politicians like to promote India as a fast-emerging market and as a prosperous country, international organizations and foundations are increasingly reluctant to fork out money for Indian projects. Unfortunately, this drop in foreign donations is not being offset by a rise in domestic donations. International donors who are still active in India no longer make any pledges for more than three years. Individual donations are also highly volatile. This makes long-term planning and strategies for scaling up activities that much harder, threatening GV's financial stability.

There is a great need to find new ways of financing. However, a major constraint to this exists. As GV is registered as a charity under Indian law, it cannot engage in income-generating activities to fund its organization without losing its charitable status, which in turn would entail fiscal and other drawbacks. GV has nevertheless already found one innovative solution to the financial challenge. GV is now working with the state-owned Steel Authority of India Limited (SAIL), which is one of the largest steel companies in India and which operates in Orissa. GV is now in the process of implementing its rural development approach in 200 villages around SAIL's steel plant and receives funding under SAIL's corporate social responsibility (CSR) program to implement the projects and to cover linked organizational overhead costs. This strategy makes GV much less dependent on government funds and international donations. GV is currently speaking to other corporations operating in Orissa that might be willing to partially fund projects under their CSR programs. However, GV is only willing to work with corporations that meet certain social and environmental standards, which reduces the number of potential corporate partners.

Scaling Up and the Scope for Duplication

GV set the ambitious goal of scaling up its outreach to 100,000 households by 2015. However, this goal is behind track now—largely due to delays in government funding. While there is clear demand for scaled-up activities in Orissa and beyond, the problem lies on the supply side. Resource constraints, in terms of both qualified staff and funding, are big hurdles to scaling up GV's rural development programs. The replication of GV's approach through partner organizations therefore plays a prominent role in scaling up the outreach.

GV's approach has great potential for replication not only in Orissa and neighboring Indian states but also in other countries. Many parts of the world lack clean water and sanitation, depriving millions of health and human dignity. There is thus a demand for GV's innovative approach in many parts of the world. However, choosing credible, effective partners, who can replicate GV's approach in their local settings is no easy task. GV is currently identifying partner organizations through various national and international networks the organization belongs to. These include the Schwab Foundation for Social Entrepreneurship, the Skoll Foundation, and Orissa Development Action Forum. These networks are vital for finding the right partners for replicating the GV model and for helping organizations share the lessons learned.

Partners that are interested in replicating GV's rural development approach have to agree to implement all key elements of GV approach—particularly the 100 percent inclusion principle. Once a replication partnership agreement has been reached, staff from the partner organization are invited to GV to learn about all aspects of the approach. GV and the partner then work closely together and GV coaches the partner organization in implementing the approach. There is even scope to support the replicating organization financially. However, as the relationship matures the exchange becomes increasingly two-dimensional, and both organizations learn from each other. Even though GV can provide some seed capital, the partner organization has to become financially independent quickly.

So far GV is working with eight partner organizations in Orissa and three in neighboring Indian states. These partners have successfully replicated GV's approach, meaning more villages benefit from projects. Furthermore, two potential partner organizations have been identified in Africa through the Skoll Foundation—one in Tanzania and one in The Gambia. However, lack of financing has so far prevented replication of GV's approach there. Even though Gram Vikas wants to provide some seed capital to start the replication process in Africa, Indian legislation prevents GV from diverting any funds received outside the country. Nevertheless, there is great potential for successfully replicating GV's approach to sustainable and equitable rural development both within and beyond India.

Conclusion

In this case study we have presented a detailed account of Gram Vikas' approach to tackling poverty and bringing dignity to people's lives. It provides an example of an innovative social entrepreneurial endeavor that is driven by a visionary leader with a democratic, humane, and caring orientation. In essence, the case study exemplifies a social entrepreneurial effort that contributes to the United Nations Sustainable Development Goals through a humanistic concept of 100 percent inclusion, thereby improving health, empowering women, and breaking the vicious circle of poverty. The case demonstrates how to create sustainable change at the local level through democratic, self-governing management systems.

Questions

(1) What are the purpose and objectives of Gram Vikas and how does it try to achieve them?
(2) What mechanisms, systems, and processes are applied to achieve 100 percent inclusion?
(3) How does Gram Vikas contribute to achieving the UN Sustainable Development Goals?
(4) What are the challenges that Gram Vikas is facing?
(5) How does this case relate to the concept of responsible leadership?

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Notes

1 This chapter first appeared in the *Journal of Business Ethics*, Vol. 111, pp. 389–411, 2012. Reprinted with permission.
2 The United Nations Sustainable Development Goals consist of 17 interconnected goals, including no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, and affordable and clean energy. These goals are supported by all United Nations member states and the world's leading development institutions. For more information see United Nations (n.d.).
3 For all practical intents and purposes, UN agencies treat Adivasis as Indigenous peoples. The terms "scheduled tribe" and "Adivasi" overlap but are not coterminous.
4 According to John Webster (1999) the term Dalit is a name for the group of people who were traditionally regarded as untouchable.
5 According to UNICEF (2009) the incidence of diarrheal disease can be reduced by 40 percent simply by washing hands with soap, making it one of the most cost-effective interventions for reducing child mortality.
6 The program uses a variety of water sources, but if local circumstances allow zero-energy gravity water supply and water recharging systems are used. Otherwise diesel- or biodiesel-run pumps are used to pump water from nearby natural sources or wells into the water tanks. Gram Vikas refrains from using unsustainable water sources, such as non-recharging water supplies.
7 1,000 rupees is about 14 euro or 17 USD; information as of 22 June 2011.

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19

TRANSPARENCY AND ACCOUNTABILITY IN NATURAL RESOURCE GOVERNANCE

A Case Study of Oil and Gas in Ghana

Katinka C. van Cranenburgh and Josep F. Mària

Introduction

The literature on the efficient use of oil income (Gelb & Grasmann, 2009) to boost proper revenue management (Devarajan, Le, & Raballand, 2010) or to foster fair revenue distribution (Arellano-Yanguas & Mejía-Acosta, 2014) bears on efforts to improve governance. In its general political meaning, governance refers to the "different ways in which power and authority relations are structured in different contexts" (Doornbos, 2001: 96). If we focus on the natural resources sector, it refers to "the set of strategies for improving transparency and accountability in the management of natural resources" (Mejía-Acosta, 2013: 89). The power and authority relations between the different stakeholders involved in a sector have a strong influence on the formulation and implementation of the "set of strategies." Powerful actors possess different mechanisms to impose their interests on the formulation of such strategies (Gray, 1989; Lee & Romano, 2013).

This chapter studies oil and gas governance in Ghana with a view to contributing to the debate on good governance. The research question guiding our research is: How is the use of power mechanisms affecting free and critical debate in the governance processes of the oil and gas sector in Ghana?

The question will be answered through analysis and discussion of a longitudinal case study that combines secondary data and interviews with stakeholders over a period of five years. The findings will help industry stakeholders understand how stakeholder relations and multi-stakeholder initiatives affect governance issues. The chapter identifies barriers to transparency and accountability and also the opportunities for the implementation of such strategies.

Theoretical Framework

The concept of "governance" started to appear at the beginning of the 1990s with the fall of the Berlin Wall, referring to the internal situation of developing countries that needed help from global institutions (Doornbos, 2001). This concept has developed through two "streams of definition" (Doornbos, 2001: 95): the academic and the donor oriented:

> the academic stream has been largely concerned with developing a better understanding of different ways in which power and authority relations are structured in different contexts—thus focusing on different modes of inter-penetration of state–civil society

> relations…In contrast, the donor-directed and policy-oriented discourse on governance has rather been focused on state–market relations and more specifically on state structures designed to ensure accountability, due processes of law, and related safeguards.
>
> *(Doornbos, 2001: 96)*

Doornbos underlines that global institutions and donors have their own limited idea of what good governance means ("the dismantling of 'over-developed' state structures" and "multi-party 'democratisation'": Doornbos, 2001: 101), and they tend to impose their norms on the national agendas of developing countries where they intervene. However, more locally rooted schemes and practices of governance are possible (Doornbos, 2001).

In the natural resources sector, scholars have developed the term "natural resource governance":

> The term Natural-Resource Governance (NRG) is used for the set of strategies for improving transparency and accountability in the management of natural resources. The range of initiatives covered includes licensing, exploration, contracting, extraction, as well as revenue generation and allocation of natural-resource revenues, and the relevant actors involved include governments, private companies, nongovernmental organizations, the media and civil society in general.
>
> *(Mejía-Acosta, 2013: 89)*

In the context of NRG, several initiatives to promote transparency and accountability have appeared in recent years. The two main goals of such initiatives—also known as "transparency and accountability initiatives" or TAI (Mejía-Acosta, 2013: 93)—are improving processes through which actors bring governments to account and contributing to better development outcomes (such as more egalitarian distribution of wealth, better socio-economic conditions, and poverty alleviation) (Mejía-Acosta, 2013). In practice, however,

> the different TAIs are substantively directed at improving *governance processes* around natural-resources management, such as promoting the inclusion and active participation of stakeholders, demanding the public disclosure of government accounts or working to ensure the commitment of political elites.
>
> *(Mejía-Acosta, 2013: 93)*

In the implementation of these three dimensions of the improvement of governance processes (promotion of stakeholder participation, demands for public disclosure, and commitment of political elites) a fundamental tension emerges. On one side, free debate and criticism between stakeholders may promote the general interest; on the other, powerful stakeholders may use different power mechanisms to distort free debate and criticism in order to advance their particular interests (Gray, 1989; Lee & Romano, 2013). In relation to these power mechanisms, Lee and Romano (2013) warn about the co-optation of civil society leaders by powerful firms operating in a specific local context. Secondly, Gray (1989) introduces a power mechanism in which:

> less powerful groups acquiesce to decisions that are contrary to their interests because they subscribe to overarching myths that make those decisions appear legitimate…The powerful maintain their domination by controlling the awareness of the less powerful through socialization processes, information control, the use of symbols, and so forth…A consequence of this exercise of power is not only that grievances are "excluded from entering the political process, but they might be precluded from consideration altogether" (Gaventa, 1980: 20).
>
> *(Gray, 1989: 115)*

These power mechanisms can shed light on the governance processes that are being developed in the oil and gas sector in Ghana, a country that has discovered and started to exploit important oil reserves in the first two decades of the twenty-first century. This is why the research question that guides this paper is: How is the use of power mechanisms affecting free and critical debate in the governance processes of the oil and gas sector in Ghana?

Method

Case Selection

In order to examine power mechanisms affecting governance processes, we have chosen the case of the oil and gas sector in Ghana. Ghana was ranked 139 out of 187 countries on the Human Development Index (HDI) for 2016, an HDI increase of 35% compared to 1980 (UNDP, 2016). Within the African context, however, Ghana rates as the seventh best-governed country, the fifth most stable country, and has the 13th highest HDI. Nevertheless, Afrobarometer, which has tracked citizens of 16 African countries on their perception of government efforts to fight corruption, stresses that Ghana is one of the three countries that has shown the sharpest decline in its score (together with Tanzania and Zimbabwe). The share of Ghanaians rating their government as a bad performer rose by 31% between 2002 and 2012 (Richmond & Alpin, 2013).

We present a case study—an approach that is particularly appropriate when the boundaries between phenomena (oil and gas industry practices) and their contexts (country institutions, relevant actors) are unclear (Yin, 2003).

Data Gathering

The case study is based on formal and informal data gathered over a period of almost five years (October 2014 to April 2019). Data was gathered by the first author, in her role as an Evaluation Consultant at Community Wisdom Partners. The evaluation was assigned by Oxfam America, which implemented a Norwegian donor-funded program called Accountability through Active Citizenship: Improving Petroleum Governance in Ghana.

The information was collected during four field visits, in 2014, 2016, 2017, and 2019, where 98 semi-structured interviews were conducted among the various kinds of oil and gas stakeholders. Interviewees were high-level representatives of their organizations: economists reporting to the Minister of Finance; directors and field staff of civil society organizations (CSOs); senior business managers; media directors and journalists; and expatriate representatives of donor organizations. Stakeholders were asked to quantify and qualify their perceptions.

Secondary data included partner reports, publications, media clippings, and in-country news (Table 19.1).

Table 19.1 Interviewees by stakeholder type

Stakeholder group	*No. of people interviewed 2014*	*No. of people interviewed 2016*	*No. of people interviewed 2017*	*No. of people interviewed 2019*
Civil society organizations	8	11	12	12
Government institutions	5	4	9	6
Media representatives	2	6	3	2
Donors	2	2	0	1
Private sector	1	6	3	3
Total	18	29	27	24
Total no. of people interviewed	98			

Key Areas of Inquiry

Interview guidelines were drawn up to cover relevant topics across all informants and were adapted to each stakeholder category. The areas of inquiry that shaped the formulation of the interview guidelines are shown in Table 19.2.

Limitations

We measured the change in the transparency and accountability strategies in the management of oil and gas at the national level and, to a limited extent, in the coastal region. It is not clear whether and how this change has spread to the rest of the country, where education levels are generally lower. Our study lacked access to certain interviewees in certain years, resulting in some stakeholder groups being excluded or under-represented. Only in 2019 were we able to visit the coastal region, in 2017 we did not interview a donor organization, in 2016 no multi-stakeholder initiative member was available, and in 2014 only one oil company representative was interviewed. Ideally, future research would incorporate other regions and viewpoints from outside the oil and gas sector.

Data Presentation and Analysis

In the following sections, we firstly present a description of the oil and gas industry in Ghana, and the recent initiatives in governance. Secondly, three specific features that affect the good governance of the oil and gas sector are analyzed: promotion of stakeholder participation, demands for public disclosure, and commitment of political elites (Mejía-Acosta, 2013: 93). Thirdly, a discussion and conclusions are offered.

Oil and Gas in Ghana

Ghana has been a sizeable (off-shore) petroleum and (off- and on-shore) natural gas producer since December 2010. Oil and gas is its second-largest export product after gold and followed

Table 19.2 Areas of inquiry

Civil society organizations	Opinion on government and CSO understanding and competencies on relevant legislation and practices to act in the spirit of the law; current and foreseen measures regarding transparency, accountability, good governance, and access to useful information and analyses on O&G; opinion on the role of the media.
Donors	Key interventions on O&G in Ghana; perception of the opportunities and challenges regarding accountability, transparency, and good governance in the context of O&G revenue management in the country.
Government	Systems in place promoting accountability, transparency and good governance; recent progress and plans on relevant legislation; opinion on the capacity and legitimacy of interventions by other stakeholders on these issues.
Media	Factors constraining journalism regarding mining activities in Ghana, the quality of public media debates on O&G; access to useful information on O&G; opinion on the role of the media.
Oil and gas companies	Consultation and decision-making mechanisms with communities and government.

by cocoa. Since oil and gas were discovered in 2007, various scholars have warned of the risks of Ghana succumbing to the resource curse (IEA Ghana, 2012; Dobbs et al., 2013, Shiakwah, 2017). Like all other African countries, Ghana backed the African Union's Mining Vision in 2009, one of whose core aims is to ensure local development so that communities can reap benefits from the extraction of natural resources and ensure that extractive activities respect the environment. Ghana has taken part in the Extractive Industries Transparency Initiative (EITI) since 2010 and published its first report on oil and gas revenues in 2013. Ghana was listed 13 out of 89 countries measured by the Resource Governance Index 2017 on its quality of governance in the oil, gas, and mining sectors (NRGI, 2017). Since 2014, Ghana's economic woes (including inflation) and a big drop in the oil price (approximately US$70 a barrel at the end of 2014 to around US$50 a barrel in February 2017) resulted in shortfalls in forecast government income. In 2015 and 2016, Ghana struggled with economic instability. Unexpected externalities such as fluctuating oil income and related obstacles to the delivery of budgetary allocations have made planning and execution of oil revenues difficult. The drop in oil prices, combined with the drop in the price of cocoa (the third biggest export product) and energy problems (both petroleum and power) led to Ghana running large public deficits for several years. The debts—which were mostly racked up after the first oil had been produced in Ghana in 2010—led to the International Monetary Fund (IMF) stepping in to help the nation (NRGI, 2015). On February 10, 2017, the IMF's Head of Mission to Ghana stated: "The overall fiscal deficit deteriorated…mainly due to poor oil and non-oil revenue performance and large expenditure overruns" (IMF, 2017). The IMF's tough bail-out plan required the country to restore its fiscal discipline and debt sustainability as well as the development of the private sector. Dependence on the IMF underscores one of the worries mentioned by Phillips, Hailwood, and Brooks (2016): the lack of sovereignty of the Ghanaian government in its search for foreign capital limits its power and scope to maneuver in dealing with the private sector.

In August 2016, the long-awaited Exploration and Production (E&P) Bill (Act 919) was passed by Parliament. It replaced the 1986 E&P Act under which around 30 oil contracts had been signed (which are now in several stages of implementation). Compared to the 1986 Act, the 2016 Act provides greater transparency and regulation to attract foreign investors and allow the public to scrutinize the sector's performance and impact. August 2016 was also the month in which the Companies (Amendment) Bill was passed by Parliament (Ghana Justice, 2016). This Act ensures that the names of beneficial owners of companies are recorded in a national central register. Once implemented, the public should be able to see the relationships between government officials and companies. Besides the two long-awaited Acts, 2016 was an election year. The national elections affected the good governance debate among stakeholders as both the New Patriotic Party (NPP) and National Democratic Congress (NDC) featured oil and gas in their election manifestos. With close to 54% of the votes for President-Elect Nana Akufo-Addo, the former opposition party NPP took over from the NDC. With oil exploration and production having been part of the 2016 election battle, the tradition of politicizing oil and gas (Phillips et al., 2016) continued.

Findings and Analysis

In this section, we present the different transparency and accountability initiatives (TAIs) substantively directed at improving governance processes, as suggested by Mejía-Acosta (2013: 93). First, we review whether an inclusive stakeholder approach exists, looking into the participation of oil companies, CSOs, the media, multi-stakeholder initiatives, and participation of business sectors outside the oil and gas industry. Second, we examine measures aimed at improving public disclosure of government accounts (and government accountability in general). Third, we analyze the role and commitments of political elites.

Promoting the Inclusion and Active Participation of Stakeholders

Oil Companies

Representatives of different stakeholder groups mentioned the need for transparency of contracts, and transparency about the ratio between oil and gas potential production and real output. Interviewees from oil companies also mentioned this lack of transparency, claiming significantly more petroleum could be explored and produced in the current oilfields. With the considerable and growing number of new off-shore and potentially on-shore oilfields being "released," the government significantly boosted the petroleum sector in 2018. But, despite the 2016 law on transparent and competitive bidding, the inclusion of companies in contracting has been limited. Out of the six oilfields released in 2018, one oil block was assigned to the national oil company Ghana National Petroleum Corporation (GNPC), and two deep-sea blocks were negotiated behind closed doors between the government and unknown oil companies, leaving only three blocks put out for competitive bidding.

Besides the limitations of oil companies' access to the government for open and competitive bidding, the private sector has a relatively low level of dialogue with CSOs involved in oil and gas. Oil companies generally do not feel the need to engage with CSOs and vice versa. CSOs focus their engagement on government decision-makers. In early 2019, international oil companies organized themselves as a lobby group to promote, protect, and enhance the common interests of international oil and gas companies. The group also aims to ensure that high standards, best practices, supportive legislation, policies, and protocols are adopted while collaborating with the government on industry policies.

CSOs

CSOs are working hard to improve transparency and accountability in the sector. In order to become free and critical stakeholders in the context of an expected massive increase in oil production in the 2020s, CSOs need to grow in terms of capacity and knowledgeable staff. However, CSOs are facing a decrease in funding as many Western donors are moving their strategies from aid to trade. CSO staff who were interviewed are well trained on oil and gas and have, since 2010, implemented an increasing number of pressure and control activities. But there are shortages of CSO employees who can supervise the government's and the oil companies' activities: the supervising capacity is concentrated in a few individuals. Between 2015 and 2019 several of those knowledgeable CSO representatives left the CSO sector to work for the government or the private sector. The former director of the reputable Africa Centre for Energy Policy, for example, became Deputy Minister of Energy, responsible for petroleum, in the 2017 government. According to most interviewees, CSOs are increasingly coordinating their advocacy efforts, but their perception that CSOs are working together is still relatively low.

Media

Historically, freedom of speech is combined with strong popular engagement in politics[1]: voices captured by the media tend to focus on the political agenda, rather than on promoting informed dialogue and expertise sharing. Another hurdle to quality media reporting in Ghana is the lack of interest in highly technical topics such as petroleum revenues. Effectively, experts and stakeholders are only slowly beginning to play an increased role in the news coverage. During the first 5–7 years after oil was found in 2007, several reporters conducted investigative journalism. However, the journalists we interviewed indicated many became demoralized when their stories only led to more complaints instead of prompting an official investigation and leading to prosecutions. Crime without punishment demotivated investigative journalists, who felt they were wasting their time and effort. But from 2007 to 2017, journalists made progress in critical thinking and writing. From merely reporting business deals, they gradually began to scratch the surface to reveal the truth. While elections greatly boosted political reporting by the media, they also led to greater public awareness of the potential benefits of oil and gas for the nation.

In terms of free and critical debate, the problem is that classical media (newspapers and radio stations, which remain dominant) are run by businessmen (like Citi FM) or politicians. One-third of the media channels in Ghana are state-owned or have shareholders with political ties. This results in limits on the independence of journalists. However, websites and social media are gaining importance. Some journalists have their own YouTube channel and/or website, which allows these journalists more freedom than renowned media houses.

Despite a few exceptions, interviewee perceptions of the role of the media in Ghana have largely changed from "the media being biased, uninformed, and uninterested" in 2014/2015 to being "pro-active, informed, and persistent" in 2016/2017. In 2019, few national and regional journalists have received specialized training, but those that have received training are trained well and have been able to specialize. They contributed significantly to the re-introduction of the Exploration and Production Bill to Parliament when it was close to withdrawal.

Non-oil Sector

According to Gelb and Grasmann (2009), powerful stakeholders outside the extractive industry sector must be engaged in oil and gas management in order to ensure stability in production areas. In the case of Ghana, the gold mining sector has been influencing the regulation of the oil sector and vice versa. We found no evidence of the cocoa agricultural sector becoming involved in the governance of oil and gas. Effectively, sectors not directly affected by oil and gas are absent from oil and gas stakeholder meetings. Rather than stressing the need to include gold mining or cocoa representatives in the governance debate, interviewees emphasized the importance of connecting oil and gas governance to national energy (power and petroleum) issues.

Local Communities

The efforts of communities to influence companies and local governments have led to increased engagement between these stakeholders, albeit on an ad-hoc and short-term basis. Long before oil and gas were taken to production in Ghana, community and environment monitoring and advocacy groups (CEMAGs) were created for general community advocacy purposes (healthcare, infrastructure, solving disputes). The members are volunteers who, in addition to their daily activities, act as community capacity developers. The main CEMAGs are found across the six coastal districts/administrative regions of Ghana where the oil and gas industry affects local communities. CEMAGs have increasingly taken up the role of engaging with the oil and gas sector to increase community influence over, and engagement with, oil and gas decision-makers. CSOs such as Friends of the Nation and the Western Region Coastal Foundation, up till 2017, focused on community capacity building and recognition of CEMAGs as credible stakeholders in oil and gas governance. CEMAGs, often from fishing communities, manage the high community expectations that came with oil and gas (promises of a better life, increased wealth, and economic prosperity) and defend the rights of affected communities. As an example, community activists can now ask for information about the environmental and social impact assessments conducted by companies. They also have access to the media to get their voices heard indirectly, and, in some instances, to district assembly members for direct engagement. CEMAG members indicate it remains difficult to engage with oil companies, whilst reaching out to subnational governments and the media is now part of their regular operations.

Multi-stakeholder Initiatives

Two important multi-stakeholder initiatives in Ghana are the national Public Interest and Accounts Committee (PIAC) and the regional Shama Model. PIAC monitors development stemming from oil and gas revenues. Unlike international institutions, which adopt a top-down approach to the good governance of oil and gas (for example the international EITI), PIAC is a home-grown institution and includes members from civil society, faith organizations, trade unions, and special interest groups. However, its work needs to be paid for by the state, leaving the level and range of what PIAC can monitor dependent on government funds. Despite challenges, PIAC's research and analysis were highly valued by all interviewees. However, there are serious reservations about PIAC's ability to transform Ghana's oil industry (Oppong, 2016).

The Shama Model, being in the Shama district on the coast near the West Cape Three Points off-shore oil field, aims to ensure that the district government's operations are citizen-centered, participative, transparent, accountable, professional, innovative, results-oriented, and based on integrity and high motivation. The Shama District Assembly and Development Planning Unit is responsible for societal development in a district with 54 communities. The district has conducted community needs assessments in all 54 communities, ensuring an inclusive process and properly analyzing the feasibility, priority, and sustainability of requests. The outcomes were transformed into district development plans which then were shared within the communities, and companies were invited to contribute both financially and in-kind. Together with the district, companies then execute the projects. Moreover, district development plans fit the criteria of the national government. As a result, the government, since 2018, provides the district with funds from the annual national budget to execute Shama's development plans. The assembly's development planning unit is now also in charge of information dissemination from the central government to local authorities, for which it has set up an accountability noticeboard and organizes public hearings. This constitutes an institutional innovation. The Shama District Assembly has been taught the legal framework, how to monitor oil revenues spent on local projects, the risks of oil companies' presence (oil spillage, gas flaring), and the role of business (core oil operations, CSR, community engagement).

Demanding Public Disclosure of Government Accounts

Although Ghana's oil industry is recent (production only started in 2010), a reasonable amount of non-academic research on revenue management exists that helps hold the government accountable for its actions. However, the sources used for revenue management research are confined to government ones, which limits its value. Monitoring compliance with the licensing procedures (including private sector spending on corporate responsibility, and local content investments) and publishing on these areas falls to the state-run Petroleum Commission (PC). Yet this information is scarcely accessible to the wider public. Until 2017, most company–government contracts were not available to the public, and some secrecy still exists around the negotiation of oil contracts. The government shares information (budgets, annual plans, fees, projects) with CSOs, but only on a voluntary basis, rather than being required by law or by procedural arrangements. Moreover, information is not shared on a regular basis, but ad hoc. In some cases, CSOs have managed to create an engagement agreement whereby the government consults the CSO on a regular basis. With regards to the accountability of government and firms, the law leaves space for them to maneuver with discretion. For example, the PC negotiates with communities that have to resettle and the company has to compensate communities for resettlement. But the law also states that if the private sector faces community hindrance (in other words, if communities disagree) the PC can take the land from the people. That leaves the people with no right to protect their interests. The Centre for Public Interest Law (CEPIL) provides legal support to communities negatively affected by oil and gas operations. Whilst the legal approach of CEPIL addresses the need to increase transparency and accountability at the subnational level, the challenge is to strategize legal action such that those who abuse power will reconsider their approach due to the high risk of penalties. At this moment, CEPIL is not in a position to influence decision-makers in that way.

Working to Ensure the Commitment of Political Elites

Prior to the 2016 elections, CSOs and the media, where possible, engaged with the political elites on the two key laws that guide the industry: the Exploration and Production Act and the Companies (Amendment) Act. CSOs have been indispensable in the process of drafting these laws, thereby improving the legal framework in the areas of beneficial ownership, contract bidding processes, and contract transparency, amongst others. During the election period, CSOs encouraged political parties to take a position on oil and gas transparency matters. After the elected politicians came to power, their commitments were monitored and reflected upon by civil society. Besides techniques that increase pressure for transparency and accountability, CSOs have provided training and information-sharing sessions to key parliamentary committees that oversee the monitoring and auditing of governmental oil and gas revenue management. According to interviewees, this has led to significant knowledge and understanding of the constitutional instruments and related accountability aspects amongst MPs. With the change in political regime (in early 2017), most government officials have changed, though, requiring CSOs to build new relationships and provide similar training to newly installed MPs. On a district level, CSOs have trained district assembly members and local governments, particularly on the relationships between local communities, governments, and oil companies.

Discussion

Various power mechanisms are in place that influence the governance of the oil and gas sector in Ghana. First, regarding the overall model of governance (Doornbos, 2001), we have found evidence of forms of governance of oil revenue that include local communities and consultation processes with different stakeholders, particularly the cases of PIAC and the Shama Model. These bottom-up cases show that it is possible to develop new discourses on governance separated from the "insistence on Western-derived standards of conduct to be adopted in non-Western politico-cultural contexts" (Doornbos, 2001: 100). Various of the home-grown initiatives are supported by Western donors such as Norwegian NORAD and British DFID, who do not impose Western governance models, but strongly promote TAIs that respect the local models. Second, PIAC and the Shama Model developed in the context of improvement of certain aspects of the general political system in Ghana. Over the period 2015–2019, CSOs and the media, by themselves and through multi-stakeholder initiatives, have been reinforced, and therefore have been able to advocate in favor of measures that have improved the regulatory framework for Ghana's oil and gas sector. They have increased public awareness of oil and gas revenue (mis)management, and given citizens more voice in debates. Third, we have identified the power mechanisms of co-optation of CSO members underlined by Lee and Romano (2013). Technically trained CSO representatives are scarce, and some are being hired by government agencies and oil companies, thus, weakening the capacity of civil society to play its critical role. Fourth, this scarcity is extended to journalists, many of whom work for media houses owned by commercial or government organizations, with potentially negative consequences for a free and critical debate on the governance of oil and gas. In this case, the power mechanism is related to the role of discourses that may lead "less powerful groups [to] acquiesce to decisions that are contrary to their interests because they subscribe to overarching myths that make those decisions appear legitimate" (Gray 1989: 115). In particular, Gray (1989) specifies the mechanism of "information control." The scarcity of journalists who have specialized in issues related to the oil and gas sector may enforce the information control of government and oil companies. Fortunately, independent journalists (operating through social media and professional websites) and local radio stations are playing a relatively free role in discussing governance and denouncing bad practices.

Fifth, Gray (1989) specifies a second power mechanism related to discourses on social issues: "socialization processes" (Gray 1989: 115). This is relevant in the case of the government PC, which negotiates with communities that have to resettle. However, if the private sector faces community hindrance, the land can be taken from them, leaving the people with no rights. A community grievance mechanism and law that protects affected communities is essential for free and critical debate about the sector. As Rajak (2006: 193) quotes: "The effectiveness of power is seen to rest on this ability to 'hide its own mechanisms' (Foucault 1978: 86)." One mechanism of exclusion used by the powerful is technology: under the rhetoric of technicalities, powerful actors may be removing political issues from the public debate with the excuse of "the neutral language of science and pragmatism" (Rajak 2006: 193). Again in Gray's terms: "A consequence of this exercise of power is not only that grievances are 'excluded from entering the political process, but they might be precluded from consideration altogether'" (Gray 1989: 115, quoting Gaventa, 1980: 20). In the case of Ghana, the rhetoric of technicality is powerful, due to the complexities of the oil and gas sector. Within the democratic systems, powerful stakeholders have used the technical complexity of the sector to abuse the imbalance of power.

Recommendations

To retain and expand their influence over oil and gas decision-makers, stakeholders and multi-stakeholder groups will have to develop innovative impactful strategies and programs that leave no gaps in legislation, transparency, and accountability of oil and gas governance. Having open and competitive bidding and beneficiary ownership laws is not sufficient: law enforcement techniques and resources must be in place to ensure the laws are executed entirely. Also, the government PC to date does not provide insight into the impact of oil money (revenue spending, local content, CSR) on development projects. For industry stakeholders to gauge the spending of oil and gas revenues, visible processes and compliance are needed. In their absence, civil society actors in Ghana cannot hold governmental decision-makers accountable for their deeds. Furthermore, whilst the media has improved significantly over recent decades in terms of independent, free, and informed reporting, the tendency of the powerful to co-opt or manipulate opinions in their favor remains, due to the politicization of the media houses.

For long-term commitments to good governance, donors, CSO members, and the media must take up long-term independent positions. Moreover, issues of concern are the limited number of specialized CSO staff and the brain drain to the other side of the table (Lee & Romano, 2013). In addition, the lack of independent journalists and media, who may be co-opted by governments and oil companies, is worrying, particularly with the upcoming growth of the industry.

Questions

(1) In the context of oil and gas in Ghana, how do you think local power relationships can evolve in order to improve the living conditions of underprivileged groups in Ghana?
(2) Which factors of change depend on state regulation, and which factors depend on the behaviors and attitudes of non-state actors?
(3) Compare the case of Ghana to your own country. Which are the contextual differences, and how would they affect the result of the interactions described in this case?
(4) What role does the media play and what are the lessons from this case for the media?

Note

1 In 2019, Freedom House gave Ghana an "aggregate freedom score" of 83 on a scale from 1 to 100 (whereby 1 is least free and 100 is most free) and the highest score for freedom in political rights (Freedom House, 2019). The heated and emotional debates in the media on political topics underscore these figures.

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PART 5

CSR and the Global Value Chain

20

INTEGRATED MANAGEMENT

Operations at the Crossroads of Innovation, Sustainability, and the Built Environment

Robert Sroufe and Kevin Dole

Introduction

The purpose of this chapter is to explain how and why operations and innovation intersect with new opportunities for value creation. We do so by first using the waves of innovation model to understand the progressive transformation of processes, the position of sustainability on the innovation curve, and how the integration of more sustainable practices is already part of operations and supply chains. Next, we define integrated management as an enabler of innovation and explore emerging opportunities for integrating sustainability into nascent areas ripe for further research while extending this to the built environment. We then use the framework of the Deloitte Enterprise Value Map to discuss strategic value creation in logistics and manufacturing and identify ways to operationalize sustainability in operations management (OM) and supply chain management (SCM). Theoretical contributions of this chapter include understanding operations as an integral part of an expanding sustainability frontier and the current wave of innovation. Finally, we discuss the potential of dashboards to help firms identify integrated, cross-functional opportunities to position themselves at the far edge of the innovation curve. One practical contribution of the chapter is providing operations management decision-makers with new, cross-functional value creation opportunities directly impacting operating margins, asset efficiency, and expectations. We believe that firms can use the information in this chapter not only to find strategic advantage while integrating environmental, social, and governance (ESG) sustainability throughout business operations, but also to improve innovation along with value creation while communicating these benefits to internal and external stakeholders.

The evolution of OM has paralleled the "waves of innovation" identified by Hargroves and Smith (2005) in their book *The Natural Advantage of Nations*. As depicted in Figure 20.1, industrial society is seen as moving through increasingly advanced stages, each typified by its focus on specific materials, sources of power, or technologies. The waves are pictured as overlapping cascades, each cresting and falling as another wave begins its ascent. The fall of one wave does not mean that its focus, materials, or sources of power are obsolete. Rather, technologies may still continue to be used but are less prominent and not seen as defining the moment. The beginning of the modern era of OM is situated in the valley between the second and third waves, at the moment in which steam power and railroads began to decline in prominence and the use of electricity, mass production, and the internal combustion engine began to ascend.

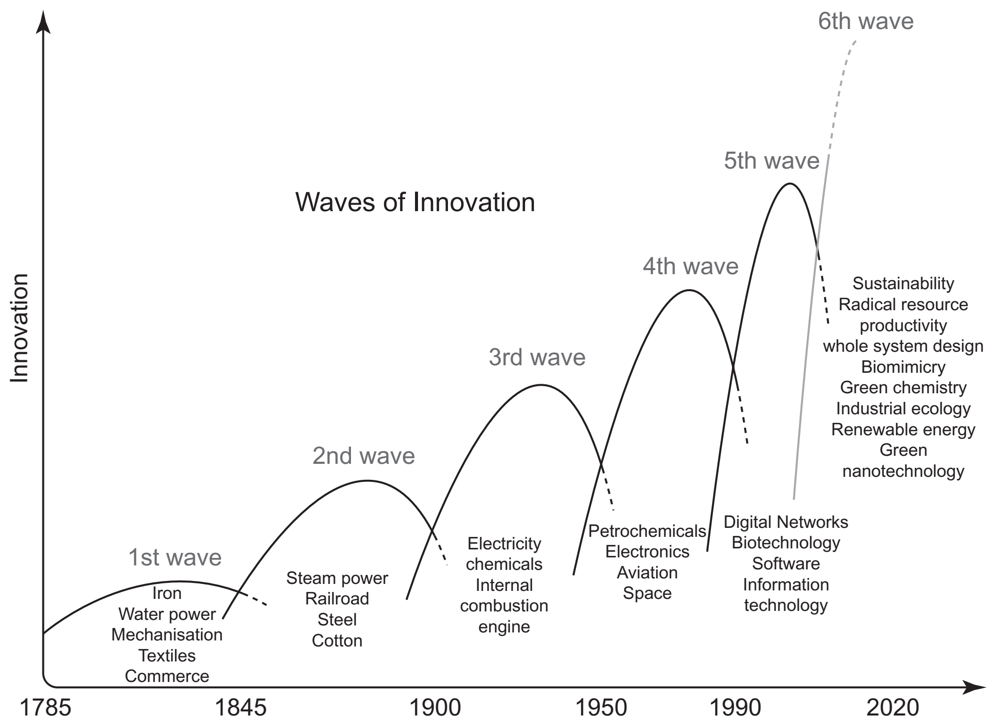

Figure 20.1 Waves of innovation. Source: used with permission from Hargroves and Smith (2005: 17).

As with the evolution of OM, the subsequent waves of innovation are increasingly based on data and information technology, enabled by improvements in efficiency, and are decreasingly material in emphasis. The fifth wave was less material than all of its predecessors, with two of the three typifying technologies (software and digital networks) being purely informational in focus. The rising sixth wave of our current moment is an application of these conceptual and informational innovations to the manufacturing systems that typified its predecessors. It is defined by radical resource productivity, a focus on whole systems, and the application of ecosystem concepts to productive industry. The name for this current wave is "sustainability." In the past two decades, this wave has included the evolution of corporate social responsibility (CSR) and industrial ecology, with operations positioned to enable progressive transformation at the crossroads of innovation, sustainability, and the built environment.

The Evolution and Integration of Operations

We are, of course, now well into the sixth wave. The *International Journal of Operations and Production Management* released its first special issue devoted to sustainability at the beginning of this wave in 2001, where it was presented as a subject for debate (Wilkinson, Hill, & Gollan, 2001). In the subsequent 2014 special issue, sustainability was acknowledged as of "increasing interest to businesses and governments" with a corresponding growth in research. The editors of the 2014 special issue define sustainable operations management (SOM) as: "[T]he pursuit of social, economic and environmental objectives—the triple bottom line—within operations of a specific firm and operational linkages that extend beyond the firm to include the supply chain and communities" (Walker, Seuring, Sarkis, & Klassen, 2014: 1).

There is a lot happening at the intersection of sustainability and OM, as emerging areas of research provide rich empirical insight into the interactions between human health and productivity and performance, and the built environment (William, 2000; Attema, Fowell, Macko, & Neilson, 2018; MacNaughton et al., 2017). Increasingly, enterprises are interested in trying to figure out how to incorporate sustainability into their everyday operations (Kleindorfer, Singhal, & Van Wassenhove, 2005). This interest can be triggered by a growing awareness of firms' impacts on the external environment (e.g., recent reporting from the Intergovernmental Panel on Climate Change) or internal ones (e.g., a growing awareness of the impact of indoor air quality on the health and productivity of workers). Regardless of the cause, there is an urgent need for academic research that helps firms identify the innovation opportunities provided by integrating sustainability into their daily operations and built environment. Operations management is at the crossroads of innovation and sustainability and we can see this same evolution in supply chain management.

Integration and Supply Chain Management

The efficient management of inputs has always been integral to the modern understanding of OM, with SCM emerging as a distinct area of study in the latter half of the 20th century (Kransdorff, 1982; Handfield & Ernest, 1999). Literature reviews have identified multiple definitions of SCM (Ahi & Searcy, 2013), for example: "The management of the interface relationships among key stakeholders and enterprise functions that occur in the maximization of value creation which is driven by customer needs satisfaction and facilitated by efficient logistics management" (Walters & Lancaster, 2000: 160). As evidence of integration, the same literature review identifies 22 definitions of sustainable supply chain management and 12 for green supply chain management, which are assumed to be interchangeable concepts. Of these, Srivastava's 2007 definition of sustainable supply chain management (SSCM) builds on the above definition of SCM while also highlighting supply chain management at the crossroads of innovation and sustainability:

> Integrating environmental thinking into supply-chain management, including product design, material sourcing and selection, manufacturing processes, delivery of the final product to the consumers as well as end-of-life management of the product after its useful life.
>
> *(Srivastava, 2007: 55)*

A key word in this definition is "integrating." Recall that the sixth "sustainable" wave is defined by a focus on whole systems. This type of systems thinking requires a new philosophy of management that *integrates* the perspectives of internal and external stakeholders across functions, firms, buildings, and value chains in multidimensional ways. This philosophy will have particular implications for all business functions, especially operations and supply chains.

Integrated Management

Integrated management is the process of including environmental, social, and governance (ESG) performance metrics in business decisions (Sroufe, 2018) (see Figure 20.2). This integration occurs along two dimensions:

- External: the use of ESG criteria to measure and control the impact of business operations on customers, clients, competitors, and other stakeholders outside of the immediate sphere of business.
- Internal: the close coordination between different business divisions and functions to improve business processes and deliver better ESG results.

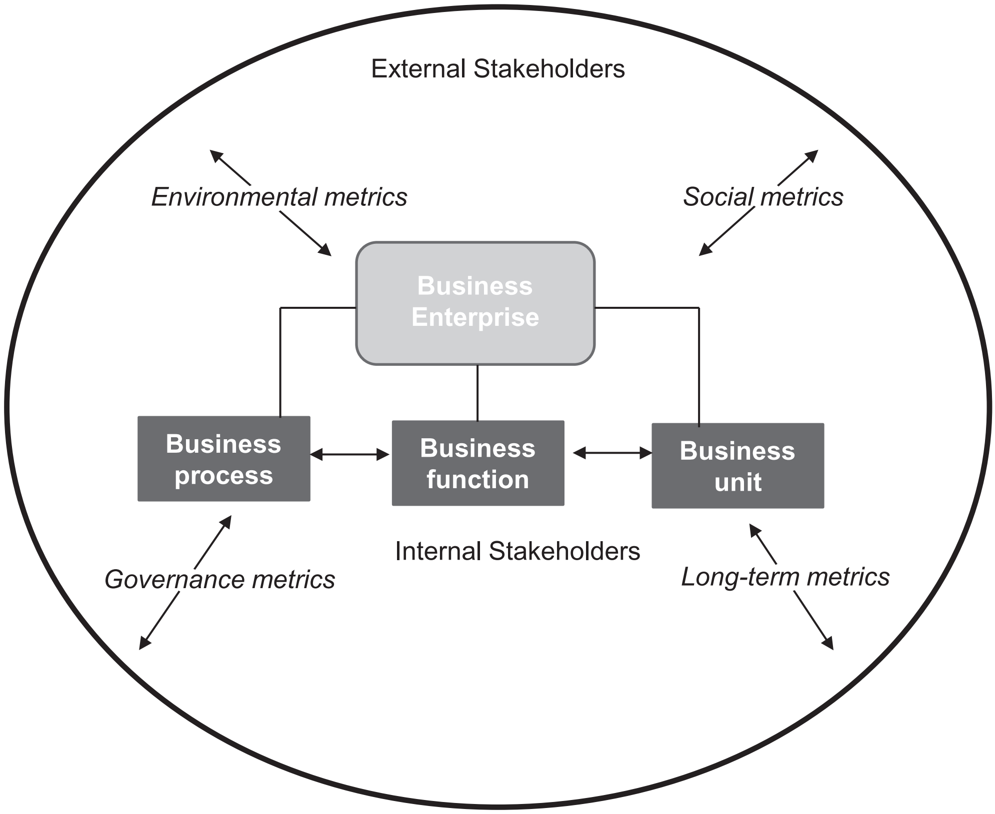

Figure 20.2 Internal and external integration.

An integrated approach to management is designed to accelerate the symbiotic relationships between management actions and value creation towards the goal of a sustainable future for the firm and society. When department managers communicate across functions, they can build a business case integrating ESG metrics. When top management include social and environmental performance in long-term strategic initiatives, we get a more dynamic decision-making process (Browne & Nuttall, 2013). With integrated management, we can have enterprise prosperity aligned with societal and environmental prosperity.

This kind of movement calls for smart leadership. There is no one answer, but instead a portfolio of approaches with solutions evolving at all levels including individuals, functions, organizations, communities, and society. If ESG metrics are incorporated into decisions, researchers and business decision-makers can find positive impacts on the relationships among key stakeholders (Walters & Lancaster, 2000). We can realize seemingly lofty aims, such as the UN Sustainable Development Goals, by incorporating these goals into daily operations while still *maximizing value creation* and *customer needs satisfaction* (Walters & Lancaster, 2000).

Integrating ESG metrics into operations and supply chain management will go a long way to realizing sustainability and innovation. Opportunities for ESG integration are present at every point along the value chain. There has been ample research on incorporating sustainable change into the production process by improving efficiency, but the performance of the buildings in which the value creation process takes place has been overlooked. We spend over 90% of our time inside buildings while at work or at home, and people/employees are typically one of the largest line item expenses for companies. High-performance buildings can positively impact people, their health and productivity, and reduce impacts on the environment. The buildings used for manufacturing are connected throughout the value chain and are a proving ground for proposing and testing more sustainable business practices and new relationships to performance. The built environment is an emerging area of scholarship for researchers in realizing the sixth wave of innovation.

Integration opportunities in the Built Environment

Over the past 40 years, the asset mix of our most valuable companies has undergone a radical transformation. In 1975, 83% of assets on the balance sheet of S&P 500 companies were tangible and 17% were intellectual. By 2015 that relationship had inverted to 13% tangible and 87% intellectual (Ocean Tomo, 2015). This transition to a knowledge economy means that virtually all of our working hours are spent indoors. We spend over 90% of our lives in buildings. Correspondingly, firms now recognize employees as their most valuable asset, but many seem unaware of the impact that the built environment—those very physical assets in which we work and spend so much time—have on those employees.

This is perverse because an estimated 90% of costs associated with buildings are employee costs, principally in the form of wages and benefits (World Green Building Council, 2016). In the case of non-rental office spaces, virtually 100% of value-generated over the life of a building has to do with the work that employees do inside the structure. That is to say, building design is critical to operations. It, therefore, follows that companies are best served by buildings whose design creates environments that are optimal for the health of workers across value chains. Yet companies typically do the exact opposite. In the name of maximizing value creation, they focus obsessively on the initial cost of construction and prioritize low-performance buildings.

The growing body of research indicating that indoor air quality is worse than outdoor air quality has begun to enter the popular consciousness (Twilley, 2019). This, and other unintended consequences of low-performance design, negatively impact employee health, which results in increased absenteeism and reduced operations productivity and retention. Conversely, buildings that incorporate green building design have improved employee health, reduced absenteeism, and increased retention. This makes for productive employees and increased profitability, as noted in *The Financial Case for High Performance Buildings* (Attema et al., 2018) by the real estate design research firm Stok. This 2018 study estimates that an 820-employee company occupying a 150,000 square foot office building that invests US$20 per square foot in environmental performance upgrades would see an annual profit increase of US$18.56 per square foot. This amounts to US$3395 per employee per year with a 10-year net present value of US$23,584 per employee (Attema et al., 2018). This is in addition to the savings from reduced utility costs over the long term.

The improved performance of high-performance buildings (HPBs) is facilitated by the innovations in resource productivity and systems thinking of the sixth wave of sustainability. However, the potential of these innovations is not limited to new buildings. By applying the innovations of the sixth wave to building renovations we can make legacy facilities perform like new high-performance structures. Modern technology and construction practices can direct investment such that every dollar considers the elimination of waste (i.e., reduced greenhouse gas emissions, energy conservation) and the creation of value (i.e., improvement of indoor air quality, environmental safety, and longer building lifespan) (Russell-Smith, Lepech, Fruchter, & Meyer, 2015).

Whether a business operates in an existing or new structure, the improvements in operations facilitated by improved building performance demonstrate the value of investing in the technological innovations of the sixth wave. This return on investment demonstrates the value of the conceptual innovations in sustainability to the external stakeholders the facility connects to, such as suppliers and customers, surrounding communities, and employee families. The corollary social benefits can include healthier and safer occupants, vibrant communities, family-wage jobs, economic development, as well as energy independence and security, along with avoiding the social costs of environmental degradation (Semke, 2012).

As most people involved in sustainability in the built environment know, buildings consume 40% of the world's energy, 25% of forest timber, and 16% of the world's fresh water (Dimson, 1996). To meaningfully progress towards sustainability in our countries, cities, communities, companies, and supply chains, we are going to have to deal with the unsustainable nature of poorly performing buildings. Thankfully, strategies exist today to allow owners of existing buildings to improve performance across the life of a building through the maintenance and replacement of its mechanical systems. Renovations can begin with "quick wins" that focus on lowering energy consumption such as improved controls, airtightness improvements, efficient boilers, variable speed pumps, and external shading, or more significant investments such as LED lighting retrofits, heat recovery systems, air-source heat pumps, photovoltaic panels, and passive chilled beams. All of these reduce CO_2 emissions, and improve air quality, human health, and subsequently productivity.

The wide variation in existing building stock and the corresponding variation in necessary renovation makes it difficult to generalize about the cost premiums for high-performance retrofits and there is a paucity of studies on the topic. However, existing research appears to indicate retrofits follow the pattern of new construction where higher levels of improvement require higher levels of investment (World Green Building Council, 2013). It should be noted however that, regardless of the varying returns of first costs, retrofitting existing buildings is likely to generate greater environmental returns than new high-performance construction.

Achieving an existing building's optimum level of performance is the most regenerative of business strategies because existing buildings already represent an investment in carbon, which is lost if the buildings are destroyed. These older buildings are also typically built with natural, sometimes local materials and are typically cheaper and easier to maintain. In short, old buildings are worth investing in, and new buildings provide platforms for more dynamic levels of performance measurement and goal setting.

Recall our definition of SOM from Walker and Seuring: "[T]he pursuit of social, economic and environmental objectives…within operations of a specific firm and operational linkages that extend beyond the firm to include the supply chain and communities." When companies operate inside HPBs they can link the social objectives of employee health, the environmental objective of reduced resource consumption, and the economic objective of profitability, to core operations. This is what integration and SOM now look like. Beginning with a firm's internal stakeholders, HPBs facilitate integrated management by incorporating ESG metrics into core business processes, functions, and units.

Trends in the Integration of Sustainability and Buildings

Since the development of Leadership in Energy and Environmental Design (LEED) standards in 1993, the amount of high-performance building construction has steadily increased. The 2018 World Green Building Trends SmartMarket Report predicts that by 2021 the number of industry respondents who expect more than 60% of their projects to be green will increase from 27% to almost half (47%) (World Green Building Council, 2018).

Thankfully, green renovations are also beginning to catch on. In its 2016 report on the previous year's trends in high-performance buildings, the US Green Building Council noted that its Existing Buildings, or Building Operations and Maintenance (LEED-EB or EBOM), was the most used rating system in the top ten states for LEED-certified buildings. That year, LEED-EB represented about 53% of the total certified square footage. Recent rollouts of the latest LEED upgrade, Version 4.1, started with a focus on existing buildings and the renovation trend is expected to continue. Carl Elefante, Fellow and President of the American Institute of Architects, has emphasized the importance of improving the existing building stock, saying: "the greenest building is…one that is already built" (Elefante, 2012). No amount of new green construction can get us where we need to go if we ignore existing buildings.

It is a given that most of the buildings we have right now will still be in use in 2030. That year is a milestone date for carbon neutrality set by Architecture 2030 and the 2030 Challenge. The years between now and then have recently been emphasized by the Intergovernmental Panel on Climate Change as some of the most important for reducing greenhouse gases and limiting the detrimental impacts of climate change (IPCC, 2018). Now is the time to act on the development of new theory and practical application of buildings as an integrated opportunity for operations and supply chain management.

There is a quickly growing understanding among researchers and practitioners in sustainability that existing buildings can be renovated into high-performance buildings with ultra-low energy use and ultra-high indoor environmental quality. Like new buildings, they can incorporate environmental, social, and financial performance into an integrated bottom line (Sroufe, 2018). Building life cycle analyses will show that green buildings contribute more to worker productivity, innovation, and operations than buildings that are not included in SOM strategic planning and investments.

Extending Integration Throughout the Value Chain

Improving the built environment in which businesses operate can help make firms sustainable, but how can this achievement be connected to core business functions, strategy, and value creation? And how can this be related to SOM and SSCM? To identify opportunities for strategic value creation in SOM and SSCM we turn to the Deloitte Enterprise Value Map (Deloitte, 2004) and Lukac and Frazier's corresponding 2012 article from the *Journal of Business Strategy*, "Linking strategy to value" (Lukac & Frasier, 2012). The map identifies four value drivers: revenue growth, operating margin, asset efficiency, and expectations.

These drivers are then subdivided into smaller categories, each populated by discrete actions that a firm can take to create/improve value in this area. The complete map, available for download from Deloitte's website[1], has 30 rows and 41 columns of information. For the sake of illustration, we will only work with the top-level categories (Figure 20.3).

Lukac and Frazier propose a lateral intersection of the value map with a strategy map. In the resulting matrix, value-generating actions are incorporated as initiatives that are part of a larger strategy. The action items that populate the cells of the matrix will vary depending on the focus of the strategy (Figure 20.4).

Our strategy is concerned with improving the performance of the built environment and extending the corresponding increases in value along the value chain. Therefore, the value drivers on the Deloitte map that are our primary concern are within operating margins and asset efficiency. We also find opportunities for improvements in expectations and intangible assets that operations and supply chain managers can positively impact.

As the focus of our strategy is sustainability, we can populate the intersections of the cells on the matrix with metrics from the materiality map from the Sustainability Accounting

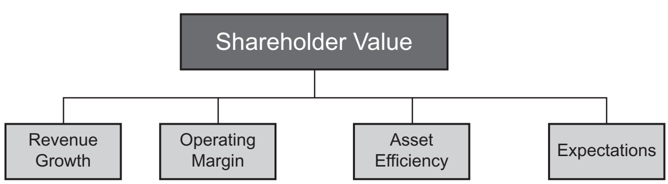

Figure 20.3 Top-level categories on the Deloitte map.

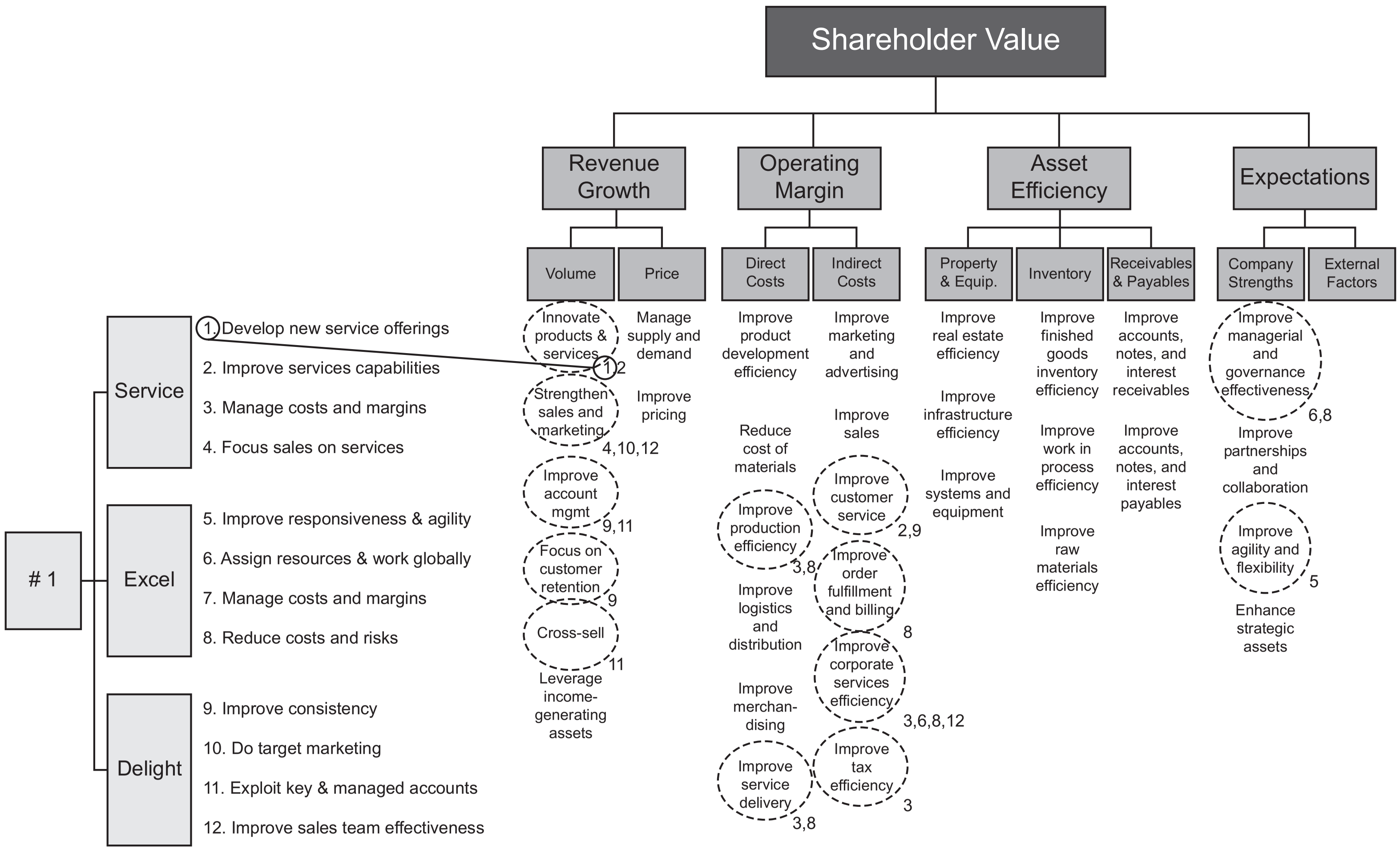

Figure 20.4 Example of strategy mapped onto the Deloitte map.

Standards Board (SASB). SASB is a non-profit organization that seeks to create sustainability standards for the measurement and disclosure of financially material environmental, social, and governance impacts of publicly-traded companies in the United States. SASB standards are designed to provide investors with greater information about the assets they invest in and to align with the standards of the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). SASB has created materiality maps for 11 industry sectors such as consumer goods, food and beverage, technology and communication, and transportation.

Metrics on the materiality maps are divided into five sustainability-related dimensions (environment, social capital, human capital, business model and innovation, and leadership and governance), which are then subdivided into 26 general issue categories.

The alignment of SASB/FASB permits operations and accounting to "speak the same language" and can facilitate internal integration management between these business functions within a US firm (see Figure 20.2 above). Likewise, the SASB/IASB alignment can facilitate internal integration between business functions in multinational firms.

For example, road transportation is a key part of SCM. Items identified by SASB as material to road transportation are coded on the map under TR-RO.

- "Gross Global Scope 1 greenhouse gas emissions" is coded on the map as TR-RO-110a.1.
- "Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis against those targets" is coded as TR-RO-110a.2.

Energy management of real estate is a key part of SOM. Items identified by SASB as material to real estate are coded on the map under IF-RE.

- IF-RE-130a.2 is (1) Total energy consumed by portfolio area with data coverage, (2)percentage grid electricity, and (3) percentage renewable, by property subsector.

Mapped into the matrix formed by the intersection of the strategy and value maps, these integrated SASB materiality metrics would look like Figure 20.5 .

We have integrated sustainability into areas of operations and supply chain management by identifying areas of improvement that simultaneously generate shareholder value. The improvements are described using a common language across business functions. Keep in mind that integration can happen externally as well. For example, if SASB metrics for road transportation are used by a firm's vendors and clients, sustainability could be tracked across the entire supply chain. Nor does the scope of integration have to be limited to operations. For example, if SASB metrics

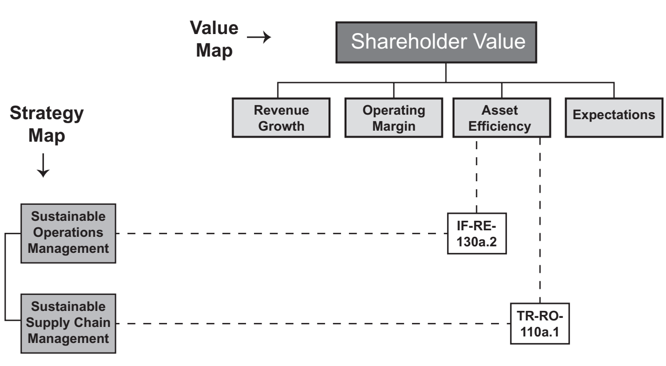

Figure 20.5 SASB metrics at the intersection of strategy and value creation.

are used during the planning process of factory design and continued throughout operations it could lead to "a more systematic and holistic consideration of energy efficiency in organizational and technical processes of a company" (Müller, Poller, Hopf, & Krones, 2013: 622).

These ideas are the subject of future research. For now, the question becomes: how can these diverse actions be tracked and measured in real-time so that they can be subject to continuous process improvement? Or, to phrase the question another way, how can we actively manage such a complex strategy? And, how can these achievements be easily communicated to internal and external stakeholders? The answer to these questions lies in emerging technology at the intersection of the fifth and sixth waves of innovation and can now be displayed in real-time with dashboards.

Dashboards

In Figure 20.5, we have compressed the focus of the sustainability strategy map and limited text in the cells to the SASB codes for the sake of visual simplicity. This reflects the limitations of the printed page. Digital dashboards have no such limitations. They can be as broad or limited as we like. A performance dashboard translates the organization's strategy into key objectives, metrics, initiatives, and tasks customized to groups and individuals within the organization (Eckerson, 2010). They are useful for managing complex knowledge and people-based processes bringing together multiple supplier inputs in production (Parry & Turner, 2006). As part of this current wave of innovation, these metrics are not buried in spreadsheets and rolled up monthly or quarterly for performance reports, but instead placed in visible places so that decision-makers can see real-time performance. A good design can clearly communicate key information to users while enabling access to supporting information (Brath & Peters, 2004). They can provide "big picture" snapshots of global supply chain control systems, or offer multiple layers of data that can be "drilled down" through to exacting levels of precision on a production line, and can show whole-building performance, tying together all energy, water, and indoor air-quality systems. Dashboards are increasingly common features in everyday life. They are regular features on the apps on the smartphones we carry in our pockets, and the smartwatches we wear on our wrists. Why not have them in our production facilities and buildings across supply chains?

Dashboards have been successfully piloted at the level of universities (Lozano, 2006), municipalities (Greatbanks & Tapp, 2007), and economies (Iftikharab, He, & Wang, 2016). Indeed, dashboards have been attempted on a global level. In 2002, Jochen Jesinghaus and Peter Hardi released "The Dashboard of Sustainability," a free software package designed around the UN Millennium Development Goals, a precursor to the current Sustainable Development Goals.

Executive (or "strategic" dashboards) are used to provide business decision-makers with large amounts of real-time data about key performance indicators and other essential business intelligence in a quickly comprehensible graphical format (Palpanas, Chowdhary, Mihaila, & Pinel, 2007). They are commonly used in the finance, human resources, and sales and marketing departments. A CSR dashboard built around sustainability metrics used across business functions could pull data from every department and eliminate the need for time-consuming manual research for reporting and provide an instantaneous holistic snapshot of a company's sustainability performance.

Facilities managers can install building performance dashboards inside production facilities to show real-time energy use (Vikhorev, Greenough, & Brown, 2013). Similarly designed dashboards installed in offices far away from production facilities can help cultivate a shared mindset in corporate employees whose activities seem abstracted from resource use. Dashboards are increasingly common on university campuses (McGibbon, Ophoff, & Van Belle, 2019), and research has shown that the availability of environmental data has an impact on building occupant behavior (Timm & Deal, 2016).

This integrated approach and use of dashboards promises new insight into decision-making processes up and down the supply chain and how process improvements are made possible for enterprises by leveraging evolving technical resources. With the help of artificial intelligence, the internet of things, dashboards, and blockchain—and with the cross-functional expertise of practitioners who understand the integration opportunity—we can amplify the productivity of everyday systems. Operations and supply chains can be a catalyst for focusing on the most relevant actions and then choosing feasible ways to get them done.

Conclusions

The age of integrated management is upon us. In the modern era, OM has evolved to include the intangible along with the tangible and to incorporate aspects of different business functions. It will continue to evolve as business leaders respond to shifting consumer expectations. According to a recent PwC study, 82% of CEOs believe that business success in the 21st century will be redefined by more than financial profits and that customers are seeking relationships with organizations that address wider stakeholder needs (Snowden & Cheah, 2016). A company's ability to build these relationships with stakeholders will depend in part on its ability to ride the next wave of innovation in technological and ESG performance in the built environment. Companies that can track and meaningfully communicate these innovations to customers will have a competitive advantage.

The state of the art in SOM and SSCM is a moving target. As we look at the sixth wave of innovation in sustainability, radical resource productivity, industrial ecology, and whole system design, and project these trends into the future, we see performance becoming more dynamic and integrated. Our proposed integration of SASB metrics into a strategy map for sustainable value creation demonstrates a new opportunity for cross-functional integration of ESG performance and a better understanding of the levers that decision-makers have for impacting operational, tactical, and strategic initiatives. Theoretical contributions positioned in this chapter include, but are not limited to, the importance of operations to the continuation of integrated management and ESG performance for an enterprise. OM decision-makers are well-positioned to expand the sustainability performance frontier as we ride out this current wave of innovation. Both researchers and practitioners should look for value-creation opportunities not only in small incremental efficiency improvements, but also on the larger scale of renovating existing buildings to HPB standards and installing real-time dashboards that enable faster decision making (Sènèchal, 2017). Practical contributions within this chapter include positioning operations managers as enablers of cross-functional value creation that directly impacts shareholder value, with the addition of high-performance buildings and tools such as dashboards to impact operating margins, asset efficiency, and the expectations of stakeholders.

Future challenges include keeping up with the continued evolution of CSR, SOM, and SSCM practices, and the global research in these areas. The speed of change is staggering. The amount of big data in this field of work is only growing and there are hundreds of ESG performance variables available to practitioners and researchers. With the rapid development of artificial intelligence, the internet of things, dashboards, and the promise of blockchain, there will be a lot to keep track of and ample opportunity for research.

The global movements of the UN Sustainable Development Goals and the 2030 Challenge, integrated reporting of financial and sustainability performance, and sustainability rankings by Forbes and Newsweek speak to the rapidly changing SOM/SSCM landscape. Databases that track performance such as the Global Reporting Initiative provide a rich proving ground for the exploration of new business models and research. Partnerships between industry and academia that permit scholars to explain best practices and predict the next wave of innovation will provide ample opportunities for contributions to this field for decades to come.

Questions

(1) How is integrated management part of this current wave of innovation?
(2) Why and in what ways should the built environment, namely buildings, be part of sustainable business practices?
(3) What material actions can operations and supply chain managers take to create strategic value aligned with the IASB and SASB?

Note

1 See www.deloitte.com.

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21

MODERN SLAVERY IN SUPPLY CHAINS

Vikram Bhakoo and Kanika Meshram

Introduction

> I pity the man who wants a coat so cheap that the man or woman who produces the cloth will starve in the process.
>
> *(Benjamin Harrison, 23rd President of the United States, 1891)*

Although the quotation above is from the late 19th century, it unfortunately still applies in the contemporary landscape. The visuals of workers working (against their will) in dangerous mines in the Democratic Republic of Congo, members of the Uighur Muslim ethnic minority being forced to make face masks and other personal protective equipment (PPE) in the Xinjiang province of Northwest China in response to an international surge in demand, and Cambodian fisherpeople illegally tricked to work in Thai fishing trawlers and being physically and verbally abused, sadly, testify to the existence of modern slavery in contemporary society.

This chapter aims to provide a critical assessment of the vicious problem of modern slavery in supply chains. We do this by first defining modern slavery and attempting to understand the conditions that incubate modern slavery. In doing so we ask scholars to reflect on the question of whether labor is a commodity in the supply chain. We focus on two industries, fashion and seafood, in which we have ongoing research projects, to highlight distinct features and strategies pursued by organizations within this domain. Finally, we outline key recommendations as potential solutions to this vicious problem.

Recent estimates suggest that 40.3 million people have been trafficked into, or otherwise trapped in, modern slavery. Out of these, 30.4 million are in the Asia-Pacific region, 9.1 million in Africa, and 1.5 million people in developed economies (Walk Free Foundation, 2017). The high-risk industries where modern slavery thrives are consumer electronics (laptops, computers, mobile phones), garments, and fish, followed by cocoa and sugarcane (Global Slavery Index, 2019). A common theme across these industries is that they are labor-intensive and their supply chains become increasingly opaque as we move upstream in the supply chain, that is, to suppliers located closer to the source of the raw material (Gold, Trautrims, & Trodd, 2015). The International Labour Organization (ILO) estimates that a startling US$150 billion in illegal profits (i.e., AU$208.5 billion) is generated annually through the use of modern slave labor (Nolan & Ford, 2019). The underlying reason for such exploitation is simple: huge profits can be made from the exploitation of vulnerable workers, whereas the business case for improving working conditions is much more difficult to justify (Brown, Dehejia, & Robertson, 2013).

Defining and Understanding Modern Slavery

To provide historical context, the first definition of modern slavery appeared in the 1926 League of Nations Slavery Convention which acknowledged slavery as the exercise of "control over a person by another such as a person might control a thing" (Scott, 2012: 164). Traditional slavery, also known as chattel slavery (the practice where people were treated as property), was abolished in the 19th century. For example, the Vienna Congress of 1815 made a declaration condemning the slave trade (Mende, 2019). Modern slavery is a non-legal umbrella term used for a range of exploitative and abusive practices (Nolan & Boersma, 2019). Thus, modern slavery is identified as a condition when one person exercises undue power or ownership over another usually through mental or physical abuse. The term was introduced to the management scholarly community by Kevin Bales (2012) through his provocative book *Disposable People* but it is Andrew Crane (2013) who is credited with popularizing the term through his article in the *Academy of Management Review* where he discusses the conditions that lead to business models based on model slavery. He defines modern slavery as "the status or condition of a person over whom any or all of the powers attaching to the right of ownership are exercised" (2013: 50). Modern-day slavery takes many heinous forms which include forced labor, bonded labor, domestic servitude, child labor, forced marriage, child soldiers, and the exploitation of migrant workers (ILO, 2017). We would also like to acknowledge that each of these sub-dimensions of modern slavery is distinct and, therefore, requires carefully crafted tailored solutions.

Although there is an enormous body of literature on slavery and modern slavery from a variety of historical, philosophical, and socio-cultural perspectives, Crane (2013) claims that management scholarship has broadly neglected the issue of forced labor in the complex and globally diverse supply chains of big corporations. Since we are supply chain and marketing scholars, we refer to "situations of exploitation that a person cannot refuse or leave because of threats, violence, coercion, deception, and/or abuse of power" (ILO, 2017: 9). Hence, our attempt to define modern slavery is consistent with academics who have employed the term to describe situations of "forced labor" (New, 2015). The ILO (2012) identifies several indicators of forced labor: abuse of vulnerability and abusive working and living conditions, such as excessive overtime; deception, intimidation, and threats; restriction of movement and confinement to a workplace or a limited area; physical and sexual violence; retention of passport and identity documents so workers cannot leave or prove their identity; withholding wages or excessive wage reduction; and debt bondage, where the worker works to pay off a debt or loan, and is not paid for his or her services. Thus, we believe Gold et al. (2015: 487) balance all the elements of forced labor in their definition of modern slavery in supply chains as "the exploitation of a person who is deprived of individual liberty anywhere along the supply chain from raw material extraction to the final customer for service provision or production." Caruana, Crane, Gold, and LeBaron (2020) argue the domain of modern slavery, despite its social, policy, and economic implications, is considerably under-researched, and they describe its "sad and sorry state." We concur with their assessment.

As we write this chapter, the world is battling the COVID-19 pandemic. The economic fallout of this pandemic is expected to increase global unemployment by more than 400 million, increasing the number of people vulnerable to these most unacceptable forms of labor exploitation (ILO, 2020). These risks include living in cramped conditions risking community transmission, frontline women workers with an increased risk of exploitation, xenophobia and discrimination against migrant workers, and job losses resulting in debt and bonded labor (Walk Free Foundation, 2020). In addition, the pandemic is having a disproportionate impact on women workers due to the downturn in the services sector, thereby accentuating the gender divide in the labor market. Globally, around 510 million women, or around 40% of all employed women, work in the sectors that are the worst impacted, which include accommodation and food services, real estate, business and administrative services, and manufacturing (Walk Free Foundation, 2020).

Regulations to Combat Modern Slavery: Are They Effective?

The United Nations Sustainable Development Goal 8.7 calls for immediate and effective measures to eradicate modern slavery, human trafficking, and the worst forms of child labor in all forms by 2025. This has resulted in numerous examples of legislation across the globe to address modern slavery.[1] The UK *Modern Slavery Act 2015* and the Australian *Modern Slavery Act 2018* are examples of disclosure-based legislation. The Australian *Modern Slavery Act* requires entities with a minimum annual consolidated revenue of $100 million and above to submit a modern slavery statement and report on the risk of modern slavery in their supply chain and steps taken to address those risks (Department of Home Affairs, 2018). This is a huge undertaking as the Act directly impacts over 3,000 Australian companies who are now legally required to report on their supply chains. To support reporting entities impacted by the COVID-19 pandemic to meet their obligations under the Act, the Australian Government has granted a six-month extension on all reports (Department of Home Affairs, 2020).

There are several weaknesses in such legislation that may result in failure to produce the intended effect of eliminating modern slavery. First, there are no formal legal sanctions or financial penalties other than civil proceedings for companies that fail to comply with modern slavery legislation. Second, companies are not eliminated from public tenders for non-compliance (Sinclair & Nolan, 2018). Thirdly, these acts do not provide adequate remedial measures for slavery victims (Mantouvalou, 2018). Fourth, there is no guarantee that such reporting will lead to actual changes for the workers on the ground. Fifth, it is still unclear how the organizations will report the impact of the pandemic such as accounting for canceled orders, changing working conditions to comply with social distancing protocols, and so on.

An early assessment of the reports submitted in compliance with the UK *Modern Slavery Act* suggests that it has resulted in superficial compliance (Stevenson & Cole, 2018; Rogerson et al., 2020). The main issue highlighted by these studies is the limited ability to track the extended supply chain beyond the first tier and to conduct due diligence across the supply chain. This suggests that the UK *Modern Slavery Act* did not change organizations' internal policies and programs to detect modern slavery risk; instead, they used the same corporate social responsibility initiatives to eliminate modern slavery as they did for other social issues such as workplace exploitation, gender inequality, or bribery in the supply chain. This results in superficial reporting and symbolic compliance with human rights due diligence under the Act (see Ergon, 2018; Monciardini, Bernaz, & Andhov, 2019; Stevenson & Cole, 2018; WikiRate, 2019). These shortcomings in the legislation have shifted the onus to NGOs and civil society to scrutinize these statements and lobby for change. Hardy, Bhakoo, and Maguire (2020) are critical of such modern slavery legislation which has typically translated individual risks into organizational risks and in the process altered power configurations amongst different actors in the supply chain. Therefore, it has put more pressure on suppliers to comply with the supply chain ethical requirements from the focal organization.

What Incubates Modern Slavery in Supply Chains?

There are several underlying drivers and catalysts that perpetuate modern slavery in organizations. These factors de-incentivize measures to track, trade, and remediate slavery in their supply chains. We discuss some of these factors below.

Conceptualization of Supply Chains

Since the discipline of supply chain management (SCM) has its roots in engineering and operations, a fundamental way that the SCM scholarly community conceptualizes and defines supply chains is in the form of a "network consisting of nodes and links" (Carter et al., 2015: 90). Hardy et al. (2020) point out that this conceptualization is problematic, as it ignores the actors that may be operating within the nodes. Such actors could be managers in different departments or the workers themselves. Another point is how organizations choose to operationalize their supply chains and where they draw boundaries. "Strategically" de-coupling raw material suppliers from one's extended supply chain makes it possible for organizations to conceal and not report slavery in their supply chains (Gold et al., 2015). Organizations can do this because they outsource such (problematic) sections of their supply chains through third-party providers located overseas which makes it very difficult to detect slavery (Gold et al., 2015). As Kim and Davis (2016) have noted in the case of conflict minerals, a more diversified supply chain makes it more challenging to detect and monitor modern slavery. In fragmented supply chains, most suppliers are outside of the focal organization's direct legal control, operating instead as contractors and, in many cases, even subcontractors, and the latter are often completely undocumented. Without authorization or affiliation, fast fashion brands for example carry no legal obligation to ensure decent working conditions in the upstream tiers of their supply chain network (Stevenson & Cole, 2018). A final reason why modern slavery goes undetected is because the SCM scholarly community has ignored the treatment of workers and how decisions regarding worker recruitment and workforce composition impact the extended supply chain. The *Journal of Supply Chain Management* has recognized this critical gap in the literature and therefore called for a special discourse incubator on the topic of "managing working conditions in supply chains" to address this critical issue (Soundararajan, Wilhelm, Crane, & Pagell, 2020). We sincerely hope that this discourse incubator generates impactful studies that spark interest across both academic and practitioner communities.

Governance Frameworks for Sustainability

A fundamental challenge that multinationals confront is how to *cascade* sustainability guidelines across the supply chain. Villena and Gioia (2020) discuss four governance strategies in managing their suppliers. In a direct approach, the multinational company works directly and closely with the first-tier suppliers to set targets for the second-tier suppliers. In an indirect approach, the multinational company delegates the first-tier suppliers to manage the extended supply chain. Wilhelm, Blome, Bhakoo, and Paulraj (2016) consider the first-tier supplier as a *bridge* between the focal company and the extended supply chain. First-tier suppliers can coach and educate second-tier suppliers on how to satisfy customers' sustainability guidelines. For this mechanism to work effectively, it is imperative that there is information symmetry and incentive structures are aligned. It is important that the first-tier suppliers selected to monitor the extended supply chains are aware of the blind spots as modern slavery risks increase further down the supply chain (e.g. tier-two and tier-three suppliers) where most of the critical cases of labor exploitation and forced labor occur (Crane, 2018). Wilhelm et al. (2016) have observed that issues of information asymmetry, (misaligned) incentives, and absence of requisite training may lead to social sustainability breaches in the supply chain. In a third, collective approach, a multinational may collaborate with competitors and major suppliers to disseminate sustainability guidelines. Finally, they can adopt a global approach where they can collaborate with international organizations and NGOs. Considering that NGOs have the necessary social capital and cultural acumen, they could play an instrumental role in detecting and remediating modern slavery in supply chains (Wilhelm, Kadfak, Bhakoo, & Skattang, 2020). This latter approach has shown some promise but requires considerable changes in how supply chains are governed and managed.

The (In)effectiveness of Audits

Audits are a common technique of monitoring suppliers and typically include assessment questionnaires and site inspections (Potter, Childerhouse, Mondragon, Lalwani, & Mondragon, 2011). The most general definition of an audit is "an evaluation of a person, organization, system, process, project or product" (Daghfous & Zoubi, 2017: 2). Unfortunately, labor abuses are beyond the scope of traditional auditing techniques, particularly when it comes to uncovering human rights abuses and instances of modern slavery in company supply chains. The other shortcoming of audits is that they represent a snapshot at a specific point in time. This may not be representative of normal working conditions, particularly if they are pre-announced (LeBaron, Lister, & Dauvergne, 2017). In other words, audits provide organizations with a one-dimensional view, when human rights risks are, by their very nature, complex and unlikely to be revealed willingly and discussed candidly. Standard audits rarely dig deep to understand the root causes of workers' rights violations, or provide an assessment of future violations (Ethical Trading Initiative, 2016). A typical audit might highlight a lack of PPE, but the reasons why may not be revealed. Yet, such understanding is essential to identify the course of action required to address these concerns. The worst forms of human rights violations such as child labor or modern slavery are well understood to be "hidden crimes" and are unlikely to be picked up by audits (LeBaron & Lister, 2016). In addition, audits present a significant burden on suppliers, with audit fatigue becoming increasingly common (Lalwani, Nunes, Chicksand, & Boojihawon, 2018). Audits can also miss key issues such as discrimination against minority groups or management resistance to allowing workers their right to freedom of association. Thus, audits can be relegated to a box-ticking exercise if they are driven by the motive to certify a site for sourcing, rather than genuinely attempting to assess the working conditions (Larner & Mason, 2014).

Efficacy of Performance Metrics

The reputational risk attached to modern slavery makes developing associated performance metrics very challenging. Organizations harbor fears and remain tight-lipped about making any declarations that they indeed have modern slavery in their supply chains. One of the exceptions was Nestlé, which admitted to having modern slavery in its supply chain and commissioned an independent report by Verite to discuss the problem at length and make recommendations (Kelly, 2016).

We have observed that several NGOs such as Walk Free Foundation, Stop the Traffik, and Baptist World Aid have developed modern slavery toolkits. The common features of these toolkits are a detailed checklist and scorecards that assess organizations on their supply chain structure, business operations, and company policies on modern slavery. The thrust of these toolkits is in line with the idea of "best practice" which could be transmitted throughout the extended supply chain (New, 2015). However, a closer evaluation highlights what these toolkits do not measure. For example, they do not ask questions about the social or political conditions that give rise to vulnerable, precarious labor in the first place. Second, these metrics frame modern slavery as something exogenous to organizations, and not as something that might relate to the underpinning economic systems which support the buying organizations. Third, these toolkits do not consider how the actions of the buying organizations—for example, relentless cost-cutting and the exercise of brutal commercial power—might stimulate supplying firms to engage in, or turn a blind eye to, exploitative labor practices in the first place. There are also no questions on how slave workers might be empowered after having been victims of slavery.

Insatiable Demand for Cheap Labor

An endemic problem fueling modern slavery is organizations' insatiable demand for cheap labor. Western multinationals typically employ a low-cost sourcing strategy in which an organization sources material from countries with cheap(er) labor. This quest for cheap labor results in employing low-cost immigrant workers and a labor force with temporary contracts. We would add here that, although most of the academic discourse puts the spotlight on modern slavery in South-East Asia, Crane et al. (2018) conducted a detailed study across three industries and demonstrated that forced labor also exists in developed countries such as the UK. In addition, the drive towards automation and robotics in order to reduce labor costs and decrease the dependence on manual labor across both developed and developing countries is ironically incubating slavery-like conditions (Walk Free Foundation, 2017).

After this overview of the supply chain challenges that are linked to slavery, the following sections provide insights from two industry sectors—fashion and seafood. The authors have conducted research in both of these hot-spot industries.

Modern Slavery Insights from the Fashion Industry

The fashion industry ranks second on the list of industries where modern slavery thrives, affecting 40 million garment workers—71% of whom are female garment workers (Walk Free Foundation, 2017). According to the Global Slavery Index (2019), fast fashion accounts for $127 billion of the $354 billion spent on imports to G20 countries. This industry is characterized by some distinct features that incubate modern slavery. At the outset, the complex network of the fashion supply chain means that victims of modern slavery are often hidden. The fashion industry features a fragmented supply chain, dominance of subcontracted arrangements, power asymmetries in favor of the buyer, transactional relationships which are predominantly based on price, and a vicious cycle of new trends, cheap clothes, and over-consumption. In some instances, fast fashion brands churn out up to 24 collections per year (Perry & Wood, 2019).

The most at-risk garments come from Asian countries where exploitative labor practices are rampant. Slave labor enters the fashion supply chain through myriad channels, from children who are lured into factory labor via promises of a better life to cotton pickers who are "chained to their jobs" by their employers because of debt bondage. With a 71% female workforce, there is evidence that women garment workers are often subjected to physical violence such as slapping, pushing, and throwing heavy bundles of papers and clothes. Workers also experience general verbal abuse, including bullying and verbal public humiliation, sexual advances from management and mechanics, and retaliation for reporting abuse (Asia Floor Wage Alliance, 2018).

The COVID-19 pandemic has been devastating for the industry as it has led to factory closures and last-minute order cancellations, forcing garment workers into crippling poverty. For instance, about 1,089 garment factories in Bangladesh have had orders canceled worth roughly $1.5 billion due to the coronavirus outbreak. Garment workers were given less than a month's salary as severance and many others have received nothing at all to support them and their family members who need medical treatment for COVID-19 (Fashion Revolution, 2020). Similarly in Cambodia, approximately 30,000 workers have lost their jobs due to 70 factories closing operations from canceled orders and reduced demand (Walk Free Foundation, 2020).

This industry has also experienced a series of accidents that have attracted international attention. These include the Tazreen garment factory fire in Bangladesh in 2012. This accident was due to a short-circuit on the ground floor of the factory and it killed at least 112 people (Prentice & De Neve, 2017). In the same year, a factory fire at the Ali Enterprises factory in Karachi, Pakistan was reported. Investigations revealed that the emergency exits were blocked, leading to 600 workers being suffocated and injured, and nearly 300 workers burned to death. Then there was the Rana Plaza building collapse in 2013, in which workers who evacuated a crumbling building in Dhaka were told to return to work the next day only to have it collapse, taking 1,134 lives (Burke, 2013).

The Rana Plaza building collapse in Bangladesh triggered change. Fashion companies, governments, and NGOs have sought to advance various solutions to improve garment worker conditions. Two multi-stakeholder initiatives have received attention as potentially "game-changing" new governance instruments: the Accord on Fire and Building Safety in Bangladesh ("Accord"), chaired by the ILO and signed by over 200 garment brands, retailers, and importers along with two global unions, IndustriALL and UNI; and the Alliance for Bangladesh Worker Safety ("Alliance"), a smaller initiative signed by almost 30 brands and retailers, mostly from the USA. Thus, to prevent such fatal accidents in the garment industry the Accord was created as an independent, legally binding agreement between brands and trade unions that were committed to work towards a safe and healthy garment and textile industry in Bangladesh. Schüßler et al. (2019) provide the most comprehensive report on the impact of the Accord and the Alliance on worker welfare. The Accord and the Alliance significantly improved safety conditions in approximately 2,300 ready-made garment factories. However, there are reportedly thousands of unregistered ready-made garment factories operating in Bangladesh that are not part of a safety inspection program. Factory owners have not been held accountable for unfair labor practices, such as firing workers for their labor activism or for filing labor-related complaints.

Against this backdrop, we provide an example of a company we have engaged with and conducted a detailed case study. Outland Denim has bucked the trend in the industry and set up an anti-slavery business model. This premium denim brand was established in 2016 as an economic solution to modern slavery or, as their website states, "Denim to end poverty." In Outland Denim's early days, the founding CEO traveled to Asia with an anti-trafficking group and learned that, once a girl has been rescued and integrated into her family or community, a sustainable career path is vital to secure her future. From here, Outland Denim was founded as an avenue for the training, employment, and career progression of women who had experienced exploitation. The "Harriet jean" is one of Outland Denim's most popular women's jeans. These jeans were worn by former Duchess of Sussex Meghan Markle during her 2018 official tour of Australia. The "Markle effect" generated a 948% increase in their website traffic and huge sales for the brand, which then employed 15–20 new seamstresses in their Cambodian factory (Rutherford, 2018).

Outland Denim operates from their head office in Gold Coast, Australia and has a presence in New Zealand, Australia, Canada, and the US. They will launch soon into the UK. Their unique competitive advantage comes from establishing a vertically integrated supply chain. They own manufacturing facilities in Kampong Chhnang province in Cambodia. This is in contrast to the outsourced and fragmented supply chain of other organizations in the fashion industry. Apart from denim, they make leather jackets, shirts, shorts, and dresses. To date, they have sold more than 30,000 pairs of jeans and generated sales revenue of AU$1.97 million (Outland Denim, 2020). Outland is ranked as A+ on Baptist World Aid's Ethical Brand Ranking. They compete with premium sustainable denim such as Nobody Denim, Nudie, MUD Jeans, and Warp + Weft. They mostly sell through their website and major retail stores but also have one retail store in Gold Coast, Australia.

Outland Denim has four social-impact-based defining features.

(1) *Engaging NGOs*. Outland Denim works with non-profit organizations such as International Justice Mission in Cambodia to provide training and employment opportunities to women who have been victims of exploitation. Approximately 75% of the current Outland Denim workforce are workers who have been victims of vulnerability, including people with disabilities, those who have experienced precarious employment, and those from garment factories where they have endured labor rights abuses.

(2) *Skill training*. Outland pays workers to receive training. This training starts with the simplest of tasks—sewing in straight lines—and then progresses to learn how to make different aspects of the jeans. Workers are not confined to a specific task for a prolonged time. In fact, rotation is encouraged so that they can master different parts of the process. Unlike conventional factory operations, Outland's staff learn how to make an entire product, thus giving them adequate skills to start their own business and become fully independent should they ever wish to do so. Their willingness to train has also enabled career progression within the workforce, with women rising within internal ranks to positions of leadership.

(3) *Paying a living wage*. Workers in Outland are paid above the legal minimum wage which is a living wage. The difference between a living wage and minimum wage is that, while the

minimum wage sets a bare minimum, the living wage is at a level that lifts workers out of poverty (Krell, 2012). Living wages also enable workers to provide for their families and contribute to the economy of their local communities. This also has an impact on the next generation, and their education and employment opportunities.

(4) *Education*. Outland Denim educates its workers more broadly than simply skilling them as seamstresses. This is essential to ensure its social impact aims are achieved. This education includes critical aspects such as first aid training, budgeting, women's health, language and communication skills, self-defense, anti-trafficking, and fire safety.

The interrelationship across these four elements develops and sustains a slavery-free business.

Modern Slavery Scandal in the Seafood Industry

Amongst the US$354 billion worth of products imported by the G20 countries, fish is the third most at-risk product (Global Slavery Index, 2019). Thailand is a significant player in this industry, with exports of seafood of US$5.6 billion in 2018. It is also important to note that Thailand is highly dependent on migrant labor specifically from Myanmar and Cambodia, with 82% of fisher-people being migrants. These migrant workers have limited access to labor rights and they are not allowed to unionize (Wilhelm et al, 2020).

A scandal was reported in *The Guardian* in 2014 which highlighted the conditions of migrant workers from Myanmar and Cambodia enslaved in Thai fishing boats (Hodal, Kelly, & Lawrence, 2014). These boats were linked to the supply of fishmeal, which is used to feed farmed prawns grown by the world's largest prawn farmer—Charoen Pokphand Foods. The men who escaped the boats recounted their horrific working conditions, which included 20-hour shifts, physical and verbal abuse, and even killings. This scandal generated international headlines across the world, which led to palpable reputational risk for large grocery/retail chains such as Costco, Tesco, Wal-Mart, and Carrefour which imported seafood from Thailand. Consequently, the European Union (EU) imposed a yellow card on Thailand for illegal, unreported, and unregulated fishing in April 2015. It is interesting to note that the European Commission (2016) added "associated problems [that] include human trafficking and slave labour in the fishery sector." This put considerable pressure on Thailand to conduct significant reforms as it was highly dependent on the EU for seafood exports. The most salient achievement was Thailand's ratification of the ILO's Work in Fishing Convention (No. 188, 2007) making it the first country in Asia to ratify this convention. This resulted in the EU lifting the yellow card on 8 January 2019.

This incident has highlighted the efficacy of different approaches in mitigating modern slavery. Marschke and Vandergeest (2016) argue that the key weaknesses of measures to tackle trafficking, illegal, unreported, and unregulated labor, and supply chain traceability is that they do not address labor migration policies. This puts the onus on governments to change policies. However, this is complex as it requires coordination amongst different agencies and more importantly addressing the prejudice and xenophobia of the general population towards migrants. In an update on the Thai modern slavery crisis, Wilhelm et al. (2020) argue that private governance, particularly civil society organizations and coalitions, must have a large role in regulating the modern slavery problem in areas such as recruitment, strengthening worker voice mechanisms, and worker associations. This private governance, which can take the form of certifications, standards, and codes of conduct developed either privately or through associations, can be instrumental in changing practices (Bartley & Egels-Zandén, 2015).

One company that has achieved considerable progress in mitigating modern slavery is Thai Union. Thai Union was founded in 1977 and is one of the leading processors and exporters of canned tuna. In 2019 it was ranked number one in the world on the Food Products industry index. Thai Union has developed a collaboration with several civil society organizations including

WWF, Migrant Workers Rights Network (MWRN), and Greenpeace. One of the key alliances has the purpose of implementing a zero-fee recruitment policy. Typically, migrant laborers pay a high brokerage fee at the recruitment stage. Under the agreement with MWRN, Thai Union sends its HR managers to the country of origin of the migrant works for pre-departure training. It is our understanding that this process of using a recruiting agency is restricted to seafood processing plants (Wilhelm et al, 2020). The recruitment of workers for fishing vessels takes place through different channels and is often done under false promises.

In the next section, we suggest key recommendations to mitigate modern slavery.

Recommendations to Mitigate Modern Slavery

(1) *Managing disclosure-based legislation*. Studies conducted in the fashion industry and the public sector in the UK (Stevenson & Cole, 2018; Rogerson et al., 2020) highlight that modern slavery reports are patchy, lack sufficient detail, and lead to cosmetic compliance. Therefore, with several pieces of legislation in the pipeline, it is imperative that civil society and NGOs are active in this space to assess the impact of this legislation. We strongly recommend independent research to evaluate and cross-check what is documented in the reports submitted by organizations and whether they align with the changes on the ground. The most critical aspect is whether the changes percolate down to the workers and improve their well-being. It is also important to assess how the COVID-19 pandemic is impacting the lives of the most vulnerable workers. Conducting such an exercise would inform policy-makers how the legislation enacted by them is functioning and what the outcomes are.

(2) *Improving supply chain visibility*. Most modern slavery breaches occur upstream in the supply chain, such as in subcontracted factories in the fashion industry or fishing vessels sourcing seafood. Therefore, as a first step, it is imperative for organizations to map their supply chains beyond the first-tier level. If the first tier is responsible for managing the extended supply chain, clear guidelines regarding subcontracting, auditing, and employing associated technologies should be provided. We also concur with and endorse Villena's (2019) suggestion that procurement managers of the focal organization should relay the information directly to the procurement manager at the supplier level.

(3) *Engaging civil society*. Due to the nature of modern slavery, we envisage that non-traditional actors in the supply chain, such as NGOs, civil society organizations, as well as organizations such as the ILO and International Organization for Migration, must play a critical role. Based on our studies in the fashion and seafood sectors, we believe these organizations need to move beyond activism and engage in worker recruitment, establish and monitor worker voice mechanisms, and facilitate forming and sustaining trade unions. Further, these organizations also have a role in rehabilitating victims of modern slavery and finding suitable employment opportunities for them. In addition, since the modern slavery problem is a gendered problem, specifically in the fashion industry, it is imperative that the audit schemes and the incentive structures implemented are sympathetic to this concern.

(4) *Managing modern slavery in a post-pandemic world*. As mentioned, the economic crisis ushered in by the COVID-19 pandemic is likely to make more people vulnerable to modern slavery. Therefore, it is important that stimulus packages by governments reach the most vulnerable sections of our community. Another salient feature of the pandemic is that outbreaks have been reported in cruise ships, abattoirs, and quarantine hotels. We specifically draw attention to the outbreaks in Australian abattoirs, which have exposed the weaknesses of lean ideology where assembly-line production requires workers (typically migrants) to work in close proximity and for long shifts, thereby breaching social distancing protocols (Boseley, 2020). A post-pandemic world will require an adaptation of lean principles across industries which require workers to work in long shifts and close to each other to boost productivity. Finally,

the government needs to ensure an equitable distribution of any COVID vaccine to the most vulnerable, specifically in modern slavery hot spots in the world.

Concluding Remarks

Modern slavery is indeed a complex and prickly problem. Although governments across the world have enacted or are in the process of enacting legislation, the jury is still out on its efficacy. We do need to understand how these institutional changes are percolating down at the supply chain level and whether consumers are changing their behavior appropriately. From an academic perspective, this requires cross-disciplinary collaboration, specifically across scholars from the law, supply chain, accounting, and marketing disciplines. We echo Caruana et al. (2020) that this field is "disappointingly under-developed." To advance research and provide actionable and pragmatic guidelines to practitioners we need to embrace a diversity of qualitative research methods (Köhler, Smith, & Bhakoo, 2019). We specifically advocate research methods such as action research, discourse analysis, and depth case studies. In our view, studies that require prolonged engagement in the field, draw data from multiple tiers in the supply chain, employ diverse data sources including workers, and are executed by cross-disciplinary teams would be ideal. Although surveys can be supplemented in such research designs, we would caution researchers against relying entirely on large-scale surveys, as the "morally charged" term modern slavery may generate biases and thus impact the credibility of the findings. Finally, we believe scholars in the supply chain management discipline should consider treating workers as an integral part of the supply chain.

Questions

(1) How should we treat labor in the supply chain: commodity or human?
(2) How would you address modern slavery in other 'hot spot industries' such as electronics and cocoa?
(3) How can large multinational companies effectively collaborate with not-for-profit organizations to address modern slavery?
(4) What does good supply chain governance look like? What is the role of industry collaboration in ensuring supply chain governance?

Note

1 Examples are the *Transparency in Supply Chains Act of 2010* (California); *Modern Slavery Act 2015* (UK); *Duty of Vigilance Law 2017* (France); *Modern Slavery Act 2018* (Cth); and Draft Law on Supply Chain Due Diligence 2020 (Germany).

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22

SUSTAINABLE SUPPLY CHAIN MANAGEMENT

Why Have We Missed Out on Animal Welfare?

Frank Wiengarten and Christian F. Durach

Introduction

Recent societal and technological developments have increased the pressure, demands, and opportunities for supply chains to be more sustainable. It seems that companies are gradually reacting to these pressures, making their supply chains environmentally and socially more sustainable. The news and media reports are full of companies promoting any new or recent sustainability initiatives. For example, Walmart with its long-running sustainability initiative (of nearly 15 years) has recently started a global climate change initiative for its global supply chain. The H&M Group, the fast-fashion giant, recently announced that "By 2030 it aims to use only recycled or other sustainability sourced materials and by 2040 it wants to be 100% climate positive" (Farmbrough, 2018). Whilst some of these initiatives are certainly more externally focused and mainly intended to be used as a marketing campaign, others represent a real change in how to create value through existing business models and provide a direction for the future.

Furthermore, whilst these examples represent the environmental side of sustainability, social sustainability practices in terms of occupational health and safety, workers' rights, and child labor extinction initiatives are also being publicized. Sustainability initiatives can have a real impact in the area of supply chains and subsequently can make companies more sustainable (Wiengarten, Fan, Pagell, & Lo, 2019). However, production, manufacturing, sourcing, and distribution are also areas where unsustainable companies leave most of their negative footprints. Companies have realized that, to truly reduce their negative environmental and social footprint, managers have to take a more inclusive and holistic approach to sustainability by not only focusing on their own backyard (i.e., operations) but rather taking a supply chain perspective to make their business more sustainable. Companies have traditionally started to increase their focus on sustainability through supply-chain-wide environmental initiatives such as sustainable purchasing, production, transportation, and distribution. Additionally, companies have also introduced social sustainability initiatives mostly focusing on occupational health and safety concerns such as working conditions, accident prevention, work overload, work arrangements (e.g., precarious work), or child labor. For example, Jacobs and Singhal (2017) explored the supply chain governance implications of the Rana Plaza collapse disaster in 2013.

Whilst taking an inclusive supply chain perspective on sustainability initiatives and performance, companies seem to have ignored animal welfare, a major aspect of sustainability. Although there is also a growing awareness of animal rights, animal welfare, and animal product consumption and its implications for our planet, the topic itself does not seem to feature prominently in the press nor spark an interest in the supply chain management research community. Supply chain management has a significant impact on animal welfare, and sustainability offers a perspective that can be applied to place animal welfare onto our research agendas. Animal welfare is affected by supply chains and their management from the cradle to the grave. This includes the unsustainable demand for meat production, the unsustainable management of waste in the meat production process (e.g., manure), the unsustainable transportation of animals, the unsustainable externalities of meat production, the unsustainable use of natural resources (e.g., water to produce animal feed), and the quality management and consumer health concerns around the consumption of meat.

It would be very easy for us, in the supply chain management domain, to step back from this topic, arguing that the animal welfare dilemma exists and can only be solved through changing consumer demand for animal products in general and cheap meat consumption in particular, as the supply chain only seeks to meet customer demands. Yet we believe that we, as a research community, have an obligation and an opportunity to research and initiate change from the supply side.

In this chapter, firstly, we provide a brief overview of sustainability research in supply chain management (SCM). Second, we analyze the current state of knowledge on animal welfare in supply chain management research. Third, we suggest an agenda for research on the animal welfare supply chain domain. Finally, we provide a critical conclusion to our review.

The Development of Sustainability Research in Supply Chain Management

The SCM field has experienced significant growth in research on sustainability issues (Carter & Washispack, 2018; Tang, 2018). For instance, a cursory search in EBSCO's Business Source Complete Database, using the terms "supply chain" *or* "operations" *and* "sustainability" (in the abstracts, without any further restrictions) yielded 2314 academic journal articles since 1991. This positive sign of our field moving forward is unfortunately shadowed by a very narrow and mostly repetitive frame of research questions that have largely centered around the performance implications of environmental management practices and more recently added social concerns to the formation of independent and dependent variables (Pagell & Shevchenko, 2014). According to Linton, Klassen, and Jayaraman (2007: 1078), "a focus on supply chains is a step towards the broader adoption and development of sustainability, since the supply chain considers the product from initial processing of raw materials to delivery to the customer." In order to better understand the background to sustainability research in supply chains, Linton et al. (2007) stress the importance of integrating sustainability issues beyond the core of supply chain management, also including product design, manufacturing by-products, by-products produced during product use, product life extension, product end of life, and recovery processes at end of life. Thus, they include the end consumer in the sustainability concerns of supply chains and their management. Sustainable supply chain management (SSCM) can be defined as

> the management of material, information and capital flows as well as cooperation among companies along the supply chain while taking goals from all three dimensions of sustainable development, i.e., economic, environmental and social, into account which are derived from customer and stakeholder requirements.
>
> *(Seuring & Müller, 2008: 1700)*

Much attention has been paid to the potentially conflicting goals of the economic and environmental pillars of business sustainability, which was initiated by the "Does it pay to be green?" discussion (Russo & Fouts, 1997; Klassen & Whybark, 1999). It has been identified that sustainable practices, in addition to increasing a firm's sustainability, can at the same time lead to and be a result of financial performance gains. At the supply chain level, research has mainly focused on analyzing the environmental implications of supply chain activities in the form of carbon emissions, energy usage, closed-loop supply chains, water usage, and so on (Fahimnia, Sarkis, & Davarzani, 2015).

More recently, the SCM literature has turned towards investigating the social dimension of business sustainability. These studies have researched the supply chain practices adopted by firms to manage social issues such as labor conditions, human rights, and gender and minority issues (Yawar & Seuring, 2017). At about the same time, social concerns also moved into the focus of the more general operations domain with studies researching the link between production methods and occupational health and safety (e.g., Wiengarten, Fan, Lo, & Pagell, 2017), and more recently between precarious working conditions and operational performance (Sancha et al., 2019). The assumption made, similar to environmental practices, was that improvements in the social sustainability dimension are achieved through efficiency losses and increasing production costs.

Whilst sustainable supply chain research has made great leaps forwards in identifying and exposing sustainable and non-sustainable practices and their performance implications under various conditions, managerial practice does not necessarily react to our theoretical conclusions. Pagell and Shevchenko (2014) wrote an opinion piece that questioned the current direction of sustainable SCM research. Particularly, they concluded that current research fails to identify how supply chains can truly become sustainable. Their definition of SSCM differs from the one quoted above from Seuring and Mueller. They define SSCM as "the designing, organizing, coordinating and controlling of supply chains to become truly sustainable with the minimum expectation of a truly sustainable supply chain being to maintain economic viability, while doing no harm to social or environmental systems" (Pagell & Shevchenko, 2014: 45). Doing no harm to social and environmental systems whilst executing and managing activities in processes is an operational goal that is comparable to previous operational quality improvement programs built on the notion of "zero defects." Thus, to achieve a sustainable supply chain is a continuous improvement program similar to quality management or lean programs in the operations and supply chain domain. It should be a way of doing business, a philosophy, a holistic company-wide effort and goal. However, these theoretical aspirations are clearly not being met.

Shevchenko et al. (2016) explored the discrepancy between theory and how firms actually practice sustainability. They found that firms offset rather than eliminate their negative impact on the environment and society. A compelling argument that has been made in the literature, and adopted from a policy perspective, is that firms only act unsustainably when their economic performance is not good enough. A recent study by Wiengarten et al. (2019), based on the behavioral theory of the firm, explored whether or not firms are more likely to act irresponsibly (i.e., unsustainably) when they are financially not performing well. They conceptualized financial performance in terms of aspirations relating to their previous performance and, in comparison, to the performance of their competitors. Irresponsible behavior was conceptualized as breaching environmental and occupational health and safety rules and regulations. The argument made was that breaching these laws might enable companies to save costs in the short run but the impact on the workforce and environment is potentially devastating and long-lasting (Wiengarten et al., 2019). Sampling firms in the United Kingdom, they found that when a firm's return on assets deviates from its past return-on-assets level (its historical aspiration) the likelihood of the firm acting irresponsibly increases significantly. And what strikes us as counterintuitive about this finding is that the likelihood of acting irresponsibly increases in both directions. Thus, companies that are doing better than expected (in terms of financial performance) are acting irresponsibly, breaching rules and regulations. In hindsight, this result should not come as a surprise, as shown by well-known examples such as the BP oil spill and Inditex's alleged sweatshops.

It thus can be concluded that changes in consumer preferences, government regulation, and legislation have not resulted in an overall appreciation of sustainability across industries and countries. The increased awareness of and pressures to address sustainability concerns, which are partly created by research, do not lead to more sustainable firms. It has been empirically shown through research and through industry examples that the trade-off between sustainability and being cost-efficient is a fad (Pagell & Shevchenko, 2014). However, the definition of sustainability in SCM has largely excluded animals from that discussion.

Animals in Supply Chains

Interestingly, while there are now increased concerns in the sustainability literature (which at least superficially corresponds to practice) with human welfare, other living beings on this planet are still merely looked at as "inputs" and "outputs" of our supply chains. Why has the sustainable supply chain field largely ignored animal welfare? We believe it represents an important segment of sustainability. The lack of research on sustainable animal welfare in supply chains may be surprising to some, whilst not to others. Animal welfare is a topic that has been (willfully) neglected by many producers, consumers, most governments, and many other direct or indirect members of the wider supply network (Faucitanto, Martelli, Nannoni, & Widowski, 2017).

To date, animals have been investigated in SCM-related research almost exclusively in the context of food supply chains and their contextual idiosyncrasies (such as perishability, transportation requirements, hygiene, ethical labeling, e.g., Shokri, Oglethorpe, & Nabhani, 2014). An illustration of the (lack of) interest in this field is found by comparing the issues of animal welfare and global warming. While global warming is, as the phrase says, a global phenomenon that cannot be tackled single-handedly, researchers and governments have still tried to come together and start joint global initiatives. Animal welfare, as another problem that in today's globalized markets can hardly be addressed by solo efforts, is neglected, as industries and governments claim that they do not have the power to change the system due to its global nature (Fraser, 2008). Admittedly global warming must be addressed immediately, given the latest Intergovernmental Panel on Climate Change reports, and comparing the two topics does no justice to those whose lives are endangered by global warming; yet, the comparison shows that if governments, NGOs, and scientists join together we may still have a chance of tackling animal welfare on a global scale. And at least a start would be to focus on these issues at the global supply chain level.

Programs commissioned by the EU such as the FP7-KBBE (2007–2013), which explicitly addressed animal welfare and had a program funding of just under two billion euros, showed the importance of this problem on a governmental level. We believe that further research initiatives now need to follow. And these research initiatives need to come from the supply chain domain. A more recent change to the prominence of the topic comes from changes in consumer preferences. Producers are confronted with greater demand for high-quality products, organic meat, and animal welfare. This has resulted in the development of new markets as substitutes for the classical meat market such as clean meat[1] and plant-based meat options. Furthermore, NGOs and even private companies have started to put pressure on companies to increase transparency for consumers through both the introduction of new technologies (see e.g., fTRACE) and retailer initiatives. For example, one of Europe's biggest discounters, Lidl, has started labeling its animal products with declarations on how the animals were reared.

Operations and supply chain management researchers (and probably management researchers in general) have a history of first directing their efforts towards business aspects that are easier to measure, such as organizational performance or carbon emissions, before they turn to the more intangible factors of business. For example, research in our discipline has only recently started investigating behavior or, as discussed, started looking into social aspects of operations and supply chain management (e.g., occupational health and safety). Without making any claims about the relative importance of the subject to be investigated (i.e., humans versus animals, animals versus environment), we argue that sustainability research has missed out on an important segment of sustainable supply chain management, and therefore does not consider sustainability in its entirety.

As Pagell and Wu (2009: 38) pointed out, a "truly sustainable supply chain would at worst do no net harm to natural or social systems." This also includes animals and their welfare. According to the *Collins Dictionary*, animal welfare can be defined as "the protection of the health and well-being of animals." We think that this gap in knowledge necessitates the foundation of a new research stream in the sustainable supply chain literature. As the familiar is often the foundation for new work in sustainable SCM (Pagell & Shevchenko, 2014), our aim in this chapter is to make SCM researchers familiar with the topic of animal welfare along with some of its key questions, helping to establish a new research stream in sustainable supply chain management.

We mentioned earlier in this section that animals are an input and output of supply chains and thus should be part of the supply chain sustainability discussion. Animals can be considered as inputs, as they can be processed to be or be part of a specific output product such as meat, dairy, or egg-based products. As such they are part of a supply chain in terms of growing and raising the plants (i.e., food for the animals) and animals (i.e., products from raising and killing the animals). They are processed in the "manufacturing" process (e.g., processed meats, milk, yogurt). Furthermore, in terms of an output resource, animal-based food, cosmetics, clothing, or in fact any animal-based consumer good or service needs to be assessed in terms of sustainability up until it is used by the end consumer (Linton et al., 2007). Killing an animal does not result in a sustainable supply chain. However, certain techniques and practices can be followed to make the supply chain more humane or sustainable. We will suggest some of these practices as a path forward to make animal-based supply chains more sustainable.

Development of a Research Agenda for Animal Welfare in Sustainability

Referring back to Pagell and Shevchenko's (2014) definition of a sustainable supply chain, a supply chain that includes animals can never be sustainable. Whenever an animal is the input or output resource in a supply chain, even an economically viable one, it is exploited and the "doing no harm" criteria is violated. Whilst we believe that the exclusion of animals from supply chains *should be* the future goal of all societies, it is currently not realistic. However, with a rising demand for plant-based products and plant-based meat substitutes or artificial meat, multiple companies have been extremely successful in taking animals out of products and thus out of the supply chain, for example Impossible Foods and Beyond Meat. What makes these companies so successful is that their products are not solely developed and marketed to vegetarians or vegans but also to meat-eating consumers (Barclays, 2019). We acknowledge that these developments possibly represent the future, but we focus on the current state that still requires animals to be part of a supply chain and on how to make these more sustainable through focusing on animal welfare.

Up until now, we have only made the link between animal welfare and SCM from an input and output resource. We have split up a supply chain into its generic subprocesses to make the link to SSCM in terms of animal welfare. One of the most widely cited conceptual frameworks and definitions of a supply chain and its management is provided by Lambert and Cooper (2000). Lambert and Cooper conceptualize the supply chain business processes up to customer relationship management, customer service management, demand management, order fulfillment, manufacturing flow management, procurement, product development and commercialization, returns, and product flow. The product flow business process is divided into logistics, marketing and sales, finance, R&D, production, and quality. To achieve our aims of analyzing the current state of animal welfare research in supply chains and to provide some tangible directions for future research, we will be using a summary model of these subprocesses by Slack, Brandon-Jones, and Johnston (2013). Slack et al. summarized the tasks or processes in a supply chain into purchasing management (or sourcing management), physical distribution management, logistics, and material management. Subsequently, we will review and propose a model of animal welfare from an upstream and downstream process perspective and include production and material management considerations.

Sustainable Sourcing and Animal Welfare

Purchasing management, also referred to as sourcing management, is the link between an operation and a company's suppliers. It is a set of business processes required to purchase goods and services (Chopra & Meindl, 2016). The key decisions regarding sourcing within firms are whether to use in-house suppliers or outsource, supplier selection, and procurement (Chopra & Meindl, 2016).

The performance of the purchasing department is generally defined along the lines of cost, quality, delivery flexibility, and more lately sustainability. There is quite a significant accumulation of research regarding sustainable sourcing.[2] Pagell, Wu, and Wasserman (2010: 58) define sustainable sourcing as "managing all aspects of the upstream component of the supply chain to maximize triple bottom line performance."[3] Purchasing managers are increasingly required to focus not only on economic criteria but also on the social and environmental capabilities of suppliers (Huq, Chowdhury, & Klassen, 2016) as an important part of an organization's CSR efforts. Huq et al. (2016), in a study on the clothing industry, stated that stakeholders have increased their pressure on firms to identify and implement higher social sustainability standards. Pagell et al. (2010) applied one of the most widely used purchasing frameworks, the Kraljic matrix, to sustainable purchasing. The basic premise of the matrix is that resources are limited and that buyer–supplier relationships are costly because developing a collaborative relationship is as resource-consuming as the transaction itself. Thus, for different types of products that are sourced (based on the importance of the company and the availability of the products/materials on the supplier market) different types of relationships are appropriate (Kraljic, 1983).

Recently Goebel, Reuter, Pibernik, Sichtmann, and Bals (2018) identified that misconduct by suppliers in terms of sustainability can have major repercussions for the buying company. They analyzed the potential trade-off the purchasing manager faces between (short-term) economic gains (i.e., purchasing cost reduction) and social/environmental sustainability criteria. They identified that purchasing managers on average are willing to pay a price premium for suppliers that show compliance with the United Nations Global Compact. However, that willingness to pay is influenced by self-enhancement and obedience to authority. Thus, these results imply that a company's sustainability strategy or mission impacts its employees' sustainability-related decisions. Thus, the sourcing function plays a key role in developing and managing a sustainable supply chain and subsequently also in relation to animal welfare.

The trade-off between cost and sustainability is certainly problematic for sourcing animal products. However, the supply chain management domain has yet to analyze the implications of stakeholder pressure in terms of consumer preferences, retailers, and shareholder value. However, the implications of sustainable sourcing on animal welfare differ when we consider the position of the focal company in the supply chain. The sourcing process starts from the general decision to do the activity/process in-house or to outsource (referring to animal-related processes and activities). We will go through each activity or process step and consider animal welfare and sustainability.

The in-house or outsourcing decision has traditionally focused on the advantages of reducing costs, strategic focus, and gaining access to specific resources and capabilities. The negative associations of outsourcing have been discussed around the topics of quality control (Gray, Roth, & Leiblein, 2011), loss of capabilities, control, and transparency (Slack et al., 2013). In terms of sustainability, the decision to outsource an activity has been mainly analyzed and discussed in terms of the latter two: control and transparency. Outsourcing part of the production process for example has led to many examples in which companies have intentionally or unintentionally let unsustainable practices or products and material enter their supply chain and products. Multiple prominent cases on child labor have been discussed in the press (e.g., Nike) as have examples of fast-fashion garment factories (e.g., the collapse of the Rana Plaza), and the burning of unsold clothing (e.g., H&M). Meat and dairy supply chains have also been prominently affected by bad outsourcing decisions (horsemeat scandals and powdered baby milk scandals in China). Tesco lost nearly 300 million euros in market value in 2013 due to the discovery of horsemeat in beef products that were sold at its stores. Tesco had difficulty isolating the origin of the horsemeat due to a very fragmented and complex supply chain (Fletcher, 2013). The research that has mainly investigated these issues has focused on supply chain transparency (also referred to as visibility), and also quality management and supplier development (Swift, Guide, & Muthulingam, 2019).

Transparency provides some interesting avenues for future research in animal welfare. Sustainable animal welfare can only be practiced or pursued if the supply chain is visible from its origins to the end consumers. However, food and animal-related supply chains are complex, making visibility and transparency difficult to achieve (Roth, Tsay, Pullman, & Gray, 2008). The price sensitivity of consumers and the demand for specific products over the years has led to very fragmented and globalized supply chains. Producers are not only switching suppliers down the supply chains to achieve competitive or comparative advantages; they switch distribution strategies and develop complex food products. This makes it very difficult to trace the origins of specific ingredients and thus ensure a sustainable food supply chain and animal welfare. Currently, many companies rely on certifications, but they are very fragmented, and the enforcement of standards is questionable. Thus, ensuring transparency through certifications does not currently guarantee animal welfare. Technologies such as radio-frequency identification or other tracking technologies are important but only in conjunction with a strategic focus on making animal welfare a goal. Roth et al. (2008) developed a managerial framework for multilayered supply chains with poor visibility that is particularly relevant for food supply chains. Their framework called "Six Ts" focuses on traceability, transparency, testability, time, trust, and training. It was developed with quality management purposes in mind but could also be relevant for animal welfare and thus sustainability in animal-related supply chains.

In conclusion, we believe that transparency, visibility, animal welfare, and sustainability together provide some interesting research opportunities that could lead to important managerial and theoretical implications. Many issues regarding animal welfare stem from a lack of transparency and supply chain visibility and thus supply chain sustainability could be improved through these two levers.

Sustainable Distribution and Logistics and Animal Welfare

Sustainability research on distribution and logistics, in general, has so far mainly focused on environmental concerns. Low-hanging sustainability fruits such as transportation and shop management have been extensively researched and practiced in multiple industries from an environmental standpoint (Darkow, Foerster, & von der Gracht, 2015). Marchet, Melacini, and Perotti (2014) have examined environmental sustainability practices in logistics and freight transportation and their potential performance outcomes. More recently sustainability research as well as the popular press have focused on distribution in terms of social sustainability concerns, that is, occupational health and safety of precarious workers, in general, and last-mile delivery and distribution workers in particular. This current stream of research has started to explore performance outcomes in terms of occupational safety, and company performance in terms of operational and financial performance (Sancha et al., 2019). The general conclusion of this line of research is that workers in precarious working conditions cannot perform at their best and that, in the long-run, the disadvantages of hiring precarious workers outweigh the advantages for the companies.

In terms of logistics and distribution, previous animal welfare research, not necessarily in the supply chain domain, has explored human or sustainable transportation of animals (life stock transportation). Lindgreen and Hingley (2003) explored the impact of food safety and animal welfare policies on supply chain management. Velarde and Dalmau (2014) conceptualize distribution and logistics from the meat science domain as any process during the phases of animal preparation for transport, loading, the actual transportation, unloading to lairage, and moving to the point of stunning. Each process individually or in combination provides avenues for sustainability research in animal supply chains. These processes present the core of a supply chain and some research has been conducted from an animal welfare perspective (Velarde, Fabrega, Blanco-Penedo, & Dalmau, 2015). Some research has been conducted on livestock handling (i.e., the way in which animals are handled, quality of care, health care, etc.) (Waiblinger & Spoolder, 2007). Elements of these issues can be paralleled to distribution management. Other research has focused on the loading, unloading, and transportation of animals and their influence on quality (Velarde & Dalmau, 2014).

The most obvious research avenues for sustainable animal supply chains again concern the trade-offs between cost/efficiency and animal welfare. There are parallels to be drawn between the efficiency and quality of production and also the product (Correa et al., 2010). A higher-quality end product might be associated with greater care for the animal and, thus, animal welfare. Furthermore, taking an argument from the operations management literature, when we build in quality there does not have to be a trade-off between cost and animal welfare. It is an established concept in the operations domain that the trade-off can be overcome if the processes are designed so that the output (product or service) is of the highest quality. Thus future research might come to the conclusion that better care for the animals (i.e., process design) might actually lead to efficiency gains.

Sustainable Operations and Material Management and Animal Welfare

When it comes to animal welfare in terms of production, previous research has either focused on the growth of the animals (i.e., factory farming and harming animals), and the killing of the animals (i.e., USDA Humane Slaughter Act). In this subsection, we also include product and service development. The trade-off between efficient animal supply chains and meat production and sustainability in terms of animal welfare is probably most apparent from a production perspective (Velarde et al., 2015).

Appleby (2004) defined sustainable meat production as a form of production that is ecologically sound, economically viable, socially just, and humane. However, it is an oxymoron, as slaughtering an animal for the enjoyment of its products can never truly be sustainable. Pethick, Ball, Banks, and Hocquette (2011) highlighted that sustainable meat production is about animal health, environmental protection, productivity, food safety, food quality, and efficiency from a cost of production perspective such that consumers perceive the product as value for money.

Velarde et al. (2015) conducted a literature review on the major animal welfare issues in intensive meat production systems such as pig farming. They broke down the operations and material management part of meat production into animal welfare on the farm, animal handling from farm to slaughter, and monitoring procedures at slaughterhouses. We will briefly review all associated steps in the supply chain that are important for animal welfare. Animal welfare in the operations and materials part of the supply chain is again closely related to the quality of the end product, for example, the quality of the meat. So any choice made in any of the production steps affects the quality of the end product (Montossi et al., 2013). Many choices associated with increasing the quality of the meat, or any other animal-based product for that matter, are directly associated with increasing animal welfare. For example, the quality of the feed for the animal or the animals' freedom to move affects the quality of the meat (Montossi et al., 2013). Furthermore, how stressed animals are before they are slaughtered (e.g., during transportation) affects meat quality (Koknaroglu & Akunal, 2013). Animal feed is also an important factor in meat quality as well as part of animal welfare (Koknaroglu & Akunal, 2013).

When making the connection between quality and sustainability, that is, overcoming the trade-off, it is interesting to also introduce the cost dimension into the concepts of sustainable operations and material management and animal welfare. Given consumer preferences, we believe that demonstrating that cost, quality and sustainability can be achieved simultaneously is not only an important future avenue for research but also an important step towards sustainability.

Discussion and Conclusion

The aim of this chapter was to analyze the current state of knowledge about animal welfare research in supply chain management. A second aim was to motivate future research and provide a road map for research opportunities in the animal welfare supply chain domain. We have identified that animal welfare is generally not part of the sustainability debate and research stream in supply chain management. We would like to motivate future research to fill this void as we firmly believe that animal welfare should be part of the sustainability debate for social as well as for environmental reasons. It is problematic to introduce animal welfare and animal production into the scope of sustainability as it is an oxymoron, but so is sustainable production on its own (Pagell & Shevchenko, 2014).

In order to motivate future research, we have split up the supply chain into its manageable processes: sourcing, production and material management, and logistics and distribution. We have identified current issues within each of the processes and steps in the supply chain that provide avenues for future research. We have highlighted that, although change must be initiated by the consumer demanding sustainable products that contain animal products, other stakeholders can also initiate change. In this chapter, we have focused on the actors within the whole supply chain without explicitly focusing on the consumer. Taking an operations or supply chain management perspective enabled us to make inferences about how animal welfare should be part of the sustainability spectrum of supply chain managers. We hope we have stimulated interest in future research and made our readers more aware of the consequences of our choices in shops, supermarkets, or restaurants when consuming animal products.

Questions

(1) Should animal welfare be part of sustainable supply chain management?
(2) Can supply chains that contain animals be truly sustainable?
(3) Is animal welfare part of a company's sustainability strategy?

Notes

1 The clean meat market is expected to reach US$20 million by the year 2027 (Smith, 2018).
2 Possible synonyms of sustainable sourcing include sustainable purchasing, green purchasing, responsible purchasing, and ethical purchasing (purchasing being synonymous with sourcing) (Pagell et al., 2010).
3 Economic, social, and financial performance.

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PART 6

CSR and Social Innovation

23
CORPORATE SOCIAL INNOVATION
The Next Stage of CSR

Philip Mirvis and Bradley Googins

Introduction

Over a decade ago we proposed a model of the "stages" most firms go through in the development of their corporate social responsibility (CSR) profile and agenda (Mirvis & Googins, 2006). The stages of development posited—moving from an elementary to an engaged, explorative, integrated, and, in select instances, transformative approach to CSR—emphasize continuous interaction between a firm and its environment that stimulates organizational learning. Through each stage of development, a company's engagement with societal issues is progressively more open and dealings with stakeholders are more interactive and mutual. In the same way, how companies think about their responsibilities becomes more complex, and the organizational structures, processes, and systems used to manage responsibilities are more sophisticated and more aligned with the business (see Table 23.1).

Today it is evident that growing numbers of global firms are approaching stage four, where CSR is fully integrated into the business. Here companies have a unifying concept of and integrated support structure for CSR; understand social issues that are material to their business and incorporate them into strategies; and issue reports on their social performance, with audited results and integrated with annual financial reporting.

How about stage five, where a firm is transformed by its commitment to CSR and seeks to promote social progress and sustainable development through its business activities and reach? Only a handful of companies have significantly built their business purpose in this way. Unilever, with its "Sustainable Living Plan," Danone, and Novo Nordisk are most notable among the big companies at this stage, plus there are B Corporations and start-ups that aspire to "make a better world" through their business. What is needed to accelerate this movement?

What Is Needed: Innovation in Innovation

Companies have traditionally addressed societal challenges through charitable giving and CSR/sustainability initiatives. Nowadays leading firms are greening their operations for eco-efficiency, keying their philanthropy to social impact, and applying "shared value" principles in their global supply chains and product development (Ehrenfeld, 2009; Korngold, 2014; Porter & Kramer, 2011). All these moves require innovation and new innovation processes.

But here is the rub: although many companies have well-developed innovation protocols and teams, these processes and personnel are oriented to innovation for traditional corporate markets

Table 23.1 Stages of corporate responsibility

	Stage one: compliant	*Stage two: engaged*	*Stage three: innovative*	*Stage four: integrated*	*Stage five: transforming*
Citizenship concept	Jobs, profits, and taxes	Philanthropy, environmental protection	Stakeholder management	Sustainability or triple bottom line	Change the game: business in society
Strategic intent	Legal compliance	Reputation	Business case	Value proposition	Market creation or social change
Leadership	Lip service, out of touch	Supporter, in the loop	Steward, on top of it	Champion, in front of it	Visionary, ahead of the pack
Structure	Marginal: staff driven	Functional ownership	Cross-functional coordination	Organizational alignment	Mainstream: business-driven
Issues for management	Defensive	Reactive, policies	Responsive, programs	Proactive, systems	Defining
Stakeholder relationships	Unilateral	Interactive	Mutual influence	Partnership alliance	Multi-organizations
Transparency	Flank protection	Public relations	Public reporting	Assurance	Full exposure

and are judged by commercial criteria. Confronting social challenges requires outreach from firms beyond their usual customer base into underserved communities and populations. Value propositions for innovation aimed at social good are based on multiple and often non-financial investment criteria. And new product, program, or platform ideas must be tailored to local circumstances in design and implementation. What is called for is social innovation and, in business, corporate social innovation (CSI) (Kanter, 1999; Mirvis, Googins, & Kiser, 2012).

As businesses venture into the new territory of innovating for society, they encounter a growing movement of people taking creative action under the banners of social innovation and entrepreneurship. This movement, largely taking shape outside of mainstream business, lifts up social (and ecological) innovation as a new and powerful way to address the world's ills. Now it is making its way into the business world (Mirvis & Googins, 2017). Examples of successful social innovations by businesses are growing: micro-lending has spread worldwide; mobile devices connect smallholder farmers and shopkeepers to markets and enable the use of mobile money; and base-of-the-pyramid business models that provide affordable goods and services, as well as employment opportunities, to the world's poor have extended from finance and consumer goods into agriculture, energy, and information technology.

For the past five years, we have been mapping the terrain of social innovation in leading companies and examples of "shared innovation" involving cooperation between configurations of businesses, non-government organizations (NGOs), community groups, and/or various levels of government. We have found innovations that run from A to Z: apps for social change, base-of-the-pyramid business models, collaborative consumption (sharing rides, lodging, etc.), diversity programs for suppliers and customers, eco-design and eco-innovation, fair trade certification, green marketing, habitat conservation efforts, international labor standards, *jugaad* (low cost, adaptable) innovation, LOHAS marketing, microfinance, nutraceuticals, organic food, philanthrocapitalism, recycling, socially responsible investing, transparency initiatives, volunteering for impact, X-Prize, and Zuritanken (one company's employee innovation contest). Looking across this alphabet of activities, two themes stand out at the intersection of business and social innovation:

(1) Companies are exploring new social innovation sources (e.g. open innovation, crowdsourcing, contests, intrapreneurship) and methods (e.g. indigenous research, incubators/accelerators, design thinking, and co-innovation).
(2) Companies are increasingly supporting and partnering with social innovators and enterprises to bring business solutions to societal needs.

What Is CSI?

Innovation is a key driver of business growth and essential to sharpening and sustaining competitive advantage. But as core as innovation has been to the DNA of firms, it has not been an integral part of most corporations' engagements with society. Yet some leading firms are bringing social innovation into their economic, social, and environmental agendas. In so doing, they draw on the talents of their employees and assets of their core business to co-create innovations with social sector (and other stakeholder) partners. Mirvis, Googins, and Kiser (2012: 3) define CSI as follows:

> Corporate Social Innovation is a strategy that combines a unique set of corporate assets (innovation capacities, marketing skills, managerial acumen, employee engagement, scale, etc.) in collaboration with other sectors and firms to co-create breakthrough solutions to complex economic, social, and environmental issues that bear on the sustainability of both business and society.

The foundations of corporate social innovation were set not in the West, but in the developing world as a way to create new markets to alleviate poverty. Banks, beginning with Grameen Bank launched by Nobel Peace Prize winner Mohammed Yunus, introduced micro-credit lending whereby villagers could pool their modest savings and get small loans. Repayment rates at Grameen have been upwards of 97%. Mexican cement maker Cemex's Patrimonio Hoy program gives customers technical assistance and loans to design, build, and fund improvements in their housing. A partnership between Hindustan Lever and Project Shakti, which has poor women travel to nearby villages in India to sell hygienic soap and toothpaste and dispense health advice to rural customers, showed the potential of social innovation in other industries.

CSI has since taken roots in companies like Shell and Dow Corning, where innovation teams work with NGOs to develop and market affordable, safe, and efficient cook stoves for the world's poor (of whom nearly two million worldwide die per year due to prolonged exposure to smoke from traditional stoves). Abbott and the NGO Partners in Health are building a food-processing plant in Haiti that has local employees make and distribute a high-protein, high-calorie fortified peanut-based spread developed to combat malnutrition. And leading food and beverage companies are working with local partners around the world to market inexpensive water-purification kits and tackle water shortages.

CSI differs from traditional CSR efforts in several respects (see Table 23.2). For instance, traditional CSR programs often have a philanthropic intent, whereas CSI represents a strategic investment that companies manage more or less like other corporate investments. Second, CSR programs involve contributions of money and labor, whereas CSI engages a company in societally relevant R&D and applies the full range of corporate assets to the challenges at hand. Third, traditional CSR programs often engage employees as volunteers and have companies contract with NGOs or community groups to deliver social services. CSI develops employees as innovators and involves deeper collaboration across functions within a firm and with external parties to co-create something new that provides a sustainable solution to social ills. Finally, whereas CSR can generate goodwill and enhance corporate reputation, CSI also aims to produce new sources of revenue and generate a more socially relevant innovation system that can be a source of competitive advantage.

A considerable amount of CSI centers on firms' value chains. This encompasses innovating in their sourcing or their supply chain as well as developing new business models. We also found many examples of businesses aiming their social innovation at solving major societal problems in areas of economic development, climate change, ecosystems, education, healthcare, and human rights, where innovation features and benefits accrue to both business and society.

New Sources of CSI

In a report called *New nature of innovation* (FORA, 2010), a pan-European research team contends that "global challenges" are becoming a prime driver of innovation for business. In the past, the team contends, technology and competition were the main drivers of innovation, and companies

Table 23.2 What makes CSI different?

Traditional CSR	*Corporate social innovation*
Philanthropic intent	Strategic intent
Money, manpower	R&D, corporate assets
Employee volunteerism	Employee development
Contracted service providers	NGO/government partners
Social and eco services	Social and eco innovations
Social good	Sustainable social change

focused primarily on developing new products and marketing them to consumers. Now, issues like climate change, environmental concerns, and myriad social problems are at the doorsteps of business and call for innovations in business policies, processes, the sourcing of materials and making of goods and services, and engagement with not only consumers but society at large.

Naturally, different innovation sources and methods are featured in different kinds of innovations (Mirvis & Googins, 2018a). For instance, in large-scale eco-innovations, companies invest in basic research and engineering to develop technologies to open new markets and make the planet greener. Similarly, in developing new food recipes and product ingredients, firms draw on chemistry, biology, and the other life sciences. Other kinds of social innovations involve outreach via open innovation and crowdsourcing platforms or co-creation with users who operate as both producers and consumers.

Open Innovation

Proctor & Gamble's open innovation platform, Connect + Develop, has linked the company with German ingredients maker Symrise (to develop a natural honey cough drop), US technology partner Ecolabs (to create an anti-static refillable dryer block), and Brazilian packaging supplier Braskem (to turn sustainably harvested sugarcane into a high-density, 100% recyclable polyethylene plastic used in shampoo). Proctor & Gamble has also partnered with many universities, government agencies, and NGOs such as the Safe Drinking Water Alliance (to bring its water purification system PUR to those in need).

The Innova Challenge MX, sponsored by BBVA's open innovation platform (Open4U), invites app developers to invent new "big data" applications for business and for society. A first "hackathon" gave developers access to BBVA's aggregated commercial bank transactions, dissociated from their source, and challenged them to devise new uses for the data. Top winners in the "business" category developed apps that (1) enabled inexperienced users to design effective geographic marketing strategies; (2) provided an interactive view of transaction flows between different zip codes of a city; and (3) helped business owners make data-based decisions about opening new businesses or expanding their current ones. In the "citizens" category, winners devised apps that (1) enable people to relocate by comparing new neighborhoods with their current location and adding search criteria such as schools nearby, nightlife, and so on; (2) help users find financing and partners with common interests; and (3) allow users to choose the best places to spend leisure time according to their tastes and desires at any given moment.

Crowdsourcing

Taking open innovation a step further, Unilever's foundry, launched in June 2015, provides a platform for a global crowdsourcing community to develop new and innovative ways of tackling sustainability problems. Karen Hamilton, VP Sustainable Business, Unilever, said: "Because business as usual isn't going to work anymore, we're looking to shift to a more open and collaborative business model" (Idea Connection, 2015). Three challenges were issued in the areas of sanitation, hygiene, and nutrition, which yielded 150 ideas. Grand winners in the initial challenge were:

- Improving Access to Sanitation category: Saurabh Saraf for WaterHubs, who proposed modular water and sanitation infrastructure solutions for urban slums. When the modular blocks are integrated, they provide community services, including showers, toilets, and potable water.
- Improving Global Nutrition category: Onyinye Uche, who developed an education campaign joining Unilever with the National Youth Service Corps in Nigeria. The aim is to reduce the prevalence of iron deficiency anemia in the country by educating people on the importance of eating iron-rich foods.

- Imagining the Shower of the Future category: Yehuda Goldfisher for Flush a Shower, who introduced an innovation designed to reduce water consumption during showering. It consists of two buttons. The first releases a burst of water to wet the body prior to soaping and the second releases a longer burst to rinse the soap away.

These ideas fit neatly into Unilever's Sustainable Living Plan, which pledged the company to, among other aims, reduce the environmental impact of everything it sells by one-half while doubling its revenues. As a leading maker of soaps, Unilever teamed up with Walmart in a promotional campaign to encourage consumers to reduce energy use when showering ("Turn off the tap"). Internal research showed that over 40% of people would be willing to conserve water if they knew it would save them money and help the environment. In a market test, sachets of Unilever's Suave shampoo and conditioner informed Walmart customers that families "could save up to $100 and 3,200 gallons of water per year by turning off the water when you shampoo and condition" and detailed their savings from "shortening your shower time by 2 minutes." What is next? Unilever is rolling out a "dry" shampoo—no water use necessary.

Contests

IBM has hosted many innovation jams to inform its "smarter planet" efforts; Dell and Dow have tapped student innovators to develop new offerings; and SAP has run contests to, among other things, apply information technology to automotive use in areas of urban mobility, traffic, fueling, parking, food, and so on. A student submission from Clemson University International Center for Automotive Research in South Carolina won in the parking category. Their application, ParkinGain, matches drivers with parking spots based on price, location, travel time, and distance to their final destination. Gil Perez, SVP of Sustainable Industries and general manager of Connected Vehicles, SAP, said: "Millennials have two expectations that will transform industries: Business is mobile and it must be more sustainable. With their focus and unique relationship to technology, we believe this generation can develop groundbreaking new business models." He went on:

> SAP is bringing together leading customers from these verticals with the best student teams to take their ideas to the next level. Using the SAP HANA Cloud Platform, these groups will create financially viable connected services that incentivize consumers to act in an environmentally responsible manner.
>
> *(Sustainable Brands, 2014)*

Another example is provided by Intel, which launched the Make It Wearable Challenge to bring students, designers, engineers, and inventors together with industry professionals to come up with ideas for wearable devices and ubiquitous computing. The winner of the challenge was Team USA for the Nixie flying, wearable camera. This small drone, which users can wear on their wrist like a watch, can also be deployed with a sweep of the arm to take pictures and video. Intel's contest exemplifies a variant of open innovation where ideas for product development come from outside of the corporation. As Intel's Luke Filose told us, "Competitions introduce us to creative users and to situations where our technology can be used in new ways. This gives us a chance to explore and try out new ideas." Indeed, in 2015 Intel unveiled a new button-sized computing system designed for smart clothes and other wearables.

Employee Intrapreneurship

There is growing interest in and more examples of social "intrapreneurship" in companies (Elkington, 2008; Grayson, McLaren, & Spitzeck, 2014; Mirvis & Googins, 2018b). Ericsson, for example, runs a grassroots Collaborative Idea Management Program that enables employees to propose and build on innovative ideas in every region and layer of the company. Over 300 Electronic IdeaBoxes set up by employees have to date cumulated over 16,000 ideas and comments from over 10,000 users. These inputs are vetted, rated, and enhanced by experts and coaches throughout the company and bundled into award-winning innovations.

In rural Kenya, as one example, a network of employees launched a Community Power Project that uses "off-the-grid" base stations, powered by wind and/or solar power, to share excess power among nearby communities. The base stations power mobile phone charging (which drives network usage) and in larger-scale deployment can electrify streetlights, clinics, and schools for an entire community. Of course, bringing such innovations to market takes money. Ericsson has added Innova boxes to its program that provide internal venture capital funding for employee ideas. This funding allows employee groups to experiment with their innovations, develop prototypes, and ultimately, to launch them in the marketplace.

Another exemplar is Ferrovial, a Spanish multinational engaged in the design, construction, financing, operation, and maintenance of transport and urban and services infrastructure. Well recognized for its innovation in smart technology, the company has also sought to engage its employees actively in the innovation game through an innovation contest. Manuel Martinez, Manager of Open Innovations, developed and titled the program "Zuritanken," which is a combination of the Swahili term "nzuri," meaning "good," and the Swedish term "tanken," or "idea." Ferrovial employees from all over the world are invited to offer solutions to challenges in each of the company's strategic business areas. Factors considered in evaluating their proposals are that the innovation should be novel, attractive to the business, feasible in its application, and have a high potential impact.

The winning idea at the inaugural innovation contest was called "Floor Power—Not a Step Wasted" and was implemented at Heathrow Airport (which Ferrovial manages). The project was devised by the four zuritankeners who created a floor surface that is capable of harnessing the kinetic energy generated by each footstep and converting it into electricity. Each year over 70 million passengers pass through London's Heathrow Airport and the project uses their footsteps to generate energy and identify transit patterns. Power Floor's appeal is that it is a sustainable, efficient innovation that minimizes energy consumption, provides information on foot traffic at the airport, and improves passenger satisfaction by making them feel part of the infrastructure.

New Methods for CSI

Companies we have observed variously apply "lean" principles to their social innovations, send teams out to conduct indigenous research in the field, or co-create social innovations with external partners (Mirvis, Herrera, Googins, & Albareda 2016). Multi-sector innovations projects have companies work with government agencies, NGOs, and even other firms to develop smart power grids, increase ICT accessibility, or enhance access to health care where innovative ideas and technology from several sources are combined into systemic solutions to social and environmental challenges (Eggers & Macmillan, 2013; Christensen, Ojomo, & Dillon, 2019).

Indigenous Research

Proctor & Gamble turned around and grew its business in Brazil by having employees live in and observe low-income households. Insights gained from these experiences led Proctor & Gamble to create new products, such as an affordable, environmentally friendly, and hands-friendly detergent for those without washing machines who hand-washed clothes. The ideas spread to other countries (*jugaad* innovation) including Tide Basic in the US.

Danone has taken to the field with its nutrition research. Danone's Nutriplanet group, drawing on nutritional, epidemiological, socio-economic, and cultural data, has analyzed habits and health issues in 52 countries. After studying the diets of Brazil's youth, for example, Danone reformulated a bestselling cheese (reducing sugar and adding vitamins), and in Bangladesh, children eat 600,000 servings a week of Danone's Shokti-Doi, a nutrient-rich yogurt. R&D also extends into packaging. In Senegal, Danone developed a "pouch," a carton composed of local grain and a little milk, that can be stored at room temperature. And its Sari Husada line in Indonesia has offerings with different features and at different price points: its low-cost Gizikita line meets 50% of vital daily nutritional requirements and is available as both milk for babies and porridge for infants and toddlers. In turn, Nutricia is targeted at high-end consumers and features a website and "netzine" providing consumers with scientific information on nutrition for expectant mothers and infants.

Incubators/Accelerators

Entrepreneurs are transforming business models and building new strategic markets in a way, and at a pace, that large corporations and governments often cannot. However, small businesses often fail at a critical stage in their growth due to inadequate operational backbone and inadequate guidance on how innovation comes into play for them. Thus SAP has opened up its vast ecosystem of employees, customers, and partners, as well as its small-business management solutions and innovation portfolio with HANA, Cloud, and Mobile, to support entrepreneurs in small businesses and civil society.

SAP runs an innovation accelerator for entrepreneurs that are set to scale. SAP technology, workshops applying design thinking, and mentorship by SAP employees are cornerstones of the accelerator model, which also offers access to impact investors provided through an Impact Capital Network available to SAP's non-profit entrepreneur partners. A good example of how this model comes to life is Solidarium. Tiago, a 27-year-old Brazilian entrepreneur, had a vision to run a global online retail business while providing much-needed jobs for Brazil's 8.5 million artisans, many of whom live below the poverty line. His company provides local artisans access to a network of global consumers and buyers, including Walmart and JC Penney, and provides tools and training to the artisans to help articulate their products online. Tiago worked with SAP mentors, who helped him analyze his business results using SAP analytics. Now, using SAP's Business One, Solidarium can manage its operations more effectively, leaving more time for Tiago to focus on customer acquisition and international expansion.

The Barclays Accelerator provides a physical site for innovative companies, offering a co-working environment, world-class event spaces, and meeting rooms. It also hosts an innovation accelerator, a 13-week program for fintech startups, run in partnership with Techstars. More than 300 companies from almost 50 countries worldwide applied for one of the 11 places on the program. The winning ideas range from an alternative to payday loans to a next-generation credit scoring system to a peer-to-peer funding platform for real estate. "It is time to redefine financial services," said Michael Harte, Barclays' Chief Operations and Technology Officer:

> We're seeking to connect the world's most active innovators to each other, to corporates, and to resources and support networks. By accelerating the development of groundbreaking products and services, we know that we can help to keep Barclays at the cutting edge of financial services, all while helping to revolutionize the industry.
>
> *(Prisco, 2015)*

Design Thinking

Many companies use design thinking to stimulate and guided their innovation processes. In addition to its emphasis on indigenous research, we have observed three other aspects of design thinking that are especially relevant to CSI:

- *Whole-systems perspective*. A "whole-systems" perspective is being applied in the design of green buildings, product innovations, or the corporation itself. This means taking a holistic perspective on the design of actions or artifacts that takes full account of their sourcing, production, and uses. Cradle-to-cradle considerations exemplify holistic design. Nike has adopted a whole-systems perspective in its "considered design" approach to innovation. Design manager Laurie Vogel reports: "This evolution requires us to innovate faster, more radically, more disruptively inside of Nike and throughout our whole ecosystem. It is a top to bottom, bottom to top, inside out and outside in innovation" (Vogel & Garcia, 2012).
- *Empathy*. Scientific logic is of course integral to design thinking; hence criteria such as functionality and utility are of prime concern in commercial creations. At the same time, creativity and empathy are also needed to match innovations with people's emotional make-up and circumstances. Prahalad (2006) describes how this combination of scientific rigor and heartfelt connection to patients' needs yielded breakthrough cost-saving innovations in India at the Narayana Hrudayalaya cardiac care center and Aravind Eye Care Center, and in the development of the "Jaipur Foot" prosthetic device.
- *Positive intent*. Finally, a number of companies draw on positive psychology and its practical applications to develop and launch innovations in the social sphere (Hatch & Mirvis, 2010). One company that has developed a positive innovation process is Novo Nordisk in the design of programs to "change diabetes." Its Unite for Diabetes initiative brought together other companies and diabetes associations in partnership. Ultimately, this led to a UN General Assembly resolution that made 14 November "World Diabetes Day," which is now observed annually. On a broader front, the search for "positive deviance," pioneered by Jerry and Monique Sternin, has led innovators to design new practices based on the successes of individuals and communities that have overcome social challenges and disadvantages (Sternin & Choo, 2000).

Co-Innovation

To innovatively address society's pressing needs requires a diverse set of interests, competencies, and skills (Kania & Kramer, 2011). Few firms have the appropriate mix of staff, resources, and know-how to operate in this space on their own and, in any case, may lack the legitimacy with local communities to do so. On this count, a study by Austin and colleagues (2005) finds NGOs to be far more knowledgeable about social needs and more effective at planning social action than businesses. There is also evidence that partnering with NGOs gives a company a broader "license to operate" in society.

The Canadian grocer Loblaw's partnership with Greenpeace, the World Wildlife Fund-Canada, and the Marine Stewardship Council (MSC) exemplifies the importance of these requirements. At the start of this initiative in 2008, Greenpeace was targeting Loblaw for not having policies on sustainable seafood. Frank discussions of the complexity and challenges of sourcing sustainable fish brought the two sides together in partnership with WWF-Canada and MSC to examine the issues pertaining to wild-caught and farmed seafood. As a case study (Steele & Feyerherm, 2013: 110) describes it, "The initiative required creative thinking and a leap of faith as the sustainable sourcing criteria was adopted."

Next, there were challenges in getting Loblaw ready to implement these criteria. Buyers had to be educated on the importance of sustainable sourcing and the procurement function had to make needed changes in existing practices, performance measurements, information systems, and incentives. In turn, seafood vendors had to be familiarized with policies and a "chain of custody" implemented covering the sourcing of the fish to its sale at Loblaw. In working together, the NGOs learned about matters of cost, price, and margin in the grocery business and Loblaw learned a great deal more about marine stocks. Other partners were enlisted to educate consumers on the issues and the makeover of Loblaw's seafood business.

CSI: Next Steps

Chronic poverty and unemployment, declining education and infrastructure in communities, global warming and a deteriorating biosphere, worrisome consumption trends, and industry-specific issues such as access to health care, banking, technology, and more all register on the corporate radar, as does the continuing distrust of big business. Surveys show that top business leaders recognize that they have to concern themselves with these social ills as they are all reflected in the heightened expectations of customers, investors, employees, regulators, and the public for accountable and responsible business behavior. Conventional CSR programs are one response. But can companies do more good with innovations (Pfitzer, Bockstette, & Stamp, 2013; Herrera, 2015)?

Complex problems call for complex solutions and organizations from different industries and sectors bring unique and essential assets to the work of social innovation. Yet companies do not have an established playbook for innovating in this space and they (and their partners) must learn together to produce successful innovations. To the extent that CSI represents a "next stage" in the evolution of CSR, companies will have to learn how to innovate using new sources and methods. Consider some potential learning venues.

University–Business Partnerships

The Center for Sustainable Global Enterprise at Cornell University has a methodology for building business models in poor countries that has been tested and refined by several companies. SC Johnson, the world's leading maker of insect control products, applied the protocol in Rwanda. Needing a steady supply of a key ingredient, pyrethrum, and working with partners USAID and the Borlaug Institute, SC Johnson worked hand-in-hand with Rwandan farmers and their communities to sustainably farm and harvest the plant for products like Raid. In turn, the partners have set up a motorcycle-based distribution system to bring insecticides (aerosols and coils) to areas with endemic malaria.

Each of the authors has run social innovation labs at our universities that joined together multiple businesses, NGOs, academics, and other interests to develop and launch social innovations. The Food Solutions Lab at Babson College, for example, is an incubator for innovation in food production and services. Participants are taught methods for co-creating and taking innovative action (combined in the term "creaction"). To illustrate, Massachusetts-based small business Preserve transforms yogurt cups into toothbrushes and take-out containers into tableware. Using innovations in recycled materials and sustainable design, the company solicits #5 plastics (which are not normally recycled) from individuals and companies at convenient drop-off locations through its "Gimme 5" program and recycles them into household goods found at Whole Foods Market, Trader Joe's, and a variety of grocery and natural food stores.

In addition, well-known design and innovation firms like IDEO and Jump Associates have turned their attention to social innovation and assist companies doing CSI. During a recent innovation lab with KickStart, for instance, IDEO led the design team to construct 95 prototypes of an irrigation pump out of Lego, plastic, paper, foam, and steel. Each prototype led to new learning that enabled the team to radically reduce the cost of production. The prototypes were sent to Kenya for testing by small-scale farmers.

Multisector Partnerships

The mission of the Sustainable Food Laboratory, led by co-directors Hal Hamilton and Don Seville, is to accelerate the shift of sustainable food from niche to mainstream (Hamilton, 2013). The lab's interests encompass the fertility of soil, water and biodiversity protection, the livelihoods and practices of farmers and farmworkers, energy use and waste discharge, and the quality and affordability of food. The over 80 lab members and partners include early innovators like Ben & Jerry's, Stonyfield Farms, and Green Mountain Coffee, corporate giants like Cargill, Aramark, H. J. Heintz, Sodexho, Starbucks, and Sysco from the US, food producers and purveyors such as Unilever and Marks & Spencer from abroad, and the likes of the Bill and Melinda Gates Foundation, Catholic Relief Services, Fair Trade USA, and the Food Marketing Institute. The divergent interests in this mix often find common ground in joint projects.

What are members collaborating on? In various combinations they are involved in connecting small-scale producers to modern markets, green farmer training projects, reducing greenhouse gas and water emissions in farm operations, food safety and sustainability certification schemes, and consumer education and engagement. The Sustainable Food Laboratory exemplifies the new kinds of multi-business and cross-sector partnering underway today. What distinguishes the sustainable food lab is the open sharing and emphasis on "action learning" among members. They also receive coaching on becoming more effective change agents in their organizations and industries.

Joint "On-the-Ground" Projects

Accenture Development Partnerships (ADP) has undertaken over 600 projects in 55 countries where its professionals, at 50% salary reduction, work in partnership for up to six months with NGOs to bring business solutions to humanitarian problems. In 2010, ADP worked with NetHope, a consortium of over 40 NGOs, to launch the first global IT help desk for international NGOs. Staffed jointly by NetHope and ADP employees, the help desk was a pioneering example of business–NGO collaboration in the development sector. In 2013, the partners conducted a study of technology use in developing markets. They found, for instance, that although mobile technology featured in many development success stories, simpler text-based applications were more practical for rural workers who do not own smartphones. Commenting on the learnings from this joint R&D, NetHope's Lauren Woodman and Accenture's Jessica Long write:

> It's no longer good enough to arrive in developing countries and proclaim to have all the answers. We need to refine our solutions by researching local markets, learning lessons from trial and error and welcoming feedback and possibilities from those on the ground.
>
> *(Woodman & Long, 2014)*

Another example is the Joint Initiative for Village Advancement program supported by John Deere in three rural villages of Rajasthan, India, that takes an integrated approach to community development. Components of the program, designed with NGO PYXERA Global, include a "train the trainer" model that enables farmers to become change agents in their communities, an education program, and infrastructure development, involving the construction of toilets, washbasins, and the like. Plainly this is a philanthropic effort by Deere, who aspires to be more than simply a monetary donor, but rather, as one executive told us, an active partner and catalyst for meaningful development work. In so doing it has also forged connections with the local university of agriculture and technology and Jatan Sansthan, a grassroots community resource group in Rajasthan.

Such user-driven innovation poses special challenges for companies trying to tap underserved markets (Weiser, Kahane, Rochlin, & Landis, 2004). First, it involves partners that may have different viewpoints on the problems at hand and certainly different ideas on how to best address them. Second, it requires constant adaptation to local circumstances in design and implementation. Third, success depends on an "innovation ecosystem" that can support and sustain the innovations that are introduced. These call for the redesign of traditional innovation processes for purposes of "interactive value creation."

Accelerating Progress

We have argued that CSR in companies has evolved through several stages. A move toward CSI could, however, prove revolutionary such that the "new business of business" is to innovate for society. We close with a jump-starter list of what a company might do to embed CSI across the organization and its value chain:

(1) *Enact a social vision*. Start with a noble social vision for the company and align it with organizational values. Then bring the vision to life through purposeful engagement with society and its needs and challenges.
(2) *Bring employees to the center of the effort*. Successful companies are soliciting and rewarding employees for social and environmental innovation. They are also undertaking societal R&D to engage the next generation of socially conscious leaders.
(3) *Nurture social intrapreneurship*. Transform employees into social intrapreneurs through internal innovation labs or contests.
(4) *Engage a broad spectrum of interests using connective technology and social media*. Socially innovative companies run incubators and accelerators for scaling the societal impact of innovative NGOs. They sponsor social innovation challenges for college students and host "hackathons" to engage the public in product development.
(5) *Reset CSR to innovation*. The Shell Foundation used to be the philanthropic arm of the parent corporation. Now it funds and develops commercially viable business models that can achieve sustainable social impact.
(6) *Focus on social impact*. Corporate social innovations are designed to produce social and business value. Nearly all the companies described here assess the impact of their social innovation. A few have monetized impact and calibrated a social return on investment.
(7) *Join hands with social entrepreneurs*. Finally, companies can speed up movement toward CSI by working directly with social innovators and entrepreneurs.

Questions

(1) At what stage of corporate responsibility are most firms in your locale? What is keeping them from progressing further?
(2) Do you think companies have a responsibility to innovate for the good of society? Even if they do not earn as much money as they do from purely commercial innovation?
(3) Are students involved in social innovation labs and incubators in your university or community? Do they want to become social entrepreneurs? What would motivate them to work for a company?
(4) What ideas do you have that would make a "better world"? What would it take to bring those ideas to market?

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24
SOCIAL ENTREPRENEURSHIP IN JAPAN

Keiko Yokoyama

Introduction

The differences in the concepts of social entrepreneurship (SE) in the US and Europe are generally acknowledged. Social enterprises and discussions of SE in Japan have been influenced by these Western nations' discussions of SE and have been subsequently developed to reflect unique Japanese circumstances. This chapter summarizes trends in discussions of SE in Japan, examines successful examples of SE in Japan, and then re-evaluates these discussions based on the investigation of these successful examples.

The purpose of SE is to derive social innovations for the benefit of society. Social innovation as discussed herein refers to "a novel solution to a social problem that is more effective, efficient, sustainable, or just than an existing solution" (Phills, Deiglmeier, & Miller, 2008: 39). A social enterprise is an organization created to fulfill that purpose. These enterprises come in various forms such as non-profit organizations and for-profit organizations.

SE has emerged as a dynamic field of practice and research over the last 20 years. We can find various articles and special issues (e.g. Pless, 2012) on this topic in major journals. However, SE is still a contested concept, and there is a broad range of subjects to consider (Choi & Majumdar, 2014).

Many studies have claimed that the American concept of SE is significantly different from its European counterpart. In Japan, both kinds of SE have paradoxically coexisted (Fujii, 2010). Below, I summarize how Western discussions of SE have been interpreted in Japan. Then, based on the relationships among these discussions, I examine the SE discussions that have developed in Japan. Furthermore, I will analyze successful examples of SE in Japan to suggest the strengths and weaknesses of the Japanese concept of SE.

Japanese Interpretations of Euro-American Discussions of SE

Discussions of SE in the United States

American SE discussions that have been noted in Japan are derived from the following three streams.

Commercialization Activity by Non-Profit Organizations

According to the literature on non-profit organization (NPO) commercialization, which refers to the use of commercial activities by a non-profit organization in support of its mission, the boundaries between for-profit and non-profit—or not-for-profit—are becoming increasingly ambiguous. An SE is regarded as a hybrid entity on a continuum from for-profit to non-profit (Dees, 1998; Young, 1998).

As Defourny and Nyssens (2010) discuss, this viewpoint is equivalent to "the earned income school of thought," which illustrates the rise of NPOs that offer a social service for a fee. This approach has been enlarged to consider social enterprises as both for-profit and non-profit organizations that develop market-oriented economic activities that serve a social purpose.

Change Agents

Many of those who understand SE as a change agent see the market mechanism as the best way to execute social justice. Within this viewpoint, entrepreneurial elements and innovation are highlighted. There is a focus on the innovations brought by SE, and a social entrepreneur is perceived as a heroic grassroots entity (Martin & Osberg, 2007; Austin, Stevenson, & Wei-Skillern, 2006).

As Defourny and Nyssens (2010) mention, this perspective is equivalent to "the social innovation school of thought," which bestows a central role on social innovation dynamics that are, primarily, driven by a social entrepreneur who possesses the crucial personal characteristics to pursue a social mission; characteristics like dynamism, creativity, and leadership.

The New Development of Corporate Philanthropy, CSR Strategy, and Creating Shared Value

The business sector's increasing attention to solving social issues has resulted in the emergence of entities like the socially oriented company, social venture, and social business or project by a corporation. As corporations have sought to add corporate social responsibility (CSR) to their primary business strategies, discussions of strategic CSR, CSR strategy, and strategic philanthropy have increased (Martin, 2002). In the same vein, Kramer and Porter (2011) proposed the concept of creating shared value, which refers to strategies aimed at solving social issues while simultaneously profiting through the main business. SE can be perceived in line with this movement toward social issue management by for-profit companies.

The difference between SE and pure CSR depends on the priority placed on social value creation within the corporation's business objectives. Most researchers consider a corporation whose top priority is social value creation as an SE (Austin et al., 2006).

Discussions of SE in Europe

In Europe, SE has attracted significant attention as a mechanism to help with the education and employment of people who have otherwise been excluded from market activity. These mechanisms include the development of new forms of enterprises, such as social cooperatives in Italy, social purpose companies in Belgium, or social solidarity cooperatives in Portugal. Fujii (2013) concluded that in Europe SEs are collocated within the context of social inclusion and a solidarity economy, leading to the contemporary development of a third sector that consists of NPOs, cooperatives, workers' collectives, social firms, and credit unions.

The EMES International Research Network, well known in Japan, proposed a conceptual and idealized definition of SE, characterized by a set of nine criteria, and classified it into three groups: economic, social and inclusive, and governance.

Discussions of SE in Japan

Discussion of American-Style SE in Japan

Tanimoto (2006) offers the most prevalent and representative concept of SE in Japan. Although many studies have noted that Tanimoto's (2006) position previously existed in SE across America, Tanimoto, Karaki, and SIJ (2007) insist on the importance of learning from practices addressing real social issues to broaden the scope of SE, rather than paying excessive attention to the difference between the Western countries' schools of thought.

Tanimoto (2006; Tanimoto et al., 2007, 2013), one of the largest contributors to this topic, presents three requirements of SE, which are simple and useful for diffusing the concept of SE in Japan. Tanimoto's ideas on SE have greatly affected government and business circles. The three requirements of SE, as defined by Tanimoto (2006), are:

(1) Social mission: a firm has a mission to address social issues in its business. The SE must support its social mission for the community and its stakeholders.
(2) Social business: the firm creates a new comprehensive business to realize a social mission. These SE organizations take various legal forms.
(3) Social innovation: this firm develops new social goods and services, and then develops a system to address social issues through its business activities. It is important to bring about new social value through the social business.

In Japan, organizations defined by these relaxed requirements are comprised of four SE types. There are non-profit ventures (including social welfare corporations), socially oriented companies, firms with CSR, and intermediate corporations (including cooperatives), as shown in Figure 24.1.

The Ministry of Economy, Trade, and Industry (METI) formed the Social Business Study Group, headed by Professor Kanji Tanimoto, which included members from multiple sectors. After meeting six times, the group compiled a report (METI, 2008). The SE concept put forth in this report followed in Tanimoto's (2006) footsteps.

Tsukamoto and Tsuchiya (2008) present the following five elements of Japanese SE: (1) social innovation; (2) social entrepreneur; (3) hybrid; (4) network-oriented phenomena; and (5) a certain level of social assessment. Tsukamoto and Tsuchiya (2008) argue that Tanimoto's (2006) concepts of social mission, social business, and social innovation are vague and lack investigation into their relationships with NPO studies. Their study pays particular attention to the organizational changes in NPOs and seeks to understand the development of SE research based on the accumulated results of NPO studies.

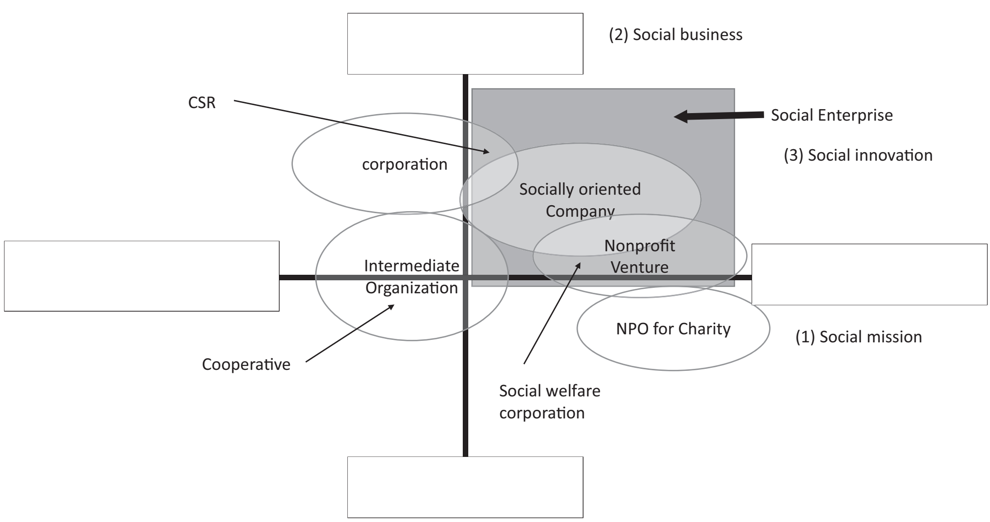

Figure 24.1 The position of various types of SEs. Adapted from Tanimoto (2006): 15.

Discussion of European-Style SE in Japan

In Japan, studies on unions and cooperatives have a great affinity for European-style SE (Fujii, 2013), which is founded on the work of EMES. Fujii (2013) focuses on hybrids and describes SE in two ways: (1) a hybrid organizational structure with pluralistic goals where multiple stakeholders can join, within a plural economy; and (2) an organization that generates positive synergy by being an intermediary among the community, market, and government.

Fujii (2013) critiques American-style SE for its ambiguous definition of SE hybrid entities. Fujii (2013) argues that Tanimoto's (2006) three requirements and METI's (2008) definitions are insufficient, especially because he believes that the idea of a "social mission" is too vague to ensure the social component of SE. In addition, Fujii (2013) points out that Tanimoto's (2006) study focuses only on the management level of SE, and not on the institutional and policy levels.

Other Discussions and Summary

Takahashi, Kimura, and Ishiguro (2018) examine the school of new liberalism (American-style) SE and the school of social policy (European-style) SE and examine the dark sides that social entrepreneurs or SE can generate. Previously, Kanai (1999) proposed the concept of a socio-dynamic enterprise that focuses on a social mission and conducts autonomous activities.

If we were to categorize the discussion of SE in Japan, we would observe that research based on European discussions often draws contrasts with other countries developing their own theoretical considerations of SE theory. Conversely, studies with an affinity toward the US style of discussion are biased toward theoretical constructs extracted from real-world management perspectives (in non-profit ventures and corporations).

SE activities in European-style cooperatives or workers' collectives are not especially visible in Japan, and thus SE practices and policy-making often target non-profit ventures and corporations, where the research of Tanimoto (2006) remains popular. Tanimoto's (2006) three requirements for SE (social mission, social business, and social innovation) are extremely popular in Japan and have become firmly ensconced in both the academic and practical worlds, though many have indeed noted the vagueness of the loose definition of SE.

Characteristics of, and Issues with, SE Practice in Japan

Characteristics of Japanese SE

Business organizations with a social mission, a rule of democratic participation, and no substantial distribution of profits have existed in Japan since the 1970s. These companies were called civic businesses or community businesses (Fujii, 2010). After the turn of the twenty-first century, SE concepts and practices rose substantially in Japan. According to Tsukamoto and Tsuchiya (2008), there are five reasons for this rise. First, the juridical personality of NPOs, institutionalized by the NPO Law 1998, opened the gates for the establishment of SE. Second, the commercialization of NPOs and the hybridization of organizations had already advanced. Third, along with the progress of decentralization and privatization, local governments required residents to be involved in local social issues through sustainable businesses. Fourth, new cooperatives recognized SE as their new identity. Fifth, CSR and SE concurrently gained attention as a new corporate philosophy.

The first unique characteristic of social enterprises that emerged was the increased level of human diversity, held in sharp contrast to the traditional Japanese corporate environment that had dominated until then. This sudden introduction of diversity could be attributed to major changes in the work environment brought on by the slumping Japanese post-bubble economy, the 2008 financial crisis, and the 2011 Great East Japan Earthquake. These events are thought to have diversified the values of many, including the young, and subsequently focused their attention on SE as a vehicle for showing an alternative "way to live." Youth, the elderly, women, and other diverse individuals can participate wherever SE is practiced in Japan, unlike the exclusionary environment of the traditional corporate world.

The second characteristic that materialized is the changes in CSR and social business within Japanese firms. In Japan, 2003 is referred to as the "first year of CSR," and 2009 is called the first year of the base of the pyramid (BOP). Some established firms tried to implement social projects or businesses with the expressed intent of solving a social problem in conjunction with their core business.

Simultaneously, companies trying to collaborate with NPOs on their new social projects were on the rise. In the beginning, most of these collaborations were a type of supportive partnership in which for-profit firms tried to grow NPOs as CSR. Gradually, however, deep synergistic collaborations began to form with the expressed intent of exchanging resources between them (Yokoyama, 2003).

Issues with SE in Japan

Although the NPO Law greatly influenced the rise of SE in Japan, the lack of rules about NPOs receiving investments has been criticized. Consequently, third-sector organizations like non-profits with democratic participation do not yet have a juridical personality, which theoretically is required in order to receive adequate investments (Fujii, 2010). This is one reason why the scale of Japan's third sector remains small.

Further, it is said that those responsible for Japan's third sector were primarily housewives (those supported by stable household finances coming from the corporate world in which their husbands work) and the retired elderly, with generally low levels of awareness and expertise in securing labor costs and profit. The batch hiring of new graduates and lifetime employment, which are characteristics of traditional Japanese-style management, brought down the liquidity of Japan's labor market and limited the supply of human resources for Japan's third sector. Wage levels were also lower in the third sector than in the corporate sector. Accordingly, Japan's third sector, with a small number of exceptions, has not had sufficient quality or quantity of human resources (Nishida, 2014). As an aside, the third sector constitutes a large portion of social enterprises in Japan.

According to Mitsubishi UFJ Research and Consulting (2015), the scale of SE activities in Japan has grown. Comparing the scale of SE activities in Japan with the United Kingdom, the quantity of SEs as a percentage of overall economic entities is 11.7% in Japan and 14.4% in the UK, and the percentage of paid SE staff to entire staff is 13.2% in Japan and 7.1% in the UK. Further, the percentage of net income to GDP is 3.2% in Japan and 3.3% in the UK. However, compared with other business entities in Japan, most social enterprises tend to correspond to small companies with capital of less than 10,000,000 yen and fewer than 50 employees (Japan Research Institute, 2017).

An Analysis of Different Types of Successful SE Cases

Types of SE

Issues with SE in Japan include the generally small scale of social enterprises and their minor impact. SE activities in Japan primarily take place domestically, and while activities of some social enterprises born in Japan are acknowledged internationally and are operating on a global scale, examples that have scaled outside of Japan are extremely few in number.

In this section, I provide successful examples of SE in Japan and review their success factors based on the three SE requirements of Tanimoto (2006), the most popular SE concepts in Japan. Providing a diversity of successful examples increases the validity of my discussion.

Tanimoto et al. (2013) have studied examples of social innovation in Japanese corporations and NPOs and have categorized social innovation into non-technological and technological social innovations, particularly studying non-technological social innovation cases in greater detail. Non-technological social innovation means new business models that are developed primarily to solve social issues.

Conversely, the researchers limited their work on technological innovation to introducing prior research on the concept of catalyst innovation. Catalyst innovation adapts destructive innovation into solving social problems and provides simple products and services (necessary and sufficient solutions and technologies) that, while not necessarily ideal for meeting the unfulfilled needs of customers, do indeed fill an industry niche (Christensen, Baumann, Ruggles, & Sadtler, 2006).

This chapter focuses on the starting point of the process of creating a social business as another way of categorizing SE. When examining SE from a categorical perspective, it is important to understand the differing starting points because each distinct point uniquely influences SE. I thus divide social business into those that start from needs and those that start from seeds. In other words, one category is "needs-based social enterprises" that were formed based on unmet social needs, and would include many aforementioned non-technological social innovations. The other category is "seeds-based social enterprises" that are formed around technologies and organizational capabilities held by a firm; it includes a greater number of technological social innovations.

A Case Study of a Needs-Based SE: Non-Profit Organization Table for Two International

Let us first examine the non-profit organization Table for Two International (TFT) as a case study of a social enterprise that started based on needs. Three young men formed TFT in 2007. The organization's purpose was to solve global food inequalities exemplified by the expression that a billion people worldwide suffer from starvation and malnutrition and another billion people suffer from obesity. These young men focused on food inequality as they created a unique meal-sharing program.

Specifically, TFT's primary business is the "Table for Two Program," which allows individuals to automatically donate school meals to children in developing nations when they buy healthy meals for themselves. When purchasing a healthy meal or food items that are eligible, individuals donate 20 yen of their purchase, which then goes to school lunches for children in developing nations via TFT. Twenty yen is enough to purchase one meal in a developing nation, thus one meal in an advanced nation sends one meal to a developing nation. These 20 yen bring health to the table of two people, and their cause-related marketing uses a well-thought-out concept that includes a clear, easy-to-understand message.

The program started with targeted cafeterias, particularly those in companies and universities. It later expanded to include restaurants, supermarkets, vending machines, wedding receptions, and many others. It has since spread overseas, with activities in 14 countries, including the US, countries in Europe, Saudi Arabia, Hong Kong, and Australia. By 2017, ten years after their founding, more than 700 participating companies and organizations have implemented this program.

The original impetus for the organization was the participation of the three young people in the World Economic Forum program called "Young Global Leaders." Noticing that adjacent teams in the working group on global-scale issues were focused on "starvation issues" and "food satiety issues" respectively, they began discussing with each other that these food issues could be dealt with simultaneously, leading to discussions between the two groups. They soon discovered that it was said that an equal number of people in the world faced these issues, and subsequently proposed the TFT program in 2006.

Many people approved of the program's concept. Klaus Schwab, chairman of the World Economic Forum, gave his seal of approval and, having received advice from many others, the group began their work with confidence that the program could be a means for providing school meal support.

However, the three young people were not able to advance this program given the quantity of tasks required by their companies, and they made an offer to Kogure Masa to serve full-time as executive director. Mr Kogure, who empathized with the concept, left the Tokyo office of McKinsey & Company to become the first executive director of TFT.

Support for TFT began developing in the employee cafeterias of large companies. At that exact time, these companies had made health management a focus, and recently implemented checks on employees' metabolisms. TFT requested the support of these companies by introducing a 500-yen healthy meal in the employee cafeteria, asking for 20 yen out of it as a donation.

Below I shall examine the case of TFT using Tanimoto's (2006) three requirements.

Social Mission

A defining characteristic of TFT is its structure, which provides value for both those supporting the organization and those receiving its support. The fact that their model simultaneously improves the health of both parties, and that anyone can easily participate, exemplifies a new way to present a social mission, the significance of which can be easily understood.

Social Business

The organization is transparent about its operating expenses, with four yen of each 20 yen donated (20%) going to office expenses. This was viewed negatively in 2007, when the organization was launched, with some saying that it was making money unfairly and that 100% of donations should go to aid recipients (Kogure, 2012). Having now overcome such initial objections, the organization's operations are deemed sustainable.

Social Innovation

TFT's concept and business model are easy to understand and have received widespread approval. The organization appeals to the fact that those making donations also become healthy by eating healthy food, and thus involving company cafeterias became habitual for the program. Beneficiaries in developing nations are provided with funding to operate school meal businesses and are given support for various types of relevant operations (e.g. guidance to parents on school meal operations). Once the program got on track and stabilized, the enterprise aimed to have locals continue school meal operations autonomously, and comprehensively supported the regions in which they operated through activities like school and local vegetable gardens and support programs to improve the agricultural productivity of small local farmers (Table for Two, n.d.).

A Case Study of a Seeds-Based SE: Nippon Poly-Glu Co. Ltd. and Poly-Glu Social Business Co. Ltd.

In this section, I discuss the case of a social enterprise that started from "seeds," Nippon Poly-Glu Co. Ltd. ("Nippon Poly-Glu"). Nippon Poly-Glu has taken advantage of a water purification technology that causes no harm to humans and the environment and provides safe drinking water to the citizens of developing nations. It not only sells affordable purified water to people with limited financial resources but also creates opportunities for the local people to work in the social business itself. The genesis of this social business was not to seek a social business opportunity, but rather to respond to requests from public organizations and acquaintances.

Before starting Nippon Poly-Glu, Kanetoshi Oda, the founder and chairperson, had run a tech-related consulting company after working at Daikin Industries Ltd., after graduating from Osaka University. He arrived at a turning point after the magnitude 7.2 Great Hanshin-Awaji Earthquake. While cutting off a water supply, Oda saw a muddy pond and thought how wonderful it would be to be able to drink the water from that pond. This experience inspired him to develop a water-purifying technology. Although it was already known that polyglutamic acid derived from natto had a strong purifying function, it was never put into use owing to its high production cost. After a few years, Oda was successful in inventing a cost-efficient purifying agent, PGα21Ca. In 2002, six years after the earthquake, Oda started Nippon Poly-Glu with just four employees. At the time, Oda was more than 60 years old. He recalls that, at that time, he was eager to earn a lot of money in the business. Yet the technology did not sell well in Japan at first.

Nevertheless, Nippon Poly-Glu expanded overseas in response to requests from developing countries with a history of natural disasters, such as Thailand in 2004 and Bangladesh in 2007. The firm provided the PGα21Ca flocculant for free and inspected the local areas to understand the needs of these developing countries. They found expensive electric and high-tech water purifying devices neglected and gathering dust. The local people could not use these devices because they could not perform the necessary maintenance. This prompted Nippon Poly-Glu to consider water purification agents and low-tech water purification systems that were more aligned with simple filtration systems that do not require electricity.

Through this experience, Oda, who had started his business merely for profit, woke up to the idea of a social business benefiting the people of developing countries and subsequently found that he felt great pleasure and satisfaction in helping the locals. Striving to do business at an affordable price, even for those in poverty, the company conducted surveys of Bangladeshis to inquire about prices they would be able to pay, as a way to explore the proper pricing of their water. After three years of trial and error, Oda, utilizing water purification agents and a low-tech device handmade by locals, developed a water purification system using the PGα21Ca flocculant and the low-tech device that is both affordable for the people in these developing nations and can be maintained locally.

He did not regard his company's behavior as a social business or a BOP business until METI indicated it. His company's water-purifying system has spread to areas where people who need clean water live, sometimes under the support of the Japanese government, which recognized his company's valuable activity. His company's technology is also used to purify industrial effluent and rivers in Japan.

Based on the ideas of young expatriates in these developing nations, the company rethought its business model for such countries from the ground up, and a business model that focused heavily on growing local employment and management was born. The installation of purification systems and their management, water supply, manufacturing, operations, and even the delivery of water were all managed by local male employees called Poly-Glu Boys. Profits from the sale of flocculant and purified water, money collection, and education on the importance of safe water and the role of PGα21Ca were all managed by local female employees called Poly-Glu Ladies.

In 2012, Oda established the Poly-Glu Social Business Co. Ltd., which specializes in public utility service in developing nations. He works with locals overseas for more than half the year to solve the serious issue of clean water, even though he is now over 70 years old.

Social Mission

Oda started the water-purifying business merely hoping to earn a lot of money. However, when he recognized that local people in the harsh environments of developing nations needed his technology, and as he watched the local people's happy faces when their dirty water turned clean with the PGα21Ca flocculant, he transformed his company into a sustainable business serving developing nations. In those days, he did not dream that his company's trials would be applied to the concepts of a social or BOP business.

By creating a business model that completely adapted the company's technology to the local people of developing nations, Oda created a global business Japan could be proud of. Chairman Oda continues to concentrate on the social aspect of the business. His goal is to purify all of the drinking water in the world.

Social Business

The firm still sells more of the PGα21Ca flocculant in Japan than in developing countries. The social business in developing countries standardly provides 200–300 tons of water per day for 20,000 people in a village of about 3,000–5,000 houses. A customer or family pays one dollar per month for ten liters of water. The water purifying system costs about 20,000 dollars and can be assembled in a week. Poly-Glu employs six Poly-Glu Boys and 20 Poly-Glu Ladies to run the social business, which returns a profit because it factors in a gross profit rate that exceeds 50%.

Social Innovation

The original water purifying system is a type of low-tech product invented through dialogue and trial and error with the local people, which Christensen et al. (2006) called catalytic innovation. This triumph of Japanese SE saved many local people's lives and created local jobs. It impressed many and raised awareness about SEs.

Discussion and Conclusion

This chapter has identified and examined major streams and characteristics of SE theory as they developed in Japan, and reviewed their strengths and weaknesses. To accomplish this, it summarized SE theories in Japan and their characteristics, resulting in the categorization of various studies into two groups. One set of studies are based on European discussions that compare SE theories from different countries, and other studies show an affinity for US discussions skewed toward a theoretical construction as applied in the field (non-profit ventures and corporations) from a management perspective. The concepts introduced by Tanimoto (2006) were presented as being similar to those of the discussions in the US.

Furthermore, I raised some challenges faced by SE in Japan, highlighted successful examples of companies that overcame them, and reviewed them using Tanimoto's (2006) concepts. Since I adopted examples of business creation processes of different types with needs- and seeds-based starting points, I would like to advance the discussion here by comparing these two companies. Moreover, I would like to discuss the strengths and weaknesses of Tanimoto's (2006) concepts, which have become prevalent in Japan, along with a review of factors in the companies' success.

TFT's social business is innovative because of its simple yet meaningful business model that calls supporters to action. The enterprise's easy-to-grasp concept and business model attract many top-notch youths and supporters, which have enabled it to grow to its current state. To start an enterprise based on needs, you must first refine its concept and business model at an early stage to portray a story that is both easily understandable and convincing.

In the case of Nippon Poly-Glu's origins, on the other hand, the company entered an area that needed the company's technology, adapted its business model to local situations, and discovered the compelling nature of local needs in the process. This enterprise then quickly embodied and strengthened its social mission through its business by helping desperate people. Seeing this small business doing all it could and the happy and grateful faces of the local people, the Japanese government and many other supporters showed their support and the company thrived. The company's unique technology and low-tech systems adapted to local needs, and its business model of hiring local people, were established after many trials and errors in the local market. Adaptation to on-the-spot local circumstances is likely to be a success factor in the case of companies founded on needs.

We have already noted that there have been discussions about the vagueness of the concept of SE, both globally and in Japan. Certainly, this conceptual vagueness is regarded as a weakness. There is no consensus regarding the fundamental differences between CSR efforts, not-for-profit charity work, and SEs. Without a consistent, agreed-upon way to define an SE, the potential of the concept is weakened. Especially when considering policy-making related to SE, this is a significant weakness.

However, a looser definition of these concepts also allows for broader interpretations, which can serve to inspire action in real life. This can be seen in the case of Nippon Poly-Glu, where the compassionate aspect of humanity gave birth to a social business from an area that previously knew nothing about these concepts. Concepts are important, but so is a discussion of how to nurture the essential beauty and goodness of human beings, and how to skillfully incorporate them into a business. Dey and Mason (2018) advocate the importance of a philosophical and academic approach to humanity in the study of SE.

In my interpretation of the case studies, I used the three requirements of social mission, social business, and social innovation, which can be called the Japanese SE concept. I recognize that these three requirements can exist in any organization, but that a weakness of these requirements is that they are vague. Yet massive social approval can occur when all three requirements are met properly and convincingly. The existence of such approval is the key to the execution of a social business that requires diverse resources. Defining the vague concepts of social mission, social business, and social innovation will reveal the most indispensable elements that will be the source for acquiring diverse resources and gaining the approval of society. Re-evaluating a business from the viewpoint of these three elements would be the most effective way to review the foundations of the business. Further examination will be needed regarding how SE theory and practice in Japan will develop by interacting with each other.

Questions

(1) What are the characteristics of SE theory in Japan?
(2) What are the "needs and seeds" starting points for social businesses? Name their differences and points for consideration.
(3) Summarize the key factors for success of the two cases discussed in this paper.

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25

CHALLENGES AND OPPORTUNITIES IN USING SOCIAL MEDIA TO PROMOTE CORPORATE SOCIAL RESPONSIBILITY

Itziar Castello

Introduction

New information and communication technologies are fundamentally transforming today's societies and also, therefore, the principles and practices of stakeholder engagement and ultimately the configuration of corporate social responsibility (Castells, 2009; Fieseler, Fleck, & Meckel, 2010; Huy & Shipilov, 2010). People and organizations increasingly communicate online. Millions of users on Facebook, YouTube, Twitter, Instagram, and other social media platforms spend hours chatting online, exchanging pictures and emojis, creating and uploading pictures, and receiving key information that frames their worldview. Companies are proactively producing blogs, YouTube videos, and Facebook pages. They also take advantage of crowd resources from social media platforms and engage in Twitter campaigns to communicate with a potential audience that is huge, global, and geographically dispersed. Millions of other organizations also populate social media platforms. NGOs such as Greenpeace publicize their campaigns through Facebook and Twitter and enroll people, urging them to donate. Activist groups organize massive actions online through internet platforms. Traditional mass media groups have also made social media platforms a key diffusion channel. Through online platforms, they are able to measure their audience very accurately and develop more concrete communication strategies. Digitalization is therefore at the heart of today's communication. In the past, face-to-face meetings had to be organized to discuss issues affecting stakeholders. Today, companies post a tweet and might hold a virtual conference meeting through more or less sophisticated online chat. We live in the age of digitalization and stakeholder engagement is already digitalized.

In this chapter, I argue that social media platforms and the digitalization of stakeholder engagements need to be researched in the light of four factors: first, the re-configuration of actors. "Stakeholders" is not the only way to define actors. Social media engagements generate other forms of actors that have been described as publics and echo chambers. Publics and echo chambers create a de-institutionalized arena of engagement. This arena also increases the complexity of engagements, opening up the possibility of more personal and individualized engagement. Second, I claim that social media have the potential to democratize engagement due to the low barriers to access, even if the actual realization of that democratic potential remains a challenge for most organizations. Third, I argue that organizations increasingly use symbols to enhance the emotional charge of their social media engagement. While more political and cognitive approaches to stakeholder engagement have been proposed, the analysis of emotions in social media corporate social responsibility (CSR) engagements can help to uncover not only a more effective enactment process for social causes but also forms of manipulation. Fourth, I discuss the opportunities and challenges of the accountability mechanism in social media platforms and reflect on the issues related to opacity and power, especially in relation to how information is transformed by algorithms. Finally, I suggest new research questions that could shed light on these new phenomena.

Actor De-Institutionalization: From Stakeholders to Publics and Echo Chambers

Social media platforms not only allow a multiplicity of actors to interact but can also transform them and the way they engage with each other. Therefore, the study of online engagements requires going beyond regarding the actors who participate in social media platforms as mere stakeholders to seeing them as public networks and echo chambers.

Within corporate responsibility research and practice, stakeholders have been the focal actors, and their characteristics and the forms of their engagements are traditionally the focus of CSR literature (Freeman, Harrison, C., Parmar, & de Colle, 2010). Stakeholders are defined as every actor with a stake in the focal organization. Actors are those that are impacted by or impact on the focal organization (Freeman, 1994). Stakeholders are institutionally constituted. They belong to an organization, for example, Greenpeace, and other actors have a common frame configured by the organization's communications. Organizations have been dealing with the complexities of sustainability issues through stakeholder engagement strategies. Stakeholder engagement strategies concern "the ability to establish trust-based collaborative relationships with a wide variety of stakeholders" (Sharma & Vredenburg, 1998: 735), such as customers, suppliers, employees, shareholders, financial institutions, competitors, international agreements, non-governmental organizations, the media, and government regulators (Buysse & Verbeke, 2003).

Social media interactions and engagements generate opportunities for new actors to become involved in the social engagements, which calls for a reconfiguration of the terminology describing the engagement processes. Communication theories describe actors and their online interrelations as networked publics. Building on Habermas (1984), Friedland, Hove, and Rojas (2006) define networked publics as the actors that constitute a networked structure of communication that involves a more open, reflexive, self-organized, and fluid public sphere, in which the presence of active publics and global networks challenges the idea of rational elites and the hierarchical orders of stable institutions. Publics are, for example, all the social media users that participate in conversations, or "comment," or are simply interested in and therefore "follow" a specific topic, for example, climate change.

Recent developments in social media platforms, such as the feeding algorithms that strengthen selective exposure by automatically channeling information to users based on their preferences, past consumption choices, and/or social connections (Pariser, 2011), open up new questions about how actors are configured and about how they make sense of information and therefore construct their engagements in social media. Algorithms reconfigure the actors and how they are constituted in social media because they change the way information is gathered and how choices and engagements are made. Two main elements modify the configuration of the information gathered by actors: first, social media users might be unaware that information has been pre-selected for them, paradoxically giving them the illusion of choice, while really only exposing them to a partial and preferential representation of reality (Etter, Ravasi, & Colleoni, 2019). Second, algorithms allow for the customizing of content to compete for the attention of atomized audiences (Doyle, 2013). The combined effect of these two factors is a decreasing overlap in the information and representations of reality that different users are exposed to and this, potentially, leads to the increasing fragmentation of audiences (Stroud, 2010; Webster & Ksiazek, 2012) and the polarization of views (Schultz, Castelló, & Morsing, 2013). An extreme manifestation of this fragmentation is so-called echo chambers—online spaces, such as fan forums or online activists' communities, that host exchanges among like-minded individuals who are sheltered from opposing views (Sunstein, 2017). Echo-chamber groups selectively frame resonant information that may reinforce the views they hold in common (Bitektine & Haack, 2015; Clemente & Roulet, 2015). As a result of these dynamics and the specific information steered by the algorithms, biased information may "echo" within the group, leading members to overstate the prominence of an issue or the extent to which their evaluations are shared by a broader public (Sunstein, 2017). An important consequence of these dynamics is that they eventually result in actors having completely different views on an issue that are polarized and irreconcilable with other groups of actors.

The influence of algorithmic social media communications means that engagement processes on sustainability issues become more conflictive and reaching consensus eventually becomes impossible (Schultz et al., 2013). An example of the consequences of the increased fragmentation of online engagements and polarization of actors is described by Albu and Etter (2016) using the case of the hashtag #mcdstories. #mcdstories originally attracted evaluations by both supporters and critics of the fast-food chain McDonald's. However, over time, negative sentiments took over and supporters gradually left the interactive arena and began to express their views in separate forums, such as the official Facebook page of McDonald's (Albu & Etter, 2016). Looking at publics and echo chambers as well as at stakeholders opens ups new possibilities for understanding the processes of engagement in social media.

Democratization Potential and Inclusion

A second factor that determines stakeholder engagement in social media platforms concerns how technological affordances challenge the way in which stakeholders are selected into the engagement processes. The first key question when organizing the engagements concerns whom to include in the process. The question of selection goes hand in hand with capacity for engagement. Engagement processes coordinated by companies or other organizations are resource-intensive in terms of time and money and therefore have to be prioritized and limited. Research on stakeholder theory has proposed principles of engagement to help companies prioritize salient stakeholders based on criteria such as power, legitimacy, and urgency (Mitchell, Angle, & Wood, 1997). Beyond strategic considerations, the literature on CSR has included normative considerations, particularly legitimacy issues, and their relation to representation and the inclusion of the voices of less powerful stakeholders.

Social media platforms, however, can include stakeholders who are traditionally considered to be unrepresented and powerless. In social media platforms, engagement processes become cheap and have a potentially unprecedented reach. Furthermore, social media provides a variety of ways for users to become interactive (Boyd, Golder, & Lotan, 2010). For example, users can identify certain members they are interested in following (friends), in which case they are notified if those members post new messages. Also, actors use social media to interact with each other directly in an ongoing conversation that sometimes results in an extended exchange, or actors can take action as simple and direct as retweeting tweets, which means taking a Twitter message someone else has posted and rebroadcasting it.

Studies of the use of social media by corporations have shown how companies are increasingly using social media to communicate CSR in a more dialogical way (Fieseler et al., 2010). Based on empirical findings on CSR blogs, Fieseler et al. (2010) propose the concept of "micro-dialogues" created between an organization and highly engaged audiences in online spaces. Micro-dialogues are based on participative media with "almost no gate-keeping mechanism, enabling conversations without formal hierarchies" (Fieseler et al., 2010: 610).

Scholars have emphasized the potential democratizing effects of increased public participation, the increased diversity and volume of discussion, and the availability of the online sphere as a deliberative venue where the voice of citizens can be heard (Blumler & Gurevitch, 2001; Papacharissi, 2004). The low barriers to access allow multiple stakeholders to participate and build their own conversation topics. Beyond such inclusion or democratic considerations, it has been noted that social media also holds promises of transparency and openness (Bertot, Jaeger, & Grimes, 2010) in that consumers and organizations can interact in a single dialogical and transparent communication environment that has the potential to allow the participants to gain trust (Bonsón & Flores, 2010).

The new more dialogical and transparent engagements between companies and their stakeholders open the way for companies to increase their knowledge of stakeholders' preferences and concerns and thus enable them to fine-tune their activities to meet changing demands and expectations. A closer and more relevant "stakeholder dialogue" would, in principle, work toward the common interests and concerns of companies, citizens, customers, investors, and employees. This dialogue has the character of both voluntary and involuntary communication; companies might have worked strategically to present their CSR efforts to different audiences or the audiences might have sought to turn others' attention to corporate ethics, such as unethical behavior. These self-selected audiences typically comprise either dedicated fans (such as Harley Davidson on Facebook) or very business-critical activists, as in the interactive media that point out corporate contributions—or rather, the lack thereof—to the world community (such as the Occupy movements in the USA and Europe) (Castelló & Barberá-Tomás, 2015).

The same low barriers to access that promise transparency by allowing multiple stakeholders to participate can also lead to problems of exclusion. Social media can indeed be a space for openness (Bertot, Jaeger, Munson, & Glaisyer, 2010) where people and organizations interact in the same dialogical and transparent communication environment, increasing trust amongst the parties (Bonsón, Torres, Royo, & Flores, 2012). However, social media is also a space for closeness and manipulation (Barberá-Tomás, Castelló, De Bakker, & Zietsma, 2019). Increasingly, companies are opting to centralize their engagements and to create controlled corporate stories. Challenged with the likely problem of a multiplicity of voices and messages, companies are arguing that plurality and inclusion in social media engagements can distort the image of the organization. Companies are therefore opting to replicate their traditional communication approach in social media, in which a central office of expert communication consultants build stories and through them construct the image of the organization. This new form of social media engagement, based on a journalistic storytelling approach, emphasizes firms' efforts to increase efficiency and impose an agenda, and views stakeholder engagement as a facet of impression management and public relations (Castelló & Etter, 2015). It also illustrates the limitations of dialogue in social media (Castelló, Morsing, & Schultz, 2013; Schultz et al., 2013) by pointing out that the arena is not immune from issues related to power and authority.

Symbols in Engagements and the Importance of Emotions

This centralized and journalistic approach leads to new opportunities but also presents new challenges for organizations willing to pursue stakeholder engagements. Social media have become a space in which communication can be focused and impactful. The affordances of social media bring new opportunities for multimodality, that is, textual discourses can be accompanied by visual images that help to guide interpretations. As Nisbet (2009) noted, it is not just visual symbols that matter, but also the frames in which they are presented. Thus, multimodality is a key resource to create sense for audiences (Höllerer, Jancsary, & Grafström, 2018; Zamparini & Lurati, 2017). Social media data feature brief exchanges without the benefit of nonverbal cues, and thus the combination of symbols and words becomes a very powerful part of the exchange. The use of images, emoticons, internet slang such as "LOL" (laughing out loud), and memes augment the ability to convey emotion to such an extent that social media is replete with emotions (Castelló, Etter, & Nielsen, 2016; Toubiana & Zietsma, 2017). In addition, such public and naturalistic digital data have significant advantages since they provide digital traces of in-the-moment reactions and interactions. As Barberá-Tomás, Castelló, De Bakker, and Zietsma (2019) argue, emotions are critical mechanisms affecting the enactment of messages, and visual images may be important for disrupting taken-for-granted beliefs. Social media, therefore, becomes a space in which different actors, including corporations, can push attractive causes using emotion-evoking symbols to spur people to action. Emotions research has shown how closely emotions are linked to persuasion (Jarvis, Goodrick, & Hudson, 2019), resonance (Giorgi, 2017), and identification (Polletta & Jasper, 2001). Barberá-Tomás et al. (2019) coin the term emotion-symbolic work, defined as the deliberate production and use of symbols, often multimodally, to manage the emotions and emotional energy of target actors in order to influence their actions. They describe how organizations can strategically manipulate their audiences through the use of emotions and the combination of words and symbols.

The use of symbols to represent organizations and their key messages takes the engagements to a level in which the representations gain more reach because they relate to past stories, emotional backgrounds, and cultural representations linked to the symbols. Since the symbols concentrate on the emotional aspect, they also enhance identification via feelings and intuitions rather than cognition. Emotions are therefore a key component of collective action (Aminzade & McAdam, 2002; Goodwin, Jasper, & Polletta, 2001) and are often used in practice to mobilize potential supporters by organizations working in social media. The use of symbols and emotions has the capacity to move people beyond cynicism to action. Emotions can be mobilized, on the one hand, by social organizations to build the necessary emotional energy for pro-social action, as Barberá-Tomás et al. (2019) explain via the case of the plastic pollution social movement that uses pictures of dead birds to emotionally impact its audiences. Positive emotions are also a key means of furthering a cause (Eyerman, 2005), particularly when the organizations are able to emotionally resonate with the public's collective identity (Rao, Morrill, & Zald, 2000).

On the other hand, the use of symbols and images can lead to the polarization and manipulation of the public. The use of negative emotions can lead to stigmatization of social groups, particularly when they are perceived as fringe or counter-normative to society, such as animal rights groups (Jarvis et al., 2019). Further, "strong emotions, such as moral outrage" may not be enough to motivate action (Reger, 2004: 206), while negative emotions can have paradoxical effects. Studies of the responses to climate change appeals question the extent to which negative emotions should be intentionally elicited in audiences, given that they can cause "denial, apathy, avoidance, and negative associations that may come as a result of coping with any unpleasant feelings evoked" (O'Neill & Nicholson-Cole, 2009: 376).

Real-Time Accountability and New Forms of Opacity

Social media technologies allow not only the possibility of increasing the number of communicative exchanges but also of recording, documenting, and measuring them. For example, it is becoming increasingly possible to measure and record social media engagements and relate them to measures of sentiment. New CSR corporate rankings based on sentiment measures are starting to become popular. While CSR rankings are not new, what is new is that the control of these assays is not, as hitherto, in the hands of a few key media players, such as the powerful *Financial Times* rankings systems. These new CSR reputation rankings based on sentient analysis are created by computerized participation, where the creation of fake accounts and mass information run by algorithms can distort the ranking. The lack of accountability related to algorithms makes it increasingly difficult for individuals, organizations, and policy-makers to query, understand, or meaningfully challenge CSR reputation rankings.

Opacity and the manipulation of data for reputational purposes are not the only accountability concerns. The increased concentration of the providers of communication spaces heightens suspicions about data misuse and control via datafication and secrecy. Corporations such as Google or Facebook use the data and information that emerge from the combination of digital technologies and everyday human interactions to monitor, predict, and modify human behavior, in order to produce revenue and enhance market control for themselves or other corporations (Zuboff, 2015).

New Avenues for Research on Social Media Engagements and the Analysis of the Dark Side of Digitalization

The transformation of stakeholders into publics and echo chambers, and the new democratization opportunities that are accompanied by manipulation through emotions, symbols, or algorithms are still not well understood in theoretical or empirical terms. The digitalization of engagements, therefore, opens up new avenues of research that look at the organization, processes, and practices of platforms. It also looks at the "dark" and unexpected sides of digitalization, that is, the issues that have so far been overlooked, ignored, or suppressed with regard to the digitalization of organizations and organizing (see Linstead, Maréchal, & Griffin, 2014). Further exploration of these dark and unexpected sides of digitalization is well suited to cross-disciplinary research and invites a degree of critical thinking that goes beyond established boundaries.

Interactivity and Democratization

The initial research on social media engagements focused on corporate websites and social media pages (Jahdi & Acikdilli, 2009). This research pointed out the lack of interactive features in webpages (Ángeles & Capriotti, 2009; Ingenhoff & Kölling, 2009; Insch, 2008). Similar findings apply to websites in general. For example, Taylor, Kent, and White (2001) found that many organizations were not using their websites in a dialogic way. Despite the high dialogical potential highlighted by researchers, companies were not interested in a direct and public discussion with customers over social media, opting instead for a more centralized system of communication. The barriers that diminish dialogic conversation in social media are still to be explored.

Initial accounts have identified internal organization issues such as staff limitations, time limitations, and the lack of support from board members. However, another factor is the control-oriented logic that dominates the engagements (Castelló et al., 2016). We have also seen an increasing quantity of research that looks at the development of guidelines that direct how an individual employee, being a company representative, must behave in social media. Although the new technologies have the lure of participation, transparency, and dialogue, there are many signs of strong forces that pull in another direction. This leads us to ask: What internal forces promote participation? How are these interrelated? How can reputation management and image creation be reconciled with such a multiplicity of engagements and actors? What interest can businesses have in real transparency and exposing themselves to the public, when this will inevitably make them vulnerable?

While social media, in theory, opens up endless possibilities for interactivity between a company and its dedicated and critical publics and echo chambers, the ways in which this interaction is actually happening in practice are still to be explored. How truly interested are those external audiences? What is their impact on corporate reputation and the financial bottom line? Studies indicate that, although the interactive media can raise public protest in concern over a company's unethical behavior, consumers have a tendency to forget criticism or repress their dislikes when faced with the inconvenience of modifying their consumption habits.

Also, the issues of democratization open up more critical questions, such as: Who wants to be a fan of Yahoo's green Facebook site? How viral are corporate discussions anyway? How many people actually engage in discussing corporate social and green initiatives? What are the repercussions of these engagements for new social or environmental causes?

Transparency, Accountability, and Responsibility

While studies point to the expanded marketing potential that companies can achieve through the ostensibly unlimited access to new users in social media, questions remain unanswered about the consequences and responsibilities of such access. For example, there is still room for exploring the reputational implications of a company's online efforts that are, in principle, subject to transparency and exposed to real-time commentary and criticism from both expected and unexpected audiences. Should companies be at all interested in the increased transparency and interactivity that the dynamism of the internet opens up to them?

Unfair outcomes of algorithmic decision-making can, for instance, include discriminatory hiring practices (Kim, 2014), biased sentencing in criminal trials (O'Neil, 2017), and the proliferation of fake news. Organizations and policy-makers are thus challenged to weigh the benefits of algorithmic decision-making (e.g. efficiency and productivity gains) against the risks of permanently institutionalizing non-interpretable decision-making processes. Scrutinizing algorithms and ensuring their accountability is a challenge. Systems should be programmed in ways that are explainable, accurate, and auditable. Also, there is a need to make algorithms comprehensible to external stakeholders through effective disclosure about how data is processed, such as through public "social impact statements" (Diakopoulos, Trielli, Stark, & Mussenden, 2018). Emerging normative frameworks from both the legal and public spheres have started to set benchmarks for algorithmic accountability, addressing both sides of this challenge. However, these frameworks are all but useless when attempting to manage self-learning algorithms that are in a constant process of evolution and whose processes are opaque by design. This independent agency of algorithms poses fundamental questions about accountability frameworks (Chopra & White, 2011). Questions on the nature of the algorithms arise, such as how to resolve the tension in self-learning algorithms between objects and subjects in their own right (Tene & Polonetsky, 2017). Which agency should be attributed? And in relation to the agency, what responsibility does it bear?

Identity Transformation and the Future of the Workplace

Finally, new questions also arise in relation to how digital technologies and their application in social media engagements relate to sense-making and identity at work. Social media platforms are now frequently used for collecting, storing, connecting, and disseminating data that may change the way individuals and organizations interact. Questions concerning not only the work processes affected but also whether the organizational structures will be impacted need to be answered to gain an understanding of the disruption that social media and platform technologies may effect in the future. Also, what are the implications for identity at work and its relation to how people feel and believe about their work routines? These questions are alive to the probability that social media technologies will change the way the workplace looks in the future.

Questions

(1) How can reputation management and image creation be reconciled in the light of the multiplicity of actors and polarized engagements?

(2) What interest can businesses have in real transparency and exposing themselves to the public, when this will inevitably make them vulnerable?

(3) How is social media influencing corporate engagement in social or environmental causes, for example, climate change?

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PART 7

Critical CSR and Future Directions

26

TOWARD FUTURE DIRECTIONS FOR CRITICAL CSR

Beyond Framing CSR as Strategic, Political, or Utopian

Laura J. Spence and Scott Taylor

Introduction: The Design of the CSR Garden

Corporate social responsibility (CSR) is both a corporate function and a research topic, and is understood analytically through an array of empirical materials and analytical positions. This is, in one way, admirable—there is evident potential for "productive indeterminacy" that allows a range of evidential and theoretical flowers to bloom (Van Maanen, 1995) in the CSR research garden. Such diversity should in principle enable debate, as provisional knowledges grow through the development and negotiation of useful forms of practical situational rationality. Theory and evidence could develop in dialog to produce nuanced understandings of corporate purpose and action in the area of social responsibility practice in organizations. However, echoing Wray-Bliss's (2016) account of business ethics, our reading here of the current state of CSR research suggests that there is a disappointing level of diversity in the garden, and remarkably low levels of dialog between the epistemic communities that have developed.

In particular, we identify how over-identification with one of three established referent points in CSR research has come to hinder theory development and dialog. We argue that the field is characterized by *either* a normative referent point in the reality of organizational strategy and its associated metrics, *or* a political conceptualization of corporations in a global and social context, *or* by an equally normative implicit hierarchy of ethical–unethical, with CSR positioned as inherently unethical. We suggest that, while they are not mutually exclusive, the overlap between the three approaches is infrequently explored. There is a marked lack of dialog between researchers adopting one or other of these three positions on CSR, to the detriment of all approaches, and to the detriment of the praxis of CSR. Our reading of the field suggests that uncritical "strategic CSR" can be dismissed as too easily co-opted, and therefore open to characterization as uncritically managerialist. "Political" CSR similarly can be co-opted in favor of a political contribution that benefits the corporation more than society, and supersedes democratically legitimate state interventions. Finally, more critical "utopian CSR" perspectives are too easily portrayed as impractical and therefore irrelevant to those struggling to make change happen within or around organizations.

In this analytical review, we consider two key dynamics. First, we examine modes of engagement between the three communities, noting the lack of "tactical" (Jacques, 1999) engagement on each side. This means that the producers of strategic CSR knowledge can lack credibility beyond dedicated corporate audiences with a strong interest in reproducing current structural conditions. Meanwhile, political CSR researchers overlook other contextual factors beyond the failure of state governance, and proponents of utopian CSR are unable to develop knowledge that has this-worldly plausibility because of their focus on the need for dramatic structural or political-economic change. Second, we explore the value of a critical lens across all three approaches to understanding CSR which we believe can help to bridge any epistemological, theoretical, or evidential gaps. If this divide and lack of dialog are seen as problematic, as we argue it should be, then bridging will involve a degree of political pragmatism for all researchers, with the clear intention of making what Edwards (2017) describes as concrete "small c" critical interventions in organizational theory and practice. We conclude the chapter with a set of material implications that the current divisions create, and note how the field of CSR research, education, and practice might benefit were the boundary between strategic, political, and utopian more permeable.

The Three Branches of CSR Research: Strategy, Politics, and Utopias

CSR has had a remarkable rise as a field of organizational practice and social research. This may be a function of what Edward Wray-Bliss (2016) calls the wider humanities and social science "turn to ethics" in the latter half of the twentieth century. However, as Wray-Bliss further notes, introducing the idea of an ethic or moral responsibility into the practice or study of organization tends to generate suspicion and "ethical anxiety" (Culbertson, 2013: 459) in both organizational members and researchers. This anxiety may be manifest in part in the "strong and strident critiques" (Wray-Bliss, 2016: 51), both academic and popular, that CSR and business ethics have been subject to, suggesting that the intersection of ethics and organization/management is as controversial in terms of constructing an epistemic community as it is for those practicing management in organizations. We attempt to understand this dynamic here, focusing on how and why there is such division within what could be one knowledge production community.

Fortunately, irascible oppositional debate on the ideal mode of knowledge production in this area does not diminish CSR's empirical presence in everyday workplace structures and managerial practices, nor in the popular imagination of what organization is, or could be, for. Even if the status of CSR initiatives remains relatively low compared to other managerial functions, and their material effects in practice are continually challenged, the term maintains a steady rhetorical and discursive presence and relatively high levels of corporate or social legitimacy. This is, we think, an outcome attributable to all three branches of research reviewed here (summarized in Table 26.1). Internally to organizations this status is, we would argue, a function of relatively uncritical strategic CSR and the educational presence of "business case" arguments that present CSR as a rightful organizational purpose in an instrumental sense. Externally to organizations, political CSR gives corporations a place on the global stage, positioning them as legitimate political actors, and mitigating the problems associated with weak or ineffectual governments by taking over some of their responsibilities. More idealistic utopian CSR perspectives generate a significant amount of public attention as they "expose" interesting contradictions and tensions or propose popular, often anti-corporate, socio-political programs for the future (Karam & Jamali, 2017).

Strategic CSR

The strategic CSR approach is the most prevalent in terms of quantity of research and corporate influence. It can be read as a reflection of the current dominance of neoliberal capitalist norms in society (Fotaki & Prasad, 2015). It revolves around the question of social responsibility's status as a credible business function (Gond & Nyberg, 2017) contributing to corporate profit. This involves the assumption that CSR is best "mainstreamed" on the understanding that corporations can take limited responsibility for externalities and reconcile this with the maximization of shareholder value (Crouch, 2006).

Table 26.1 Strategic, utopian, and political CSR

	Strategic CSR	*Political CSR*	*Utopian CSR*
Foundational idea	Positions CSR as part of strategic business decision making in pursuit of financial gain or corporate maintenance	Positions CSR as the provision of public goods by corporations	Positions CSR as an ideological project of ideas and ideals only fit for critique
Influential approaches, concepts, and theories	Strategic management; corporate social performance; creating shared value	Political science and legal studies; deliberative democracy; private governance; institutional theory and logic	Critical management studies, including "post-" perspectives; power; resistance; emancipation
Benefits	Presents CSR as a credible business function; enables claim of legitimacy in mainstream management literature, business practice, and policy	Presents business as responsible at the global level and attending to the shortfalls of weak government. Valuable in the understanding of multi-stakeholder initiatives	Suggests CSR may become an aspect of emancipatory action, polyvocality, and developmental action. Relates to social and political theory and incorporates non-financial and non-corporate outcomes
Limitations	Lack of clear empirical evidence for performance effects; rhetoric–reality gap; failure to integrate normative ethical thinking; reproduction of established structural conditions; unitarist in approach	Lacks democratic legitimacy despite acting in a state-like governance manner; lacks clear means of making good organization happen	Lacks clear means of making good organization happen; focus on either structural conditions or subjectivity; open to accusations of wishful thinking
Examples	Friedman (1970); Porter and Kramer (2011); Wood (1991)	Crane, Matten, and Moon (2008); Scherer and Palazzo (2007, 2011)	Banerjee (2014); Cederström and Marinetto (2013); Costas and Kärreman (2013)

As indicated in Table 26.1, this way of thinking is integral to strategic CSR, and is usually traced as a response to Friedman's (1970) brief articulation of the treatise that the "business of business is business" (Husted & de Jesus Salazar, 2006). Where social responsibility is in line with primary corporate goals (as Friedman arguably defines them), CSR can be said to be strategic, and therefore ideologically and politically legitimate.

Variants of this form of CSR, according to Vallentin and Spence (2017), include CSR responsiveness (Frederick, 1978/1994), corporate social performance (Wood, 1991), and stakeholder management (Freeman, 1984). Always popular with consultants, the populist pinnacle of this perspective is Porter and Kramer's (2011) *Harvard Business Review*-branded "creating shared value" framework. All of these variations on the strategic CSR theme point to the idea that there may be an economic business case for corporate encouragement of morally responsible action and/or social responsibility in a wider sense than just pursuing a narrow profit orientation, manifest in benefits such as cost and risk reduction, gaining competitive advantage, reputational gains, or synergistic value creation (Kurucz, Colbert, & Wheeler, 2008). This has been challenged from within the paradigm, often by problematizing the notion of strategy, such as in the work of Crane, Palazzo, Spence, and Matten (2014), Nijhof and Jeurissen (2010), Orlitzky, Louche, Gond, and Chapple (2017), and Vogel (2005).

The body of work on strategic CSR has much to commend it, especially in its legitimization of CSR as a politically credible concern for research and practice. Such framing of the crossover between contemporary business norms and ethics speaks clearly to policymakers, especially those promoting some form, *any* form, of wider social responsibility in profit-making organizations. The European Union, for instance, endorses the idea that CSR is a legitimate pursuit as long as it operates "in the interests of enterprises" (European Commission, 2017). However, the everyday effects of this research are, at best, contestable, with a broad consensus that action is decoupled from theory (Wickert, Scherer, & Spence, 2016). This means that there is a disconnect between claims of profit-making CSR potential and what is happening in practice in organizations. There is also a lack of interrogation of the taken-for-granted conventions of current dominant framings of market relations, leading to the accusation that this research assumes a political-economic vacuum within which CSR can be marketized (Crouch, 2006). Finally, it is important to note that these debates are locked within a "hard unitarist" framework (Edwards, 2017), and on the whole tend not to interact or engage with complementary or alternative perspectives which provide a range of legitimate pluralist contributions to discussions of CSR.

To summarize, we are suggesting that strategic CSR scholars are, to say the least, limiting their horizons by understanding socially responsible practice through focusing on strategy, the bottom line, and managerial interests. This is of course not an original observation (cf. Fleming & Banerjee, 2016, among many others). However, as Bergström and Diedrich (2011) argue, the current strategic CSR narrative is not a straightforward one where ethics fit into business, but rather a means of reinforcing the powerful position of the company. This position would benefit from consideration of different social actors' interests (Edwards, 2017), as a minimal but crucial first step in locating research in terms of moving towards much more meaningful practice or educational interventions. Rather, as Goldfarb (1990) suggests in relation to legal studies, research could begin with experience, then consider the morality of action, and through that develop morally grounded ethical principles.

Political CSR

Falling in some respects between instrumentally oriented strategic CSR and ideologically oriented utopian CSR sits the very popular approach of political CSR (Vallentin, 2015). For example, one of the primary protagonists of critical CSR, Andreas Scherer (2018), argues that it should and does have a critical edge against instrumental approaches, whereas Frynas and Stephens (2015) propose a somewhat value-neutral approach to political CSR, eschewing commitment to any normative perspective. It should also be acknowledged that there is a wider group of associated literature that sometimes gets bundled into political CSR which, we argue, could more accurately be described as politics *and* CSR, encompassing the role of government in steering social responsibility in corporations (e.g. Vallentin & Murillo 2012), and research around corporate political activity, including (responsible) lobbying of government by business (e.g. Anastasiadis, Moon, & Humphreys, 2018). Both of these approaches relate to corporate social responsibility, but deviate from the key idea as we see it of the corporate contribution to the public good, taking the role traditionally assigned to government. This is not a clean-cut division, since for example some corporate lobbying may be *for* the public good such as pressing for stronger legislation on climate change rather than *for* the corporate benefit such as limiting regulatory controls on salt and sugar content for a fast-food company.

Political CSR, then, has developed as a largely macro-level perspective drawing from political science, which understands the activities of corporations when they intervene in public issues (such as health, education, and public utility provision) as a form of private governance in a globalized world (Crane, Knights, & Starkey, 2008; Whelan 2012). Success is seen as the plugging of gaps left open by governments, taking the form of improved social and societal welfare. While some political CSR research is descriptive in nature, adopting explanatory frameworks of institutional theory and logics and stakeholder theory (Frynas & Stephens 2015), much of it is normative, being driven in particular by Habermasian (1990) deliberative democracy and social contract theory (Mäkinen & Kourula 2012; Scherer & Palazzo 2007; 2011).

While providing somewhat of a middle ground between instrumental and utopian approaches to CSR, political CSR has tended to be very narrowly focused on the activities of global multinational corporations in developing economy contexts. As Scherer, Rasche, Palazzo, and Spicer (2016) point out, the dominant approaches to political CSR overlook other types of business activity (state enterprises, small and medium-sized enterprises), shifting roles of government, and the increasing complexity of institutional contexts. We would argue that political CSR has in common with strategic CSR that it engages with the motivations of corporations, and in common with utopian CSR that in some instances at least it embodies normative claims, but it lacks the focus on praxis and architecture of good organization which we argue is needed.

Utopian CSR

The bundle of approaches we categorize as utopian CSR, also summarized in Table 26.1 above, often draw on critical management studies. This is especially manifest in underlying motivations from the political project to reveal the specific effects of power relations in organizational life (Fournier & Grey, 2000) and in the production of knowledge (Prasad, Prasad, Mills, & Helms Mills, 2016). We term these approaches utopian CSR because we interpret them as also informed by an underacknowledged feature in their construction of utopias. These utopias can be explicit, as when ideals of a very different political economy are recommended as an alternative base for practice (e.g. Fleming & Jones, 2013), or implicit, as when an unspecified neo-Marxist social-relational world is proposed (e.g. Parker, 1998). Such utopias are inherently unreal in a material and political sense—as Parker (1998: 90) argues, utopias are "ideas for our politics to aim at, not places we might ever live in—or indeed want to." However, studies adopting a utopian CSR frame often present ideals as practically aspirational, for managers, consumers, or policymakers. In this section, we, therefore, read utopian analyses of CSR and business ethics that lay claim to being critical as characterized by suspicion of ethics other than the idealistic (Wray-Bliss, 2016). We argue that this perspective on CSR presents "good organization" as an idyllic vision without a strong sense of context, which is as unhelpful as the uncritical strategic perspective and as removed from everyday practice as political CSR. Utopian CSR is particularly unhelpful in that experiences are rarely brought into dialog with analysis, with the aim of developing tentative rather than absolute knowledge (Goldfarb, 1990).

Foucauldian interpretations of power and political relations surrounding CSR are the cornerstone of the utopian approach. Prominent Foucauldian perspectives on CSR include analyses of how power relations (Bondy, 2008; Gond & Nyberg, 2017; McCarthy, 2017; Willmott, 2013), ethics (Crane, 2008; Wray-Bliss, 2016), freedom (Willmott, 2011), control (Costas & Kärreman, 2013; Karam & Jamali, 2017), identity (Morsing & Spence, 2019), and resistance (Fleming & Jones, 2013; Pullen & Rhodes, 2014) are variously created and practiced through technologies and mentalities of governmentality within CSR practice (Spence & Rinaldi, 2014). The central theme we find here is that the most readily observable systems and structures of CSR, which are said to signify everyday organizational life in strategic CSR, fail to acknowledge the narratives which lie in the minutiae of practice and micro-politics of lived experiences (Czarniawska, 1997).

However, utopian analyses tend to become equally detached from corporate practice or organizational action during the process of theorizing. Gond and Nyberg (2017), for example, following Wickert and Schaefer (2015), write of how the "emancipatory potential" of CSR can be uncovered through an improved understanding of the material aspects of power. This is a useful approach in principle, but it leads to the development of a generalized theory that distorts rather than informing practical change. This pattern of theorizing is also evident in analyses of the spread of functionalist CSR from Western developed country contexts mostly in the Global North, to the Global South, especially in postcolonial accounts of CSR frameworks. It has for instance been argued that a "true" CSR can only be realized through a process that "requires more voices in the governance of corporations and marks a significant shift in CSR from a corporation interacting with its stakeholders to a corporation itself becoming a stakeholder," rather than as a unitary guiding force (Banerjee, 2014: 85). This is a laudable principle, somewhat undermined by the presumption that material or political equity of actor and action can be achieved without difficulty. Experience, or action within organizations, and theory are perhaps better understood reflexively as dialectic, in which the personal and political intertwine, as do agency and structure.

An alternative critical, but no less utopian, perspective has developed by drawing on the work of social theorists associated with the Frankfurt School, particularly Jürgen Habermas (1990) in his writing on the moral consciousness and communicative action. Here, discourse ethics is the primary normative approach, in response to the historical, post-war European desire to promote full and open argumentation to which all concerned have access without prejudice of power positions, such that "normative content discovered in the pragmatic presuppositions of *argumentation* should have the power to *regulate action*" (Habermas, 1990: 86, emphasis in original). Again, we would suggest that this approach presents an idealistic discursive perspective on the relationship between practice and theory, and therefore tends towards the development of detached moral principles that agents are unlikely to be able to enact or embody. In short, it constructs another utopia that functions as an ideal that has to be realized before CSR can achieve its potential.

Other utopian perspectives which have received less attention draw on the work of Slavoj Žižek to suggest that false consciousness of ideology (Žižek, 2000, which forms the basis of Prasad and Holzinger's, 2013, extensive critical review) and forms of liberal communism (Žižek, 2008, cited in Cederström & Marinetto, 2013) should be the moral foundation of CSR practice. This falls within the utopian CSR perspective because of the idealized social and economic state that is constructed as an aspirational ideal.

In sum, then, our reading of utopian CSR approaches suggests that as a perspective it suffers from both political and practical deracination (Burletson & Grint, 1996), or lack of roots, which leaves research readers and organizational members searching for a means of making the good CSR implementing organizational ideal *happen* in this world. This is not simply to imply that these perspectives are impractical. Rather it is to observe that a critical utopian stance often fails "to draw the necessary conclusions from its own analysis: despite acknowledging the structural flaws of the concept of CSR, critics have hardly made any attempts to overcome it" (Sandoval, 2015: 608) beyond making calls for political-economic change. In other words, the intellectual analyst as a moralizing subject is separate from the action taken by those experiencing CSR initiatives, within and around corporations, including managers or those responsible for designing the initiatives. The result of that unreflexive separation is a lack of practical reasoning. This is, we argue, a fundamental problem with this way of thinking that locates it as an alternative form of wishful thinking that has no more credibility than the strategic literature.

The Possibility of Pragmatic Critical Interventions

Our review so far has been working towards the possibility of a different way of thinking about CSR as a practice and as research field. We have already introduced the idea that the lack of dialog between three groups of people with a strong interest in making CSR work is a political divide. Here we explore this further, and propose some shared purposes that may serve to enable dialog and progressive action.

Utopian approaches to analyzing CSR often draw on critical perspectives on organization and management, especially those commonly grouped under the label of critical management studies (CMS) as an epistemic community. This community is renowned for its ability to agonize over "making a difference" to practice, resulting in the production of a series of helpful proposals in this area. However, CMS is also a group that is frequently challenged for "wishful thinking" about organization and management, including (we would suggest) in relation to CSR's aims and potential. In this debate, *un*critical management studies (UMS; see Willmott, 2013: 283) hold the idea that knowledge within our field is produced *for* management, as a social group or as a purpose. UMS is, as Willmott notes, in a service agreement with those in positions of power, as well as being prone to a particular form of methodological and conceptual scientism. The power relations of knowledge production are ignored, in the pursuit of useful unbiased data and conceptual frameworks helpful to those in positions of power.

This division may seem unbridgeable—if UMS can only conceptualize power as an individual or group possession, and if CMS is unavoidably always concerned with identifying inevitable domination and oppression even in knowledge production and praxis, then there seems little space for dialog. Paul Edwards (2017) wrote a proposal into this gap, suggesting above all that an understanding of the "interests" actors bring is essential. We read this as a form of reflexivity, which can and must include reflexive awareness of the political-ethical aspects of actor engagement in research. This extends from the funder, via any gatekeepers and respondents, to the analyst and author (who may, of course, also develop a practice intervention as well). This kind of awareness, as Edwards argues, might help dialog to flourish across communities, ensuring that strategic and utopian approaches to understanding CSR achieve practical, productive, pluralist change for the better.

Conclusion: The Potential of Tactical Pluralism

This chapter is a deliberately provocative review of research published with the CSR label. The three main streams we have identified center, first, on the relationship of research with financial business strategy and performance, which we call strategic CSR; second, political CSR, which positions corporations as political actors enacting private governance; and third, utopian CSR research which suggests it should be interpreted as a controlling market mechanism to maintain or promote neoliberal capitalism. There is little dialog between the groups as protagonists in each community patrol the ontological, epistemological (Crouch, 2006), and ethico-political boundaries of their constructs. They are ideologically and politically distinctive, but not mutually exclusive in terms of how they construct a theory–practice distinction, as we have shown. Our key observation relates to how each approach neglects the possibility of reflexive critique which engages with the social construction of knowledge *within everyday organizational realities*. There are signs of hope in the emerging literature and one recent addition to the canon may offer a fruitful avenue for further studies by revealing internal workings of the organization via studies of micro-processes of CSR (Morsing & Roepstorff, 2015). In the critical tradition, Marjo Siltaoja and colleagues (2015) take a critical Foucauldian lens and seek to draw practical implications, but such developments are yet to dent the prevailing approaches in CSR.

So as things stand, the prevailing streams of CSR research each neglect the possibility of a context-sensitive empirically grounded account of CSR that encourages *simultaneous moral deliberation for researcher and researched*, which in turn encourages the development of ethical principles that are then retested in a subsequent iteration of "theory-generating practice" (Goldfarb, 1990: 1646). The identification and articulation of an alternative path is the conclusion of our review, which we suggest could significantly enhance our understanding of all CSR research and practice.

However, our overall purpose here has not just been to label, categorize, and critique. Rather, we want to begin to establish the foundation for a clear framework for another perspective on CSR, to indicate its productive potential to theory and practice (Edwards, 2017). With a basis in reflexive critique (Rhodes & Pullen, 2018), we want to show the potential for identification of a clearer way of working through concrete experiences toward a theory that can then be further developed in a "gradual, upward spiral" in which "experiences are…questioned, probed, examined, explored and analyzed, a process that produces tentative theoretical conceptions" (Goldfarb, 1990: 1646, 1614). We are suggesting a form of "dispositional ethics" which privileges responsiveness and receptivity to complex experiences over pre-given moral or political codes, "drawing attention to the practical challenges for ethics borne of being situated, relational actors" (Beausoleil, 2017: 292).

To do this, we have briefly reviewed key contributions to dominant strands of CSR research in its strategic, political, and utopian forms, to highlight how theory development is governed by taken-for-granted tropes and implicit binary hierarchies. We believe this has resulted in a gap between contributions and their implementation, and an unhappy relationship between theory and practice. There is, as Jacques (1999) argues in relation to human resource management research and as Edwards (2017) suggests for employment relations, considerable potential in considering whether there is a "missing middle," potentially productive other ways of thinking about theory, practice, and praxis (Foster & Wiebe, 2011) within which progressive action is the primary purpose, with effects on both organizational action and the intellectual agenda of the field.

Questions

(1) How might strategic, political, and critical CSR be engaged with outside the corporate sector? You could consider small- and medium-sized enterprises, state-owned enterprises, social enterprises, the public sector, and charities, and make a comparison between them.
(2) What dangers are there to adopting a strategic CSR approach? Do these limitations differ between the short and long term?
(3) What do you regard as the limitations and opportunities of calling for more of an engaged approach between theory and practice?

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27

TRAVELLED ROADS AND NOVEL VISTAS

Taking Stock of Empirical Studies into Tensions in Business Sustainability

Lutz Preuss, Jonatan Pinkse, Tobias Hahn, and Frank Figge

Introduction

Business sustainability is brimming with tensions as firms seek to balance often diverging economic, social, and environmental goals. As an empirical phenomenon, tensions around sustainability are widespread and they matter for decision-makers, within organizations and beyond. The questions then are how people perceive these tensions, what responses they envisage, and how they manage them. Therefore, in this chapter, we take stock of recent empirical work on paradoxical tensions in business sustainability that addresses these questions.

Much of the literature has sought to address sustainability tensions from the perspective of an instrumental logic where the economic dimension is prioritized over the other two (Salzmann, Ionescu-Somers, & Steger, 2005; Schaltegger, Hörisch, & Freeman, 2019). However, this approach—the business case for sustainability—plays down situations where environmental and social aspects do not align with financial outcomes. Given the ubiquity of such situations, it risks not doing full justice to the complexities surrounding business sustainability. By contrast, the integrative view of business sustainability (Gao & Bansal, 2013; Hahn, Figge, Pinkse, & Preuss, 2010) argues that firms need to embrace, rather than resolve, the tensions inherent in business sustainability and acknowledge the need to address different desirable but seemingly incompatible aspects of sustainability simultaneously, even if doing so appears contradictory (Hahn, Pinkse, Preuss, & Figge, 2015). Accepting and working through such tensions holds the promise of achieving superior business contributions to sustainable development (Joseph, Orlitzky, Gurd, Borland, & Lindgreen, 2019).

The integrative view of business sustainability has its theoretical basis in paradox theory. A paradox has been defined as "two contrary or even contradictory propositions [where] each proposition is incontestable, but taken together they seem to be inconsistent or incompatible" (Poole & Van de Ven, 1989: 563). Smith and Lewis (2011) present a foundational framework for the identification of tensions exemplified by paradoxes, consisting of performing, organizing, belonging, and learning paradoxes. Once paradoxical tensions have been acknowledged and identified, they can be managed. To manage paradoxes, Poole and Van de Ven (1989) propose a fourfold typology of spatial separation, temporal separation, synthesis, and opposition. While the first three aim to resolve the tension—by dealing with the competing elements through different organizational sub-units, addressing them one at a time, or by creating a novel perspective that unifies both horns of the paradox—the final approach encourages firms to live with the paradox and work through it (Hahn et al., 2015).

In recent years, the application of paradox theory has made considerable progress in management and organization studies. Following conceptual spadework (e.g., Lewis, 2000; Smith & Lewis, 2011), we have increasingly seen empirical work that has confirmed conceptual foundations as well as creating new insights (e.g., Jarzabkowski, Le, & Van de Ven, 2013; Sheep, Fairhurst, & Khazanchi, 2017). Parallel to this work, the conceptual foundations of the application of paradox theory to business sustainability have been strengthened too (Hahn, Figge, Pinkse, & Preuss, 2018). We now use the opportunity provided by writing this chapter to generate an overview of recent empirical work on paradoxical tensions in business sustainability.

According to Schad, Lewis, Raisch, and Smith (2016), paradoxical tensions can be captured through research into (1) their nature, the type of tensions they consist of, (2) the approach taken by individuals and organizations to deal with these tensions, and (3) the impact in terms of outcomes and dynamics that result from responding to paradoxical tensions. We apply this framework to structure our review into sections that discuss, respectively, empirical studies with a focus on:

- the identification of paradoxical tensions
- strategies to deal with these tensions
- the processes of responding to paradoxical tensions
- outcomes of the application of paradox strategies.

Identifying Paradoxical Tensions

A first group of studies focuses solely or primarily on identifying paradoxical tensions in business sustainability. As paradoxical tensions may be either latent or salient (Hahn & Knight, 2019), an important first step is that decision-makers acknowledge the existence of a paradox. Only once a paradox is identified and understood can the underlying tension(s) be managed (Hahn et al., 2015). Studies with a focus on the identification of tensions have covered a range of settings. From an initial focus on large firms (e.g., Kolk, 2012), they have expanded to cover small and medium enterprise owner-managers (Kiefhaber, Pavlovich, & Spraul, 2018), as well as public sector institutions (Sehnem, Martignago, Pereira, & Jabbour, 2019). Furthermore, they have begun to hone in on specific corporate functions, such as human resource management (Guerci & Carollo, 2016) and supply chain management (Fayezi, Zomorrodi, & Bals, 2018).

Content of Studies into Identifying Tensions

The empirical settings of these studies are firms in a range of industries, from manufacturing and chemicals through textiles, retailing, and business services (Guerci & Carollo, 2016). A study by Tura, Keränen, and Patala (2019) focused on the dynamics of an industrial cluster, examining how firms in various business-to-business markets collaborate with each other to reduce their collective environmental footprint. Interestingly, a particular incentive, in this case, came from the fact that the firms were all in mature industries and under great societal pressure to adopt more resource-efficient processes. Investigating a more unusual setting, a study by Brix-Asala, Hahn, and Seuring (2016) examined opportunities for the alleviation of extreme poverty for waste pickers in the reverse logistics value chain of potable drinking water sachets.

The paradoxical tensions these studies focus on are typically spelled out explicitly. In some cases, such tensions reside at the individual level, such as sustainability-related identities of small and medium enterprise owner-managers being shaped by the broader institutional context (Kiefhaber et al., 2018). Other studies discuss tensions that operate at the organizational level, like those between elements of a human resource management system, for example, performance management or employee compensation, and the firm's environmental performance (Guerci & Carollo, 2016). Yet other studies focus on value chains, such as a tension between cost-effective sourcing and supply transparency on social and environmental issues (Brix-Asala, Geisbüsch, Sauer, Schöpflin, & Zehendner, 2018). There is also attention at the supra-organizational level, for example, on tensions around instigating sustainability practices on the campus of a Brazilian university that is embedded in a neighborhood that places great emphasis on sustainability (Sehnem et al., 2019).

The vast majority of studies identify the bright side of paradox management, how overcoming tensions can be advantageous for tackling sustainability challenges and improving firm performance (Guerci & Carollo, 2016), or how engaging with paradoxes can become an opportunity for differentiation from mainstream players in an industry (Brix-Asala et al., 2018). Some studies research both positive and negative aspects of paradoxical tensions, such as the role of tensions in shaping and activating sustainability-related identities, while also being a potential source of conflict with other identities (Kiefhaber et al., 2018). Uniquely in this category, an article by Tura et al. (2019) focuses on the dark side of tensions: how organizational decisions aimed at improving collective wellbeing in an industrial cluster can lead to tensions and conflicts at the level of the individual firm.

Methodologies Used to Identify Tensions

All of the studies that primarily identify paradoxical tensions used a qualitative methodology, often semi-structured interviews, at times supplemented with documentary evidence and/or field-visit notes. A study by Brix-Asala et al. (2018) on sustainability tensions in the value chain of Fairphone fed results back to one of the firm's managers for validation of the identified tensions. The identification of tensions is often undertaken in an inductive fashion that follows the grounded theory approach (Strauss & Corbin, 1997) more or less rigidly (e.g., Tura et al., 2019). Other authors state that they conducted a combination of deductive and inductive data interpretation, starting with concepts from the literature and then watching out for the emergence of new themes in an ongoing analysis (e.g., Brix-Asala et al., 2016).

In the majority of the studies we considered for this section, the data analysis ended with the presentation of a list of tensions identified, in many cases condensed into a framework developed specifically from the study in question. Only in a few cases were these frameworks linked to prior literature, usually to the typology of organizational paradoxes by Smith and Lewis (2011), namely performing, organizing, belonging, and learning paradoxes. Less often, the empirically derived frameworks are linked to the framework by Hahn et al. (2015) that captures tensions in corporate sustainability as operating (1) between the three sustainability dimensions, that is, economic, social and environmental issues, which (2) reside at different levels, from the individual through the organizational to the systemic, and which (3) require change processes embedded in conflicting temporal or spatial frames (see e.g., Sehnem et al., 2019). In this context, Cunha and Putnam (2019) recently criticized organization studies scholars for using the Smith and Lewis framework as a fully developed a priori category system. They expressed the fear that doing so may lead to premature convergence on theoretical concepts as well as an overconfidence in dominant explanations. From our vantage point of looking over the literature on business sustainability, however, the field still seems far from converging on any particular framework.

In sum, studies that solely or primarily focus on identifying paradoxical tensions in corporate sustainability have covered an expanding empirical realm. They usually spell out what tension(s) they deal with, rather than leaving this implicit. Hence, there is compelling evidence that tensions in sustainability are a common phenomenon in a wide range of settings across different levels of analysis.

Strategies for Navigating Paradoxical Tensions

Our analysis of the empirical studies adopting a paradox perspective on business sustainability shows that many studies not only identify the nature of the (paradoxical) sustainability tensions but also the strategy/ies that firms adopt to manage these tensions. Often, these two are closely related: the nature of the tension influences what type of strategy firms use to manage the tension. As we found above for research identifying tensions, studies into strategies also all take a qualitative approach and offer inductively derived labels for the applied strategies. Nonetheless, there are clear patterns in the strategies. Even if scholars use new labels, they tend to be closely related to the foundational work of Poole and van de Ven (1989) on paradox management and to its application in Hahn et al.'s (2015) framework on tensions in corporate sustainability. Moreover, there seems to be a dichotomy in the strategies, where most studies focus on constructive approaches to navigating tensions while some focus on defensive approaches instead (Pinkse, Hahn, & Figge, 2019).

Constructive Strategies in Response to Tensions

A prerequisite to responding to tensions in a constructive way is for organizations first to acknowledge the tension and then to embrace it (Hahn et al., 2015). However, the acknowledgment of tensions is often taken for granted, as the focus of research in this field is on tensions, and scholars, therefore, tend to ask managers what tensions they face and how they manage these. Yet, the empirical studies we reviewed also came up with evidence that some organizations ignore the tensions around sustainability. For example, van Bommel (2018) studied organizations that tried to develop business models for sustainability and reported that some organizations in his sample simply ignored tensions or set them aside. Beyond ignoring tensions, the empirical literature found that acknowledgment of tensions was very common across sectors. In a study on the Australian forestry sector, Joseph, Borland, Orlitzky, and Lindgreen (2018) found, for example, that acknowledgment was widespread. However, the main difference between firms was whether they embraced these tensions and tried to manage them or avoided them instead. Daddi, Ceglia, Bianchi, and de Barcellos (2019) found leather-producing firms that did the same. These firms adapted their practices so they could avoid tensions that emerged from building circular business models (see below for more elaborate defensive strategies to avoid having to deal with tensions).

Jumping the step of acknowledgement, most studies looked into ways organizations embrace tensions and navigate between the poles of a paradox, using acceptance, separation, or synthesis strategies (Hahn et al., 2015; Poole & Van de Ven, 1989). Most common in the literature were separation and synthesis strategies. Structural or spatial separation—where different aspects of sustainability are allocated to different organizational units—was applied, for example, in the German social enterprise RWAG when implementing its social mission (Siegner, Pinkse, & Panwar, 2018). In their study on corporate social responsibility (CSR) management in firms, González-González, Bretones, González-Martínez, and Francés-Gómez (2019) found that such spatial separation was quite common in how managers thought about CSR. They noticed differentiation and segregation in CSR practices, reflected in dichotomies such as micro versus macro, small versus large firms, and central versus peripheral. Vallaster, Maon, Lindgreen, and Vanhamme (2019) observed how for-profit hybrid organizations implemented enabling organizational spaces to allow sustainability-related experimentation to develop in a protective space. Hence, spatial separation closely resembles the notion of ambidexterity, which has also been applied in a sustainability context (Hahn, Pinkse, Preuss, & Figge, 2016).

Temporal separation instead focuses more on the process of compartmentalizing issues as either being relevant for the short term or for the long term. In a study on firms active in the Canadian oil sands, Slawinski and Bansal (2015) found different ways in which firms balance opposing interests. Focusing on how these firms balanced short-term and long-term implications of climate change, they found that some *polarized* these temporal orientations. By seeing the time frames as separate from one another, they dealt with each separately and thus avoided the contradictions. In contrast, they also found firms that *juxtaposed* the time frames instead and assessed them simultaneously. As a consequence, the long-term implications of climate change started to have an influence on decisions in the short term. Such temporal separation strategies were also identified in the studies of Siegner et al. (2018), González-González et al. (2019), van Bommel (2018), and van Hille, de Bakker, Ferguson, and Groenewegen (2019).

Studies have also identified strategies that can collectively be labeled synthesis strategies. Most of these studies uncovered practices that organizations develop to bridge the differences between stakeholders and/or issues. Joseph et al. (2018: 16) found that forestry firms adopt "measures such as reforms to organizational structures, certification, buying strategies, and general operations that would perpetuate sustainability." Interestingly, they also discovered that the use of synthesis strategies to tackle specific tensions always leads to the emergence of new tensions, which leads to the adoption of more synthesis strategies to also tackle these. In their study on for-profit hybrids, Vallaster et al. (2019) identified a range of what they refer to as "tension-spanning micro-foundations or practices" that allow firms to address several tensions simultaneously. These practices include the adoption of *systems thinking*, allowing all people involved in decision making to see the "big picture"; *resilience building*, allowing organizational members to cope with unforeseen events; and *cross-vergence orchestration*, involving the managerial ability to build synergies between economic and environmental objectives. In a similar vein, Haffar and Searcy (2019) identified a synergetic approach to tension management. This approach consists of a range of practices including reflexivity, decision making, target setting, learning, and capabilities development that collectively allow managers to avoid binary thinking and to take a more integrative approach that reckons with various stakeholder needs.

Last but not least, acceptance strategies refer to an approach where organizations accept that tensions cannot be resolved easily. In cross-sector partnerships, for example, Ahmadsimab and Chowdhury (2019) found that—in the initial collaboration stage—partners embrace the differences in their values and objectives. By not making these differences an issue of contention, the partners are able to start learning about each other within the partnership, eventually leading to an adoption of separation and synthesis strategies. Acceptance strategies can also imply that organizations go back and forth between the two poles of the tension in order to balance them. In a study on the Forest Stewardship Council Netherlands, van Hille et al. (2019) found that this non-profit adopted a vacillation response. It jumped back and forth between *leading* a change in their partners' business activities towards the adoption of certified wood products and *facilitating* it. The organization was forced to vacillate as it had to manage the resistance that it faced from partners who felt that they were not ready for a sudden change.

Defensive Strategies

While the majority of studies considered response strategies from the perspective of navigating tensions constructively to advance sustainability objectives, there is also a strand of literature that emphasizes a defensive approach to tension management instead. As was hinted at already, organizations do not always embrace tensions but sometimes try to escape or avoid them instead (Daddi et al., 2019; Joseph et al., 2018; van Bommel, 2018). However, there are also studies that identify response strategies that are far more purposeful in terms of using tension management for defensive purposes, including avoidance (Carollo & Guerci, 2018; Ferns, Amaeshi, & Lambert, 2019; Iivonen, 2018; Pinkse et al., 2019). In a study that looks at how sustainability managers establish their identity in their organizations, Carollo and Guerci (2018) discovered that managers tend to use metaphors for such "identity work." Such metaphors are used in part to annul or deny tensions. That is, these managers use metaphors to express their orientation towards one pole of the tension only. For example, they identify as an outsider in their organization or a visionary with "messianic visions" to explain why they fail to have an impact on the sustainability strategy of the organization. However, in their study they also found examples of managers that were able to use metaphors as a way to bridge the poles instead, such as the "activist in a suit." Hence, metaphors were not exclusively used for defensive purposes.

By contrast, in their study on oil and gas supermajors, Ferns et al. (2019) identified a far more unequivocally defensive approach to tension management. Examining "CEO speak" on climate change, they found that oil and gas supermajors used myth-making as a defensive response to climate change. For example, they used the *techno-fix myth* to facilitate regression by referring back to historical practices to claim they could fix climate change through science and engineering; they used the *Promethean oil man myth* to create the fantasy that they are actually the solution to climate change; and the *climate partnerships myth* to project that they cannot do it alone but need to collaborate with others in the community.

Finally, two studies that focus on the food and drink industry's challenge of having to deal with the tension between their core business and the issue of obesity found a whole array of defensive approaches (Iivonen, 2018; Pinkse et al., 2019). In her study on Coca-Cola, Iivonen (2018: 318) shows how the firm "*does* acknowledge obesity as a societal issue, but it does *not* recognize the paradoxical tension between the issue and its economic goal." She labels this a defensive strategy of *repression* as it leads to the firm largely ignoring the tension. Similar to Ferns et al. (2019), she found that Coca-Cola also employed a strategy of regression, that is, of resorting to old solutions and existing routines by merely providing customers with more product options. Moreover, the firm constructs obesity as both complex and simple. For the firm, it is a complex issue to solve, but it claims that consumers can take relatively simple measures to address obesity. In other words, they *transfer* the responsibility for action to stakeholders outside the organization. Building on this study, Pinkse et al. (2019) labeled approaches by food and drink firms as accepting-defensive, indicating that the acceptance of a tension does not automatically lead to a constructive response. They found this approach to be pervasive across the food and drink industry and identified a range of responses that differ in terms of whether they deconstruct the tension (deactivating, shifting, appropriating) or reconstruct the tension (diluting, destabilizing, backgrounding).

Overall, the study of responses to sustainability tensions has unearthed a range of responses with many reoccurring in different contexts. As is common with such qualitative work, different scholars tend to use different labels for response strategies that are quite similar. The foundational work by Poole and Van de Ven (1989) has at least brought some structure to this field of study. As next steps, it will not be very worthwhile to continue identifying ever more strategies. Rather, to gain a better understanding of the strategies, it seems more fruitful to investigate the conditions under which organizations will engage in a constructive or a defensive approach and opt for specific acceptance, separation, or synthesis strategies.

Processes of Responding to Paradoxical Tensions

With regard to the processes through which organizations respond to paradoxical tensions, our analysis of the literature suggests that there is still a limited understanding of the contingencies of different responses to tensions in business sustainability and of the way these responses are implemented in different types of organizations and settings. Some empirical studies adopt a process approach and start exploring some of these questions. All of these studies use qualitative methods and most of them investigate tensions and responses at the organizational level. Adopting a process perspective and using a qualitative lens offers the opportunity to better understand the underlying mechanisms of how organizations and decision-makers respond to tensions. Such an approach represents an important step towards going beyond identifying categories and typologies of tensions and related responses in order to unpack how and when these responses actually work in different organizational settings.

Implementation of Responses

A common focus of recent empirical studies that adopt a process perspective on tensions in business sustainability is the implementation of sustainability initiatives in and by organizations. For instance, Hengst, Jarzabkowski, Hoegl, and Muethel (2020) studied the underlying practices that decision-makers use to implement a sustainability strategy alongside the mainstream business strategy. They identify three action cycles and related practices to address different tensions that occur in the implementation process. Accordingly, decision-makers address tensions between product features by adjusting, tensions between values through prioritizing, and tensions between goals by combining strategies in action. It is noteworthy that Hengst et al. (2020) found that tensions in the implementation of the sustainability strategy occurred despite the endorsement and legitimation of these strategies by top management. Hunoldt, Oertel, and Galander (2018) studied the implementation of CSR strategies among German energy suppliers and found four different strategies that CSR managers use to manage the tensions arising between different institutional logics in the implementation process. They highlight that the intensity of the application of these strategies and related outcomes depends on organizational characteristics, such as ownership structure, embeddedness of CSR in the organization, and most importantly executive support. In one of the few level-spanning studies, Soderstrom and Heinze (2019) found that entrepreneurs benefit from the ongoing support of collective organizations to move from paradoxical thinking to practicing sustainable business when facing paradoxical tensions between social, environmental, and economic goals. They highlight that collective organizations represent a coordination mechanism to amplify the efforts of individual entrepreneurs who struggle to address multiple sustainability goals alone.

Related to studies that focus on the practices and mechanisms to implement strategies in response to sustainability tensions, some authors have identified different phases or stages in an organization's responses to sustainability tensions. Marais, Reynaud, and Vilanova (2018) examined how firms manage competing demands for CSR over time. Using the example of Danone, they propose that temporal oscillation between tight and loose coupling is a way to implement CSR in the long run and they identify four different phases in managing the tension between actual and professed CSR. Koep (2017) reports similar findings from a study into the tensions between CSR action and CSR talk, and identifies three phases that organizations go through when responding to such tensions: denial, embrace, and transcendence.

Interestingly, most studies take it for granted that organizations and decision-makers acknowledge and accept tensions. Only a few authors question and problematize this assumption and highlight that unpacking responses to sustainability tensions needs to start with the construction of tensions since only the acceptance of tensions (as opposed to their denial) enables their proactive management (Hoffmann, 2018). While some studies identify denial of tensions as a starting point of a transition towards the management of sustainability tensions (Koep, 2017), Sharma and Jaiswal (2018) show that the trajectory is not necessarily towards a growing awareness and acceptance of tensions. By contrast, in their study of the implementation of bottom-of-the-pyramid projects in a pharmaceutical firm in India, they show that paradoxical views—and with them, the acceptance of tensions—can fall back into business views and the denial of tensions, especially when a manager's decision-making horizon switches towards the short term.

Dark Side or Bright Side?

Sharma and Jaiswal's (2018) findings point to another relevant issue. Many scholars have found that embracing and actively engaging with sustainability tensions actually results in proactive responses. Three of the studies discussed above found that engaging actively with tensions is beneficial, as collaborating (Soderstrom & Heinze, 2019), working through tensions in everyday practices (Hengst et al., 2020), and intensifying the application of responses to tensions (Hunoldt et al., 2018) were found to help with the implementation of sustainability strategies. In addition, Reinecke and Ansari (2015) identify temporal brokerage as a mechanism to negotiate competing time orientations in a fair-trade organization. They found that the ability to accommodate competing time orientations in the organization and the mutual appreciation of interdependencies between them are crucial for successfully achieving human development goals through a market-based model. The findings of Slawinski, Winsor, Mazutis, Schouten, and Smith (2019) even suggest that actively triggering place-based tensions in sustainability enhances their paradoxical and generative management.

However, some authors look at the dark side of addressing sustainability tensions. By studying tensions between different subcultures and related logics (business versus sustainability) in the context of the development of sustainability policies in a Dutch commercial bank, Kok, de Bakker, and Groenewegen (2019) found that amplified and magnified tensions negatively influenced sustainability policies and resulted in an impasse. Sharma and Jaiswal (2018) report that the implementation of a bottom-of-the-pyramid project failed because over time, decision-makers converged to a pure business logic, moving away from a paradoxical mindset. The study of Slawinski et al. (2019) also includes some evidence on the limitations and boundary conditions of triggering and working through paradoxical tensions in sustainability in that they found that a perceived strong power imbalance among actors might undermine the willingness to work through tensions collaboratively.

Overall, the study of responses to sustainability tensions through a process lens appears fruitful for a number of reasons (Jarzabkowski, Bednarek, & Lê, 2018). First, it offers the opportunity to gain a deeper understanding of the underlying mechanisms of various responses to such tensions. The work of Hengst et al. (2020) invites future studies on the practices organizational members apply to respond to sustainability tensions. At the same time, in-depth qualitative process studies represent a promising avenue to unveil the boundary conditions of different responses to paradox. The recent studies we discuss here imply that aspects such as power, ownership, time orientation, and executive support all play a role in determining the response to sustainability tensions. Future studies could identify the contingencies of responses to sustainability tensions more systematically. Doing so may prove valuable for discerning the conditions for generative versus detrimental responses to sustainability tensions.

Outcomes of Addressing Paradoxical Tensions

Research on business sustainability is dominated by contingency approaches. Contingency approaches ask the question under what conditions managers should emphasize one or the other aspect. Paradox theory posits a "both/and" alternative to this dominating "if/then" approach of contingency theory (Lewis & Smith, 2014). Our analysis suggests that existing research on the outcomes of addressing tensions in sustainability does not fully embrace this aspect of paradox theory but continues to separate rather than unite aspects. This is unfortunate as the simultaneous achievement of environmental, social, and economic goals both now and in the future is core to the idea of sustainable development (World Commission on Environment and Development, 1987). This idea has also been brought to the organizational level as the triple bottom line (Elkington, 1997). To become sustainable, society—as well as organizations—has to learn to juggle not only conflicting economic, environmental, and social demands but also expectations of present and future generations. Paradox theory is therefore particularly well equipped to address questions of sustainability at both the societal and the organizational level.

Paradoxical and Integrative Views as Enablers of Unbalanced Performance

Many scholars appear to see the primary value of paradoxical and integrative thinking as enablers of higher performance in a single performance dimension. The study of Lei, Wu, and Fu (2019) is a good example. In line with existing research, they postulate "that firms who place relatively high importance on sustainability in organizational cognitive frameworks assign a high priority to social, environmental, and economic issues" (Lei et al., 2019: 9). Consecutively, they link this cognition on sustainability to firm growth in general and financial performance in particular. Sustainability cognition becomes an enabler of financial performance and, thus, of a single dimension of sustainability only. Other authors argue in the opposite direction. Schneider and Clauß...(2019) suggest, for example, that firms that prioritize environmental and social objectives over economic objectives see economic viability as an "enabler" of their environmental and social goals. Both views have in common that they effectively subordinate some aspects under others. Rather than aiming for high economic, environmental, *and* social outcomes in their own right, they instrumentalize environmental and social performance to further economic growth (Lei et al., 2019) or see economic performance as a condition for the achievement of environmental and social goals (Schneider & Clauß, 2019).

Some other authors do take into account more than a single dimension but, rather than looking at outcome dimensions simultaneously, they link them instrumentally. Gao, Li, and Khan (2019), for example, link paradoxical cognition to environmental performance, which in turn leads to better financial performance. Rather than embracing paradox theory, this kind of instrumental research follows a long tradition of research that prioritizes one dimension and subordinates all remaining dimensions. To Gao et al. (2019), environmental performance is desirable because it leads to better financial performance.

Paradoxical Approaches for a Complex Relationship

Paradox theory is not only very well placed to address sustainability questions because of the normative demand for simultaneous outcomes in different dimensions; recent research on sustainability tensions also suggests that the relationship between the different sustainability dimensions is more complex than oftentimes assumed. Rogers, Carter, and Kwan (2019) look, for example, at preferences for cost savings, emission savings, and injury reductions in supply chains and contradict other recent research showing that economic matters dominate (Davis-Sramek, Thomas, & Fugate, 2018). Rogers et al. (2019) found that there is no simple hierarchy between the economic, social, and environmental dimensions of sustainability. While it is often assumed that the economic dimension will dominate over the social and environmental dimensions, they find that injury reduction scores highly compared to the other dimensions and that supply chain initiatives with medium scores across all three dimensions are deemed almost as acceptable as initiatives that score high on injury reduction and low on cost savings. Overall, this finding suggests that assuming that economic performance is the ultimate goal oversimplifies the complex preferences of decision-makers.

From the perspective of paradox research, this complexity of views and preferences can be an opportunity. Ashraf, Pinkse, Ahmadsimab, Ul-Haq, and Badar (2019) found for example that there is an inverted U-shaped relationship between the unity and diversity of cognitive frames and the sustainability performance of cross-sector partnerships. Exploiting different frames, therefore, has the potential to increase sustainability performance. Chen and Chen (2019) argue that instrumental and moral motives can complement each other. While moral motives can drive firms' commitment to environmental and social outcomes, instrumental motives can further economic outcomes. Joseph et al. (2019) take a more nuanced view on the common gospel, praising the role of integrative managers in achieving environmental and social performance, and argue that instrumental managers can play an important role in integrative firms to further environmental and social performance. Sajjad, Eweje, and Tappin (2020) point to different time scales of normative and instrumental logics. While instrumental logics help to embrace environmental and social initiatives in the short term, normative logics are important to secure long-term commitment.

In summary, research focusing on the outcomes of managing tensions points to the complexity of motives, views, and preferences regarding sustainability. Overly simplistic "if/then" relationships of contingency theoretical approaches are unable to grasp the full scale of the complexity managers and organizations are facing today. Paradox theory can help to navigate the tensions between economic, environmental, and social demands and between the present and the future. Extant research has only started to unlock the potential paradox research can have in this context.

Conclusions

Our review of recent empirical work on paradoxical tensions in business sustainability finds that authors have pushed their studies into new, more differentiated contexts, such as from sustainability tensions at the individual and organizational levels to tensions as they occur in specific corporate functions, such as human resource management and supply chain management. Studies into paradoxical tensions in sustainability are also becoming more fine-grained and increasingly contextualized and there is growing attention to a temporal perspective. Scholars could now build on this initial work and explore more explicitly whether paradoxical tensions and responses relating to specific corporate functions are qualitatively different—and if so how—to tensions and responses that operate at the overarching organizational level or whether they "merely" highlight the same tensions and responses as exist at the organizational level.

The identification of both tensions and responses to them, as we noted, has proceeded predominantly through the use of qualitative methodologies, often semi-structured interviews, at times supplemented with documentary evidence and/or field-visit notes. While this qualitative approach could be taken as an indication that the field is still in an early stage of development, future studies should take a more quantitative orientation, to establish frequencies of tensions occurring. With regard to data analysis, most research on the identification of tensions and strategies in response ended with the presentation of a list of the tensions identified. At close observation, many of the labels generated here tend to be rather similar to the foundational work of Poole and Van de Ven (1989). This can be read as an indication that Cunha and Putnam's (2019) fear that the frequent use of existing frameworks may lead to premature theoretical convergence is not that substantial, at least not for the field of business sustainability. At the same time, the current situation makes comparison across studies somewhat difficult; hence, more effort is needed to make empirical insights comparable.

Adopting a process perspective has perhaps been the most fruitful empirical avenue that scholars have recently taken to investigate the conditions under which organizations engage successfully with paradoxical tensions around sustainability. Interestingly, we noted here that most studies take it for granted that organizations and decision-makers acknowledge and accept tensions. Although there is a small strand of the literature that emphasizes a defensive aim in the management of tensions, only a few authors problematize this assumption and highlight that unpacking responses to sustainability tensions needs to start with their construction.

With regard to outcomes of managing paradoxical tensions, we found that the empirical studies we analyzed more often than not use paradox theory as a convenient extension of contingency theory rather than an alternative to it. As the overly simplistic "if/then" relationships of contingency-theoretical approaches are unable to grasp the high complexity of motives, views, and preferences regarding sustainability, we would urge scholars to make much better use of the "both/and" alternative to this dominating "if/then" approach of contingency theory that paradox theory offers (Lewis & Smith, 2014). In other words, paradox theory, as applied to business sustainability, could itself become rather more paradoxical in nature.

Finally, future research could address responses to sustainability tensions at different levels of analysis. While most of the extant studies address the organizational level, only a few focus on the individual level (e.g., Sharma & Jaiswal, 2018). Even rarer are level-spanning studies, such as the one by Soderstrom and Heinze (2019), who found that entrepreneurs benefit from the ongoing support of collective organizations to move from paradoxical thinking to practicing sustainable business. It thus seems particularly promising to investigate how responses to sustainability paradoxes play out across different levels (Soderstrom & Heinze, 2019) and through collaborative solutions (Slawinski et al., 2019) because doing so could capture the interwoven and nested nature of sustainability tensions.

Questions

(1) Are we really facing a paradox here? What exactly are the poles of the persistent tension that are at the same time interrelated and stand in opposition to each other?
(2) As the acknowledgement step is often assumed in paradox studies, are decision-makers really aware that they face a paradoxical tension?
(3) Can we make paradox studies more comparable? Where do new studies map onto existing frameworks—like the Poole and Van de Ven (1989) framework of separation, synthesis, and acceptance strategies, or the Smith and Lewis (2011) typology of performing, organizing, belonging, and learning paradoxes—and where and how do they go beyond these?
(4) As most studies to date have discussed paradoxical tensions at the organizational level, how do such tensions relate to other levels and what are the dynamics of tensions at different levels?
(5) In line with the integrative view of business sustainability, how can the management of paradoxical tensions lead to high economic, environmental, and social outcomes in their own right, rather than prioritizing only one dimension?

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28

ARE B CORPS REALLY THE ANSWER?

Addressing the Market Versus Social Logic Problem Through a Regenerative System of Good Dividends

Steve Kempster

Introduction

The need for businesses to embrace the responsibility for their social impact has arguably never been greater in terms of the perfect storm of systemically interconnected grand challenges. Climate change is significant, but it is just one of so many challenges: for example, more people displaced than ever in human history—estimates of over 70 million; more people in slavery than any time in human history; obscene and ever-increasing levels of inequality; an astonishing rate of loss of biodiversity and apocalyptic estimates of up to 50% extinction rates by the end of the century; and humanity at a tipping point regarding climate change. Drawn together, such challenges place significant question marks on assumptions that humanity will continue to flourish. It would be normal, perhaps even axiomatic, to assume that governments will intervene somehow. But this misses the reality of modern life. Of the top 200 entities (countries or corporations) over 150 are corporations—Amazon overtook New Zealand in 2018, while Walmart is bigger than Belgium and overtook Portugal this year! If we consider the top 1,000 entities (and there are only 195 UN-recognized countries) the importance of business becomes most striking (eight corporations account for 70% of global carbon emissions). That is of course nothing but the tip of an enormous iceberg. There are for example over 4.5 million businesses in the UK. It is perhaps only through the endeavors of businesses in the grand challenges, perhaps through the UN Sustainable Development Goals (SDGs), that humanity can continue to flourish. Governments can and need to provide the carrot and stick to enable this, but the real agenda lies with businesses; this is the necessary axis for action. Imagine a world of regenerative capacity of business with a comprehensive and global scope of influence. In some ways, such a view may feel like naive "radical hope" (Lear, 2006). But let me explain the argument that commences with the notion of regenerative capitalism drawn from a system of good dividends.

The thesis of the good dividends (Kempster, Maak, & Parry, 2019) is a simple theory of business (Donaldson & Walsh, 2015). The function of capitalism is to increase capital: all businesses have (at least) six capitals: financial, human, social, reputational, institutional/operational and planetary, encompassing community, environment, and indeed humanity. All capitals have the potential to be systemically interrelated, where increasing one can increase all. Through the enhancement of all capitals, including planetary capital, good dividends are manifested: good in the sense of larger, good in that they are designed to be regeneratively based (through the central role of social innovation); and good in the sense of being ethically rooted. The systemically based system is, thus, centered on seeking to enhance business value contemporaneously with realizing social impact (increasing planetary capital)—to do otherwise may reduce business value. The system is shown in Figure 28.1.

Figure 28.1 depicts a system. The system is interrelated and is dependent on the various capitals to operate. The more efficient, productive, effective, and ethical are the elements, and importantly the more interconnected the system, the greater the emergent property of the system. The system is offered as a theory of business that seeks to provoke attention to an alternative reframing of capitalism and, indeed, offer itself as a regenerative business model. I shall say more on this point further in the chapter.

Let us apply the regenerative business model of good dividends to the corporate giant Unilever. Through the Sustainable Living Plan Unilever seeks to "enable a billion people to live healthier lives" (Unilever, 2019). Paul Polman (CEO for ten years, until recently) made explicit the link between the Sustainable Living Plan and the enhancement of brand equity (and, thus, business value). The share price has increased by over 60% in the last five years (during the same time the FTSE increased by approximately 15%), alongside commitments across the business model to the enhancement of planetary capital. Unilever is but one of the millions of businesses capable of realizing a regenerative system of good dividends and through which planetary capital can be enhanced. If properly targeted (such as through the SDGs), enhancements to planetary capital could include tackling and perhaps helping to alleviate some, maybe many, of the grand challenges—certainly if enabled through government support.

A mechanism considered useful to Unilever, and also to Danone, is B Corps. Both Danone and Unilever are active within the B Corp Advisory Council for Multinationals, formed in 2015 to explore how multinational companies could become B Corp certified (Bauer & Umlas, 2017).

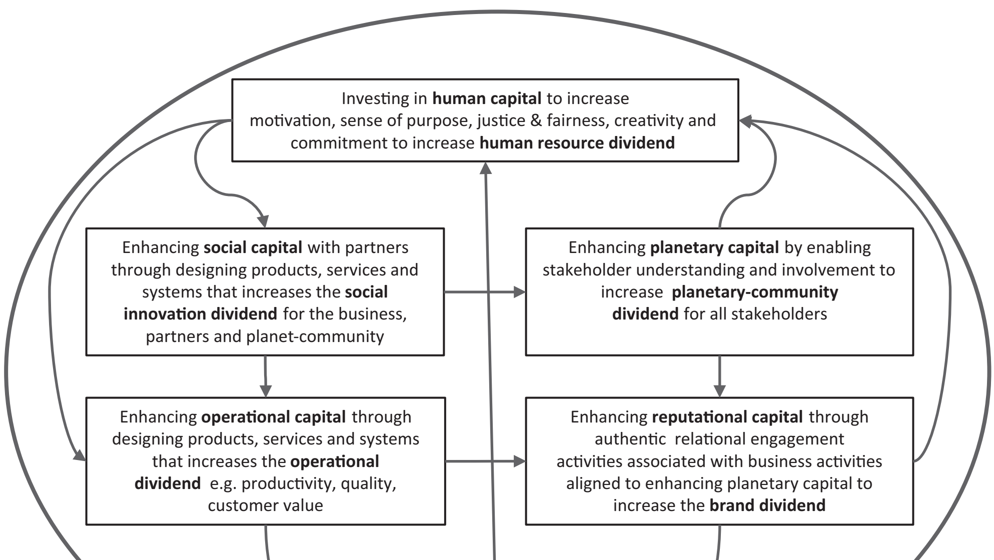

Figure 28.1 The system of good dividends

In this chapter, I shall address the idea of B Corps as a possible and potentially very useful mechanism for large and small, for-profit, hybrids, and social enterprises to realize good dividends as the enhancement of business value contemporaneously with realizing positive social impact. This is not simply a compromise approach to bridge social and market logics but a fundamental reframing of capitalism to regenerative business.

The chapter is structured in four parts. First, I wish to explore the notion of a theory of business as collective value offered by Donaldson and Walsh (2015). This provides a platform for viewing the discussion that follows. Second, I examine the notion of hybrid organizations that seek to balance profit with purpose; the summary is that the social logic dominates the business model. Third, the concept of the B Corp is critiqued. I will suggest that its design and application speak more to the symbolism of business as a force for good and a movement to give such influence a flag to rally around, than as a system to address the market and social logics. Fourth, I reintroduce the idea of good dividends as a reconceptualization of business as a system to undertake regenerative capitalism—fusing together the necessity of both logics being addressed. I conclude the chapter with some thoughts on the regenerative challenge that lies ahead.

Towards a Moral Theory of Business

The central argument of this chapter is that the challenges the world faces are likely to be addressed only through the engagement of business in partnership with governments. In this way, the role of business in society is a deeply moral paradox. The advances in society we have experienced are in major part the consequence of business. Yet, the grand challenges that have the potential to undermine society and humanity are also the consequence of business. Adam Smith argued that all businesses are "led by an invisible hand to promote an end [society] … By pursuing his own interests [maximizing capitals] he frequently promotes society" (1776/2012: 445). The ideas in *The Wealth of Nations* have been drawn on as foundational to notions of neoliberal capitalism. Through reading Smith's accompanying text *Theory of Moral Sentiments* (Smith, 1790) a different orientation can be brought to ideas of self-interest rooted in societal mores and virtue ethics. Perhaps never has the invisible hand been more required to guide the moral role of business to overtly realize the conjoined self and societal interests.

Donaldson and Walsh pose a useful question upfront in their thesis on the theory of business: "Law is to justice, as medicine is to health, like business is to …" (2015: 202). A common response, they suggest, is "profit." Perhaps that is most understandable. Certainly, the neoliberal agenda that predominates assumptions of business would, for the vast majority, does not question such an answer. I suggest that for business to be part of the solution to the grand challenges, profit needs to remain central. Perhaps the notion of moral (or regenerative) capitalism (Young, 2003) has never been more required; a sense of linking profit, purpose, and social impact together (Kempster et al., 2019)—hybrid businesses, and in particular B Corps, speaks to this. Moral capitalism is captured as seeking to replenish (and enhance) all the capitals of a business: financial, human resources, institutional, reputational, social, and planetary capital.

The general population's perception of the disconnect of business from society has never been greater (Gallup, 2018). For example, no more than 20% of people trust business leadership (Gallup, 2018). In major part, this disconnect is embodied in the neoliberal orientation to self, the short-term maximization of shareholder value, and the dominance of the theory of the firm shaped through transaction cost economics (Donaldson & Walsh, 2015). Reframed to MacIntyrean (1985) virtue ethics, this orientation reflects the production of external goods (profits, bonuses, etc.) at the exclusion of internal goods (aspects that enrich community, society, and humanity such as care, excellence of service, craftsmanship). The consequence is the diminution of purpose (or the loss of telos) in everyday organizational life. Donaldson and Walsh suggest that "the purpose of business is to optimize collective value" (2015: 195). Collective value is offered to be an "agglomeration" of stakeholders' value—more than separate parts but a systemic and interconnected whole. Donaldson and Walsh (2015) are unclear how such collective value (or collective purposes) can be developed or measured. Nevertheless, the meaning of business purpose as collective value is important for how it systemically connects proximate concerns of a business with wider distal concerns (2015: 185). The systemic and reciprocal relationship outlined here reflects the idea of a regenerative system of good dividends as the replenishment and enhancement of all six forms of capital. There is thus an overt connection within a theory of business to realize collective value: profit, place, and purpose as closely interwoven. Donaldson and Walsh conclude their work by completing the riddle: "Law is to justice, as medicine is to health, like business is to collective value" (2015: 202).

A new theory of business offers up possibilities of how good dividends, or collective value, could be generated; possibilities of how a theory of business can connect everyday business concerns with the grand challenges (both local and global) that face humanity; and, importantly, how such a theory of business can address the Achilles' heel of hybrid business models that have competing economic (neoliberal) logics and social logics.

Hybrid Organizations: Purpose Through Profit?

Researchers and commentators who examine hybrid forms of organizations appear to have a problem with profit. For example, Lopez-Navarro, Fuertes, Flor, and Cabedo (2018) offer an argument that business will not show interest in environmental or social aspects unless there is a relationship with profit: business is dominated by an instrumental logic. They argue for a change in logic, a change that gives emphasis to a social logic, and seem to despair with capitalism, and emphasize the need for a hybrid organizational format to address this problem. I shall interrogate this suggestion shortly. But first, I wish to emphasize that I have much sympathy with business leaders. Why would a business engage in aspects that reduce business value in a world that is dominated by a neoliberal agenda? Hence, the need for a new framing of business and a new framing of capitalism, outlined in the previous section. The issue of abandoning economic logic for a social logic is for me a simplism, particularly if reframing business towards realizing good dividends is to be achieved. First, I define the notion of logics associated with hybrid businesses and then outline the central issue with hybrid organizations: the clash of two logics—market versus social.

When using the idea of logics I draw on the ideas of Thornton and Ocasio (1999: 804) where logics are implicit rules that guide attention and framing of issues and subsequent action. Castellas, Stubbs, and Ambrosini (2019) suggest logics are a form of socially constructed understanding, sense-making, and alignment of thought and action. Typically, each logic is accompanied by institutional forms of assumptions and structures. It is thus understandable why businesses become fixed to a certain logic and attempt to fit approaches to such logic. Indeed, academics do a similar thing in the sense they have of themselves being aligned to one or another logic and interpreting empirical data through logic frames. In this way, ideas of bridging two logics appear to researchers as potentially incommensurable: business serves the market logic, and not-for-profits societal needs. For example, Smith, Gonin, and Besharov (2013) and similarly Besharov and Smith (2014) suggest that a business seeking to address these two logics will be caught by an oscillating tension. This will be the same for hybrids that are set up to serve a social need.

Castellas et al. (2019) speak of hybrid logic tensions and seek to offer how these tensions could be resolved by emphasizing one logic rather than both. They are not alone with this view (see Battilana & Dorado, 2010; Mair, Mayer, & Lutz, 2015). The literature is caught up with the sense that hybrids are constructed with conflicting rationalities (Kraatz & Block, 2008) and contradictions (Pache & Santos, 2010).

Castellas et al. (2019) do suggest a pathway through this conflict by examining stakeholder value: on the one hand stakeholder values might be incommensurate and thus competing, or on the other hand interdependent and reinforcing each other. Interdependence appears to be a precondition shaping governance to generate pluralism of values across stakeholders. Even though Castellas et al. emphasize values aggregation there is a limited conviction to this idea because they continue to speak of this aggregation as a process of managing competing logics. The fundamental problem of hybrids appears to be associated with the assumption that hybrids have been set up as a mechanism to address social or environmental problems. For example, Santos, Pache, and Birkholz (2015) speak to the need to align profit interest with social impact; but then comment that hybrids have problems in growth and scaling up because there is a lack of interest in profit—growth is simply a necessary requirement to help to address the social or environmental concern and profit is simply a process of addressing the social or environmental problem. In contrast, they suggest that traditional commercial firms engage in social and environmental needs when the firm has "organisational slack and [high] profits."

Stubbs (2017), in addressing B Corps as a form of hybrid, orientates profit as a means rather than an end, viewing the business as more of a movement than a way of doing business. In part, her findings speak to a dataset of social entrepreneurs pursuing a societal purpose with profit as a necessary "evil," resisting the corrupting influence of neoliberal capitalism and all its ills. The manifestation of such an orientation problematizes the issue of growth. Before I comment on growth and hybrids, I wish to make salient the opportunity that social entrepreneurship offers to bridge the economic logic with the social logic. The example of Elvis and Kress (Kirkup & Illes, 2019) speaks loud to the point that the tensions of the two logics may be misplaced if the orientation to profit is reframed as one of a set of integrated capitals that need to be replenished—enhancing all capitals is good business; it generates good dividends for the business and society.

Viewing hybrids and growth through a strategic lens, Haigh and Hoffman (2012) suggest a successful hybrid small to medium enterprise will seek to replicate its business model rather than grow itself into an established corporation because this is antithetical to the purpose of the hybrid. The essence of concern is that a social logic will dominate activities: can you serve "two masters for either [s]he will hate the one and love the other; or else [s]he will hold to the one and despise the other" (Blount & Offei-Danso, 2013: 618).

But the logic problem is similar on the for-profit side as well. The manifestation of societal purpose in everyday activities has been shown to be problematic (Kempster, Jackson, & Conroy, 2011). Posing questions with regard to the purpose of a for-profit business seems evident in the title! Profit! Kempster et al. (2011) describe a triple problem of engaging in purpose-centric discourse: first, managers are not clear what the purpose of the business is beyond profit; second, they do not know how to engage in such a conversation—it is an awkward experience; third, those following do not expect a discourse on purpose within the for-profit context. So, if this is the expectation within the leadership relationship it rather points to the fundamental dominance of a market logic in everyday business discourses. There is much evidence that the few businesses that are highlighted to be purpose-driven outperform their peers over the medium- to long-term (Robinson-Hickman & Sorenson, 2014). Indeed, the share growth earlier highlighted of Unilever, centered on the Sustainable Living Plan, illustrates how a major for-profit corporation can embrace purpose as integral to the business model. But there are relatively few for-profit firms that understand and embrace how to link business value with social impact in their business model.

At the heart of the hybrid dual logic dilemma (for traditional commercial- and social-oriented businesses) is the fiduciary duty issue: is there flexibility for management to resolve the conflicts of logics? Within the dominant Anglo-Saxon model of governance (Ahmad & Omar, 2016) primacy is given to shareholders, typically aligned to state legal requirements. Blount and Offei-Danso (2013) suggest that there is much greater flexibility than the dominant discourse of serving shareholders suggests. They suggest that in practice the fiduciary duty is flexible to management discretion under the "business judgement rule" where management can "undertake acts in good faith and rational purpose" (2013: 636). This is of significance to my earlier argument about pursuing a regenerative system of good dividends, and enhancing the six capitals, including planetary capital, in good faith and with a clear rationale. Through seeking to systemically connect and replenish all capitals, all stakeholders can be balanced to maximize collective value—where profit is not compromised but rather as a means to reconcile conflicting stakeholder interests (Blount & Offei-Danso, 2013).

Through majority voting a business can amend its articles of association to give attention to social and environmental concerns of the business in systemic balance to other stakeholder needs. In a traditional commercial firm, shareholders could contract amongst themselves and with the corporation to ensure the social interest is pursued. Indeed, Blount and Offei-Danso (2013) highlight that shareholders could limit any investor seeking to acquire a controlling share by moving away from the social mission. This argument is offered to illustrate that every business can choose how to maximize its capitals—including planetary capital—and perhaps B Corps are a "questionable solution to a non-existent problem?" (Blount & Offei-Danso, 2013: 617).

B Corps: Merging the Two Logics?

B Corps are seen as a prominent new form of hybrid business that seeks to address the dual logic problem (Lopez-Navarro et al., 2018). B Corps accompany a number of similar models: L3C Statute, flexible purpose corporation, community interest corporations (UK), and social purpose company (Belgium) (Stubbs, 2017). B Corp was formed in 2006, in part as a movement towards social and environmental responsibility, in part as a structure to redefine success in business to be a force for good, and in part to connect the private sector to people and place.

But first, let us distinguish between a Benefit Corporation and a B Corp. The Benefit Corporation is a legal form of incorporation that makes explicit the requirement to jointly pursue profit and social benefit. There are just a few countries in the world that permit the incorporation of a Benefit Corporation—Brazil, Canada, recently Italy, and, notably, many states in the US. So, the key entities I am referring to are B Corps which manifest as certified companies. There are presently just over 2,500 B Corps certified in the world (B Lab, 2018). There has been a growing interest in certification and this number must be seen as most conservative. Part of the reason for the seemingly ever-increasing number of businesses seeking certification is a marketing logic: certification provides a third-party independent standard by which customers can be assured that a business seeks to generate positive social impact; and is governed by an explicit sense of responsibility to its suppliers, employees, the community, and the environment—a form of authentic identity. But another major reason is that becoming certified reflects a desire by owners and directors to be part of a social movement for business to be a force for good (Kim, Karlesky, Myers, & Schifeling, 2016).

Space in this chapter does not permit a detailed examination of the processes of certification; but, in essence, there are five areas in which a business must provide evidence of performance: governance, workers, community, environment, and customers. Points are given in each section but a minimum score of 80 is required to join the B Corp community and become registered. Signing the B Corporation Declaration of Interdependence is mandatory along with amending the company's articles of association to include a commitment to stakeholder interests and the triple bottom line (Cao, Gehman, & Grimes, 2017). Through such a mechanism it is anticipated that aspects of the triple bottom line become part of the fiduciary duty of the business. If Benefit Corporation status is available in the certified business's country there is a requirement for the business to adopt this legal form (Cao et al., 2017).

So does B Corp certification add business value, create social impact, and create a force for good? There is very little academic research to answer this question. Stubbs (2017) comments that the approach to B Corp certification does not examine the business functions (not an interdisciplinary orientation) but rather focuses on broad topics such as governance, workers (rights, conditions/environment), community practices, and the impact of the business on the environment. It is anticipated that this approach will integrate the economic and social logics to achieve the vision of "people using business as a force for good" in order that businesses seek to be the best in the world and be *the best for the world* (B Lab, 2019).

Stubbs (2017) did examine the business models of the B Corps she studied. She found that the business models commonly gave prominence to social and environmental concerns embedded in mission and purpose with a dominant objective of creating social impact. This orientation reflects the focus of the accreditation—an emphasis on how the business impacts on employees in terms of work practices, and the impact on communities and the environment, and how governance achieves the same. There is some overlap with the capitals of the good dividends (human resources, planet, and communities, and, to an extent, operational improvements oriented to minimizing impact to the environment; and customers do get a mention if products/services address a social problem). However, there is very little evaluation of B Corps in terms of performance with regard to financial, operational, brand development, and human resources. Of the little research, Chen and Kelly (2014) compared a sample of certified B Corps and a sample of traditional businesses in the New York area over a specific time period. They suggest that B Corps' revenue growth did exceed the traditional firms. However, regarding productivity, there was no statistical difference. There was no data speaking to earnings and growth of earnings.

So the jury is firmly out as to whether the two logics have been addressed through businesses becoming B Corps. I would assert it is unlikely that simply meeting the criteria for B Corp certification will remove the tension between the two logics. Santos et al. (2015) suggest B Corps, other hybrids, and indeed all businesses need to revise their business models to address business, social, and environmental concerns. Stubbs echoes similar sentiments and aptly asserts that "aligning business value and social impact is key leadership demand for the 21st century" (2017: 299). But there is no clear understanding of how hybrids, including B Corps, should revise their business models to enable business value and social impact to mutually reinforce each other.

Redefining Value to Reframe the Two Logics: Good Dividends and Regenerative Capitalism

There has been a dearth of attention toward offering alternative business models to address the two logics problem. Stubbs (2017) recognizes the problem and, following her detailed work examining B Corps, she offers the suggestion of the sustainability business model (drawing on Stubbs & Cocklin, 2008; Haigh & Hoffman, 2012). This model emphasizes the integration of value-generating aspects of the business model, and suggests the need for the model to go beyond sustainability through investing in social and natural capital. However, Stubbs offers doubts as to whether B Corps are capable of being scaled because of the fundamental need for the model to be focused on purpose through profit—the assumption here is that profit is subordinate to the mission. Although I have much alignment with this assumption it does rather pre-set an orientation toward the pre-eminence of the social logic of value. This is problematic. There has to be a reframing of how we interpret business, value, business models, and indeed capitalism otherwise the persistent and limited engagements of business with planetary and community concerns will remain on the periphery. Hybrids will continue to feel special for doing good but have limited impact, and a few traditional commercial firms will continue to offer philanthropy to the crises of humanity. We need to reframe the issue. Drawing from an idea by Marmer (2012), in Figure 28.2 I illustrate diagrammatically a summary of the debates in this chapter and also a possible way forward.

The essence of Figure 28.2 suggests that the social logic and economic logic sit alongside notions of degeneration (ecosystem decline) and regeneration (ecosystem enhancement). Organizations work within ecosystems, and the business and the ecosystem are interconnected by place (local and global). Figure 28.1 showed the interrelationship of the dividends of an organization systemically interwoven with place, that is, the planetary dividend as an integral aspect of the business model. In this way social impact and economic value are integral. And it is anticipated

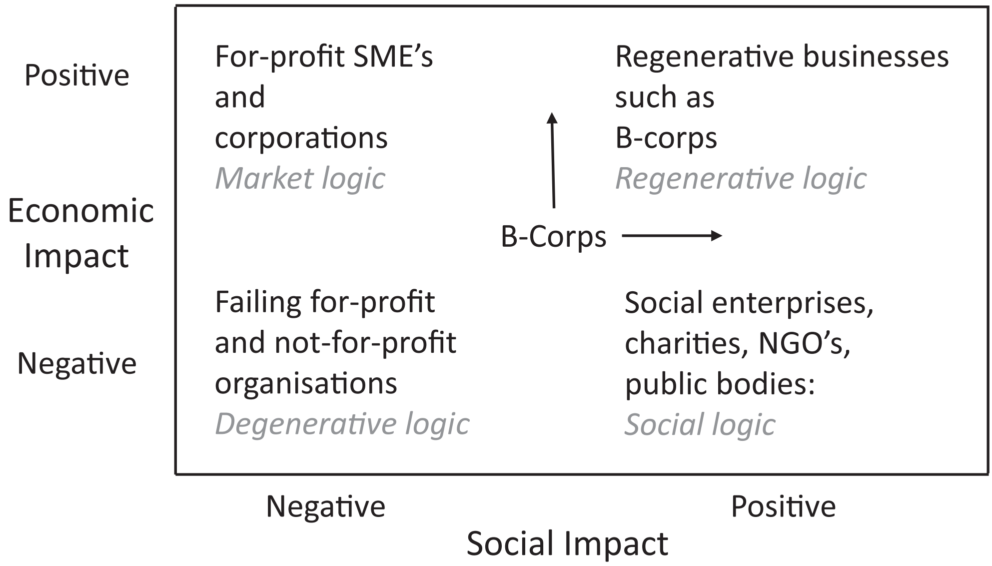

Figure 28.2 B-corps and competing logics

that such a systemic business model has a regenerative capacity. The reframing I shall explore here will be a reframing of value and the business model, but also a reframing of sustainability towards regeneration, and as a consequence, I shall offer a reframing of capitalism to regenerative capitalism.

We need to reset our assumptions of value within the business context. For example, and focusing on the relationship between financial capital and human resource capital, within the accounting frame the value of human resources is excluded from the balance sheet. Despite human resources being almost universally heralded by CEOs as "our most important asset," very few corporations give attention to such value in their financial disclosures (Young, Rawsthorne, & Hildyard, 2019). Yet in the S&P 500 "of the 75 firms in the US who did undertake voluntary disclosure [of people costs] these were to be found in the top 20% of performing firms as measured by earnings" (Hesketh, 2019: 172). Hesketh argues that the iron cage of the accounting reporting obsession with tangibles (what the profession can get their hands on!) is out of date to the needs of business and society. He calls for a re-evaluation of value; emphasizing both tangible and intangible forms of value that constitute the good dividends (2019: 167). In this way business value also encompasses the needs of society, embracing Adam Smith's notion of the "invisible hand." But value in terms of profit need not be subservient. The key is to reframe value in a supererogatory manner (Hesketh, 2019), one that integrates various aspects of value into a systemic whole—financial, operational, reputational, social, human, and planetary—to generate an emergent property that reflects business value more in terms of systemic long-term health than short-term wealth (Hesketh, 2019: 165).

Viewed as a system of good dividends, this emergent outcome might be termed regenerative capitalism through integrating all aspects of tangible and intangible values (or capitals). The notion of regeneration reflects emerging discourses of the regenerative economy (Lieder & Rashid, 2016; Fullerton, 2015): a systemic appreciation that seeks to connect together inputs and outputs; nature, society, and the environment as assets that have a value that needs to be integral to an understanding of economic growth. Growth viewed through a regenerative lens emphasizes health and vitality, efficiency (the importance of scale), and symbiotic connectedness:

> A healthy plant, animal, or human must grow to full stature. One can even say something similar of a community, which, unless it reaches a certain threshold of size and productive capacity, cannot expect to provide the range of services required in order to offer a satisfying life to each of its members. But in any such unit of growth, one must distinguish optimum from maximum. Optimum growth for any living entity is part of what constitutes fulfilment of its potential. Anything above optimum, however, is pathological: the organism, whether an individual or a community, suffers disequilibrium either among its component parts or between itself and its environment [or both].
>
> *(Wallis, 2009: 39)*

Going beyond sustainability towards regeneration implies a process to do more than avoiding harm and seeking zero emissions. Rather a regenerative system (which mimics natural systems) seeks to take the outputs (such as waste or carbon) from one process and use these as inputs into another (drawing on the argument for closed-loop systems). Regenerative capacity would address today's needs in ways that improve the underlying system. For example, with regard to the environment, it would involve developing the economy "in ways that result in more rainforests, more fertile soils, restocked fisheries, clean and abundant aquifers and streams, a cleaner atmosphere, and even more biodiversity" (Gabel, 2015: 1). The recent announcement from InterfaceFlor (a multinational corporation that manufactures carpet tiles) that it is moving from a focus on zero emissions to seeking to become carbon positive in their approach to manufacture (to use carbon as an input in the process) is such an example of seeking to explore a systemic orientation to a regenerative business model.

The regenerative approach is equally applicable to social challenges. I have been working with a facilities management business. Their problem was not in winning contracts but with recruiting and retaining employees—the nature of the sector is connected with relatively low remuneration and people use employment as a first step to enhance their CVs and move to "better" employment. Modern slavery is a global issue and is manifest in the northwest of England. Exploring the good dividends system, the business has opened up detailed conversations with local charities engaged in addressing modern slavery. The direction of travel is to develop partnerships with the charities where the business provides employment opportunities and the charities provide associated supportive activities (such as housing, legal, and education). At the same time, the business is engaging the workforce, and indeed raising awareness with its customers, into the issues of modern slavery. It is anticipated that the business and its partner charities (and maybe some customers) will participate in a collaborative event (Kempster, Guthey, & Uhl-Bien, 2017) being organized by myself and colleagues to understand in greater depth the systemic issues and develop socially innovative ways to enhance regenerative capacity. But please note the business is not doing this as a philanthropic activity. There are clear objectives and measures linked to each of the six good dividends to understand how this activity can add business value.

The regenerative capacity of business to be a force for good through regenerative long-term health is in the interest of all stakeholders, notably shareholders if they adopt a medium- to long-term perspective. Space does not allow for a review of the rapidly increasing appetite investors have for sustainable long-term growth. Barton, Manyika, and Keohane-Williamson (2017) have looked at firms who use medium- to long-term indicators of financial value along with transparency (e.g., investment, earnings per share growth, quarterly reporting). These firms outperform the market. Commensurate with the investor's long-term view is the sizeable growth in impact investing. All this said, there is an emerging reorientation of part of the shareholder market to a balanced long-term perspective to growth. Not the whole market; but give it time. Unilever have recently signaled that their portfolio of brands must be capable of being purpose-led; if the brands do not "contribute meaningfully to the world or society in a way that will last for decades" (Armstrong, 2019) they will be sold. It is a confirmation of a clear business model. Examining the Unilever business model through the system of good dividends gives perhaps a glimpse of why Jope (Unilever CEO) made such a statement and how a purpose-led corporation can seek to create a pathway towards generative capitalism (see Unilever, 2019) (Figure 28.3).

The business model is framed understandably in the language of sustainability, but it would not take much to be reframed as regenerative. For example, and taking the lead from Interface, to reframe the operational dividend to head towards zero emissions and even being carbon positive. The other dividends already have regenerative capacity. The significant aspect is the systemic nature of the business model seeking to (re)generate a positive social impact. Explicitly, the model addresses both market and social needs but is not captured by either logic. Perhaps Unilever is a new form of hybrid? Or perhaps the whole hybrid argument is outdated, and maybe the issue of social versus market logic is similarly dated? For example, Danone has signaled its commitment to responsible leadership and transparency by progressing many of its subsidiaries to becoming certified B Corps. There is, thus, no structural or "logics" impediment to corporations pursuing B Corp ambitions and becoming systemically regenerative.

Conclusion: B-way as a Regenerative System of Good Dividends

The essence of the argument is the need to first separate from the old discourse of hybrids and their social logic versus neoliberal business and their market logic; and second to build beyond sustainability and move towards regenerative capitalism from a system of good dividends. B Corps provide a platform for building a regenerative economy, notably drawing on aspects of transparency with regard to validated systems and practices associated with generating good work, environmental stewardship, and engagement with communities, and being a flag to rally around as a movement towards business being recognized as a most important force for good. In this way, it sets up some building blocks for regenerative capacity.

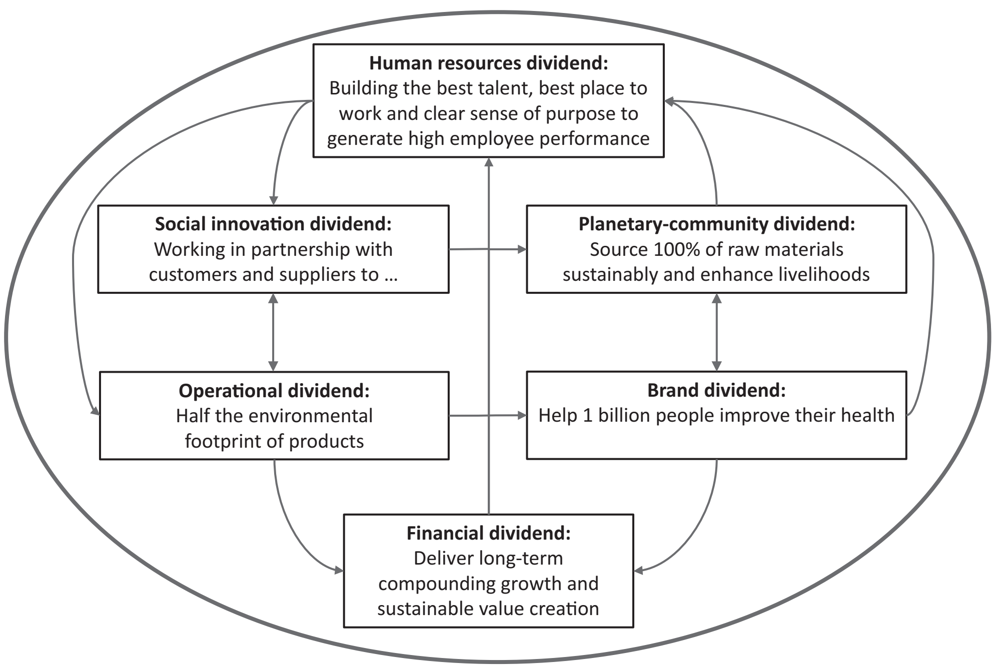

Figure 28.3 Unilever's good dividends

However, B Corp certification does not engage with the business model and the persistent tension from market versus social logic. Without doing such B Corps may fail to realize their potential as regenerative businesses if they fail to grow to a healthy size. I would assert that the regenerative concept requires growth, health, and vitality if good dividends are to be realized and thus achieve what both market and social logics pursue.

When we think of growth and notions of sustainability there is an understandable tendency to wish to restrict growth. In major part our reaction to growth reflects Fullerton's (2015) argument that viewed through a neoliberal lens the planet serves business (and business serves finance—the masters of the universe). Lev and Gu (2016) in their provocative text *The End of Accounting* echo Fullerton's assertion and suggest that accounting practices have remained obdurately static for over 110 years and will require a considerable crisis or movement to see necessary changes in how we understand and account for value. However, we appear to be on the cusp of a quiet revolution. At the time of writing, the US Securities and Exchange Commission is reviewing major aspects of transparency and reporting of intangible capital (in part as a consequence of the representations of Hesketh, 2019). Parts of the financial infrastructure are beginning to align with the environmental, social, and corporate governance framework and impact investing. But finance will require growth—otherwise, the tap will turn off and the new Dark Age will be upon us (some believe this is already a probability as we have gone beyond the tipping point: Bendell, 2018). So growth is necessary. It is the form of growth that is critical. As Jane Jacob commented (cited by Fullerton, 2015), "it's not how big you grow but how you grow big." The notion of regeneration embraces growth; growth that is healthy and has vitality. Returning to Lear's idea of "radical hope," we need business to be *the* force for good—it is that important. This will be a sea change in opinions from perhaps all stakeholders, including business leaders: "We certainly know that we cannot face the future in the same way that we have been doing. We must do what we can to open our imaginations up to a radically different set of future possibilities" (Lear, 2006: 93).

Returning to Donaldson and Walsh's (2015: 202) statement, I offer an alternative answer for the purpose of business: "Law is to justice, as medicine is to health, like business is to" *planetary and community regeneration.*

Questions

(1) How can businesses escape the iron cage of two-logic thinking?
(2) Are hybrid businesses an anachronism?
(3) How can the notion of regenerative capitalism be grasped by business?
(4) Does the system of good dividends provide a useful provocation to rethink value, the business model and capitalism…or just radical hope?

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