Corporate Stakeholder Democracy

Politicizing Corporate Social Responsibility

Robert Braun

[...] the heartland issue is process, in old 70s terms, the heartland view is democracy, that slightly funny old word if you remember it. That we were all in the business of reinventing democracy in a transnational globalized world ,[...] about the rights of people impacted to have a say over how institutions made decisions. [...T]here is a golden thread of accountability running through sane societies, sane and civilized societies. [... It] is profoundly about civilizing power. Not getting rid of it but civilizing. I am more interested in how processess of change can drive efficiently new models of people's participation in emerging political institutions, and my focus on the business community is because I think it is the most important political institution to emerge in the last century, and therefore the [business community] needs to be politicized. [Businesses] need to be made accountable through the political processes and not only through regulatory processes – to direct participation, a direct model of democracy.

Simon Zadek[*]

[*] Waddock, S, (2008): The Difference makers: How Social and Institutional Entrepreneurs Created the Corporate Responsibility Movement. Greenleaf.

TABLE OF CONTENTS

INTRODUCTION

This book is for and about the future. About a future where the differentiation which views corporations as institutional actors interested purely in maximizing economic value while on the other hand considers it to be the task of the state and other political institutions to regulate the coexistence between people, their institutions, as well as to resolve the conflicts of a multi-faceted society will no longer be sustainable.

The book deals with the interpretation of democracy, focusing on the new role corporations play in it. I believe that corporations are the people who are impacted by the corporation and who in turn have an impact on the corporation: they are the stakeholders of corporate operation. Corporate value creation does not purely mean economic, but also environmental and societal value creation and its sustainment. So I take corporate social responsibility as values and interests of the stakeholders incorporated into business operation. This means running corporations in a way that takes the values and interests of stakeholders into account, potential conflicts between stakeholders are assessed and provided with institutional systems of conflict resolution; all this achieved through the involvement and engagement of stakeholders, as well as through bringing about a value creating cooperation with and between them, based on dialogue and equality. This is what corporate politics is about. To put it differently: political CSR, the approach of this book, diverges from traditional instrumental approaches to CSR as well as positivistic research on political corporate activity (CPA). It focuses on the role of business firms in providing public goods as well as defining and enforcing public rules (Scherer, 2017).

This is a departure from earlier approaches: a radical turn in viewing corporate operation and value creation. This turn applies equally to corporate theory, business operation and processes in practice, and the form and mode of cooperation with the stakeholders, as well as to the new interpretation of the context in which corporations find themselves. Primarily, therefore, it applies to the approach which sees value creation as the equilibrium between economic, social and environmental value creation based on the philosophy of sustainable development. Most of these approaches are not radically new: the shift has been in the making for almost thirty years. To radically change economic, social, and theoretical approaches is a long, painstaking and, above all, slow process. For it to become successful, the diverse cooperation of many is needed. Luckily, such cooperation does exist – academics, NGOs, representatives of stakeholders, corporations and their decision makers and politicians have made alliances to prepare the way for and bring about this paradigm shift. This volume may be a minute contribution to the ongoing discourse.

Political CSR is contested territory; definitions, research agenda descriptions as well as theoretical approaches vary (Frynas & Stephens, 2015; Scherer & Palazzo, 2007, 2011; Scherer, 2017). The broadest definition would claim that political CSR is described as "activities where CSR has an intended or unintended political impact, or where intended or unintended political impacts on CSR exist (i.e. impacts related to the functioning of the state as a sphere of activity that is distinctive from business activity)" (Frynas & Stephens, 2015. p. 485.). A normative-critical theory advances a notion of corporate politics as a facet of the public realm in which deliberations take place and collective decisions are made to further the public interest. Corporations in this view are seen as based on corporate citizenship; research analyses conditions, identifies the unjustified use of power, and aims to reform social practices and institutions, corporations included, so that human beings are freed from dependency, suppression and subordination (Marti & Scherer, 2016; Scherer, 2017). Political CSR differs from CPA which is based on the premise that business firms engage in political activities to create or maintain corporate profits and seek to bring about public policy changes to promote their private interests (Lawton et al., 2013).

Political CSR applies a variety of theories to deal with corporate operations from a political point of view. The analysis focusing on corporation-society relationships utilizes stakeholder theory, institutional theory and resource dependence theory – all of which will be applied in this book as well. Focusing on the firm itself, instrumental economic and managerial perspectives include agency theory, transaction cost economics as well as behavioral economic theories. Writing about power and political interactions, theorists apply Habermasian theories of discourse ethics, Rawlsian theories of justice as well as Foucauldian theories of power discourses. The approach of this book, while applying a variety of the above mentioned theories, is that it mostly focuses on the individual level analysis, and uses macro- and meso-level analysis only inasmuch as to lay the groundwork of political CSR to be applied on the individual level. This diverges from the approach mostly taken by scholars of political CSR, as the majority of papers published in this area are focusing on the macro- and the meso level (Frynas & Stephens, 2015).

In the last decade, as researchers in the field note, approach to CSR has taken a 'political turn'. The focus of CSR has shifted towards how firms shape their institutional environment driven by a concern for the public good that goes beyond the purely economic calculations of corporate actors. This political turn is "interpreted as a corporate attempt to close governance gaps on the local, regional, and global level" as well as it is "associated with the changing role of state agencies and the redistribution of governance tasks between private and public actors" (Scherer et al, 2016, p. 273.). This 'political turn' means that firms become political actors by (a) engaging in public discourse; (b) maintain their legitimacy by providing solutions to public issues and complying with changing societal expectations; and (c) submit their corporate governance to democratic control (Palazzo and Scherer, 2006; Scherer et al, 2016).

Also, in many ways, we have been witnessing a 'participatory turn' in governance on both the national and corporate level. This entails public identity work that is seamlessly woven into the public and private spheres; a necessity of 'civil society' participation and improving public access in decision-making processes, as well as higher levels of public accountability. As Sheila Jasanoff (2003) put it "[w]hat has to change is the *culture* of governance, within nations as well as internationally; and for this we need to address not only the mechanics, but also the substance of participatory politics" (p. 238). Political CSR addresses exactly this: how to substantiate and promote more democratic and participatory interaction between the different stakeholders of the corporation; how to involve and engage corporate citizens into the decision making processes of the corporation.

The subject matter of political CSR: responsible operation or corporate democracy is a new understanding of the corporation, one which incorporates the interests and values of stakeholders into the operation of the business, thereby creating a new value chain. This new value chain takes into account the aspects of economic value creation but at the same time considers the ecological and social effects as well and functions along those considerations. Corporations have the greatest influence on our social wellbeing; they possess vast resources, their thinking is strategic and they have the ability to act. They cover all areas of social existence:

they create and form culture, damage or protect the environment and may create or diminish economic prosperity. We are the ones who are affected by the corporations – thinking, feeling, acting human beings, who want their fair share in the decision-making. Let's translate the thoughts of the *Gettysburg Address* into the language of corporations.

"Four score and seven years ago our fathers brought forth on this continent, a new nation, conceived in Liberty, and dedicated to the proposition that all men are created equal. […] It is rather for us to be here dedicated to the great task remaining before us – that from these honored dead we take increased devotion to that cause for which they gave the last full measure of devotion – that we here highly resolve that these dead shall not have died in vain – that this nation, under God, shall have a new birth of freedom – and that government of the people, by the people, for the people, shall not perish from the earth" (Lincoln, 1863).

Responsible operation means corporate governance of the stakeholders, by the stakeholders and for the stakeholders. It means that all stakeholders are created equal, therefore the weak and voiceless shouldn't carry the consequences of negative externalities and moral hazards. The management of the corporation is not only responsible towards its stockholders but also towards every stakeholder.

For this is what is right.

Responsible operation, value-centric democratic corporate policy, and value maximization for the stakeholders is a process. Depending on the value structure, interest relationships, contexts of internal regulators and the political environment of a given society, corporations get formed, adapt themselves to the circumstances and create the space, institutions, mode and form for the democratic politicizing of stakeholders. There is no such thing as a good or a bad corporation. Every corporation politicizes, some consciously, some less so. The corporation that politicizes consciously may function democratically, creates and operates the democratic institutions for the stakeholders. This is the result of a step-by-step, strategic process. Briefly, four steps may be differentiated in order for us to see how far a given corporation has progressed towards stakeholder democracy.

The first step is the traditional *anti-democratic (feudal) corporation* which applies certain elements of responsible operation by stakeholders on an *ad hoc*, sporadic basis, giving in to the pressure of some stakeholders. However, these elements do not become part of the corporation's operation, and do not become part of corporate strategic decision-making. Their aim is to reduce stakeholders' risks in the interest of economic value maximization, or the realization of some economic advantage through the stakeholders.

The second step is the *organizational-regulatory democracy* level, where the corporations try to comply with the stakeholders' regulations-based expectations – transparency, reporting, consumer protection and environmental rules. However, they do not do this in a systematic and strategic manner; they take the stakeholders' values and interests only to a limited degree, and mainly because of legal pressure, into account. Corporate policy is not democratic: the values and interests of stakeholders do not appear on the level of strategic decision-making, value-maximization focuses on economic values, environmental and social issues are only interesting for the corporation in as much as they promote the corporation's economic value creation.

The third level is *inter-corporation stakeholder democracy*. Corporations create rules and soft-laws, make recommendations, determine norms and inter-relationship rules jointly, generally within the frame of multi-stakeholder organizations (whether national or international), involving the representatives of the stakeholders as equal participants or as cooperating partners. On this level the buds of the institutions of democratic stakeholder politicizing are already emerging, or could emerge, as some form of the stakeholder approach appears in corporations participating in such a cooperation, even in their strategic decision-making process.

The fourth level is *corporate stakeholder democracy*, where the stakeholders become citizens of the corporation, the institutions of deliberative stakeholder democracy are set up and corporate strategic decisions are made according to the principles and operation of the liberal democracies.

This book introduces the process of how and why corporations set out on this journey; it presents the various forms of operation of corporate policy, as well as those institutions, their legitimation and background, which are the institutional foundation of deliberative corporate democracy. The policy of corporate operation satisfies Carman's classic definition of the exchange-based process of marketing in the course of which participants have the right to decide whether they want to participate in the exchange and whether they have any values or assets which could be part of the exchange process, and there is a minimal level of trust between the parties so that the exchange would actually be realized (Carman, 1980). Corporate policy further expands the definition of Carman regarding the paradigm of marketing. In terms of macroeconomics, responsible operation is an exchange process based on equality and mutual participation, the aim of which is the establishment of the institutional background and modes of operation for the allocation of resources in the interest of common value creation for the stakeholders, taking negative externalities, moral hazards and information inequality into account.

The journey of corporate democracy is also a journey in building and sustaining inclusive political and economic institutions within and among corporations. It is not only nations that fail if their institutions are extractive but corporations as well (Acemoglu-Robinson, 2012). Current mode of corporate operation is highly extractive: stockholders and a limited number of key stakeholders exploit the majority of other stakeholders, the future generations included. They extract economic and well as societal and environmental value for their own financial benefit. This is what economists call negative externalities: costs paid by third parties not included and voiceless in the contractual relationships corporations represent. Current corporate successes and the economic or financial growth they generate as extractive institutional systems are not surprising: as Acemoglu and Robinson have shown extractive political and economic systems may generate growth, as they did from the Bushong in the Kuba Kingdom in today's Congo to the Maya cities as well as in the Soviet Union between 1928 and 1970. However, such political and economic systems are unstable and non-sustainable. Corporate democracy or stakeholder inclusive corporate political systems may offer more stability and sustainable growth than the current generally undemocratic, extractive corporate setup. Analyzing the structure and mode of corporate politics, I hope, will offer answers as to why.

And now for the structure of the book. The first part is devoted to the theoretical background, context and process of corporate social responsibility. It shows the different social and economic processes and theories – with special emphasis on the stakeholder theory of Edward R. Freeman – which were the foundation on which change evolved. It discusses the social context, the various stakeholder approaches and it also endeavors – with the help of an historic parallel – to define the corporate polity.

The second part analyses the new kind of operational logic from the viewpoint of the different areas of corporate operation; it gives an overview of the consequences for the individual areas of operation and indicates how corporate policy can be realized in the given field of operation. First, it discusses the theoretical approach to responsible operation relevant to the given area, then it analyses the current practice, followed by an indication of why an approach aiming at a 'political turn' is more advantageous both for the corporation and the outside world.

The third part of the book introduces the institutions necessary for the creation of the corporate polity, as well as the mode and forms of operation, i.e. the process of paradigm shift modes of stakeholder operation and the bases of stakeholder involvement, its structure and consequences. It also sets the direction for new research, which may offer exciting and novel, as yet unexplored, insights for further shaping of the future.

I trust that this volume will contribute towards the ongoing discourse on social responsibility. My hope is that students, involved and interested professionals, businessmen and managers will benefit from its contents. It may possibly help to get the above-mentioned changes in value-structure and mentality on the way and that the societal conditions for these changes may come about.

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Research and writing are lonely work, yet not one without companions on the way. I stood on the shoulders of giants. This is true for researchers who have gone before me, but for me personally the communities I had the opportunity to work in in the past years are at least as important.

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Of course, for any possible mistakes in the book I am solely responsible.

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PART I : THE THEORY OF RESPONSIBILITY

1. RESPONSIBILITY

The Body Shop

September 10, 2007 was a sad day for the international business community. Anita Roddick, founder of one of the best-known social brands, The Body Shop, passed away. She was a child of the twentieth century, yet she was searching for the answer to the most important question of the twenty-first: how can social values be integrated into the operation of businesses? Anita Roddick not only integrated these values into her business but made the principle of reconciling the profits necessary for business success with responsibility towards the environment and the future the essence of the operation of her enterprise.

The Body Shop was founded by Dame Anita Roddick, with its head-office in Littlehampton, Southern England. The company has been part of the L'Oreal group since 2006. Anita Roddick was born of Italian immigrant parents in Littlehampton in 1942 as Anita Perilli. She became a teacher and worked in Israel as well as in Geneva for the UN. She traveled across the world from South Africa to Australia. In order to be able to bring up her two children as a single parent, in 1976 she opened a little shop in the town of her birth, where she sold cosmetics made of natural ingredients. She relied on the expertise of herbalists to find the right mixture of ingredients for the cosmetics, which she sold in returnable containers. The shop soon became a big success due not only to the attractive prices and to the use of natural ingredients but also to the competitive advantage over multinational corporations which were under constant scrutiny of the authorities. The shares of The Body Shop were introduced onto the London Stock Exchange in 1984, followed by the acquisition of The Body Shop by L'Oreal in 2006 for a price of 652.3 million pounds sterling. The five main values that the company still stands by are: supporting community fair trade, defending human rights, oppose animal testing, activating self-esteem and protecting the planet Earth. Anita Roddick understood the call of the times when she, besides her rejection of animal experiments and promotion of the use of natural ingredients, used returnable containers made of recycled glass and recycled paper as packaging material and when she, whether in her personal capacity or as representative of her company, campaigned for such causes as the fight against the spread of AIDS or helping the homeless. She was a political person and she did politize her company. Her death was mourned by both the Prime Minister of Great Britain and the Editor-in-chief of *Big Issue*, the newspaper of the homeless in London. Anita Roddick was at the same time holder of the Order of the British Empire (DBE), Dame Roddick of corporate board rooms and the 'Princess of Activistse' on the streets. She not only heard the call of the times, she dictated them: by her achievements as a committed and charismatic leader, by her thoughts, by standing up for her values and upholding her identity as leader of her enterprise. She has shown the world that change can be directed and not simply endured.

The Body Shop, founded by Anita Roddick in 1971, was an excellent investment: her starting capital was a loan of 4000 pounds sterling. After the company had gone public, she subsequently sold her own share for 118 million pounds. Furthermore, she operated the company with a considerable profit all along. In all those years she proved that good products can be produced using natural ingredients and environment-friendly packaging, without causing suffering – not even to animals. The Body Shop has shown that the cosmetics industry does not have to torment its buyers by making them want to achieve unattainable beauty ideals. It offers products for natural body care, indulging the body and creating harmony between body and spirit, and expresses a set of values striving towards internal and external harmony instead of skinny, heroin-addicted artificial beauties. Now a member of the L'Oreal group, The Body Shop has in spite of initial scepticism, formed the group's culture, as opposed to being assimilated to more traditional approaches to corporate operations.

What is CSR?

At the time when The Body Shop was born in the garage of a small English town towards the end of the seventies of the last century, business and societal values were divided by a Chinese wall. In the world of business, thought leaders of the day were followers of Milton Friedman's ideas on the responsibility of movers and shakers in business. According to Friedman, the only responsibility of businessmen is increasing profits and fulfilling the financial expectations of stockholders – the business of business is business. If they are successful, they may in turn voluntarily give some of that profit back to those who have the expertise and desire to improve the world (Friedman, 1970). The world has changed a lot since the late seventies. The role and significance of business in the modern world has changed, too, as have society's expectations of the firm, mainly due to the socio-formative power of global capitalism. Today, corporations are no longer viewed as transmission belts of exchange between owners and consumers, with the purpose of providing consumers with goods and services, and owners with profit. The modern corporation is an influential player in a complex web of social interactions which, through its sheer operation, exerts a large influence on the lives of individuals and groups, even those not yet born. This process actually works both ways. These same individuals and groups have a great influence on the operation of the corporation: they are the ones creating economic value – as employees, as consumers, as subcontractors, and as owners – in exchange for the 'licence to operate'. This is literally the case when we talk about authorities, but NGOs, associations and other membership organizations, representing important issues or ideals, offer this 'licence' in an indirect, nevertheless determining way. As such, corporations are intertwined in an intricate web of individuals and groups with a stake in the operation of the corporation. In this web communication is not one-way but multi-threaded and everybody has an impact as well as influence on everybody else. It is while working for some shared value created together that they licence the corporation to operate.

While as a result of the commitment of a few corporate responsibility has become part of the mainstream of business operation, more and more new and deeply-rooted problems have been exposed. There are few who even dare to mention the contradictions. Public writers and the average citizen are often indignant about the fact that globally known branded goods purchased and consumed in the western world are being produced in the cellars of China, Bangladesh or India by human beings kept under conditions of near-slavery reminiscent of Dickens' world of the industrial revolution. However, the mere suggestion that all this is happening in order to raise our so-called western standard of living, and as such it is the common responsibility of western society, causes just as much indignation. The idea that giving workers decent pay, providing appropriate working conditions and letting up with the exploitation of the environment costs money which must be paid by stockholders as well as consumers appears only in the writings of radical critics of capitalism. The fact that corporations and their decision makers play a political role, by taking part in, moulding and influencing conflicts between individuals and their groups arising from their differences in goals, values and strategies, is not yet a mainstreamed concept today. Even with all the public discussion on and about CSR corporations and their decision makers often see themselves and their organizations as apolitical, value neutral actors of the global economy, whose task it is to refrain from getting near any such conflicts.

In today's globalised business world, one of the biggest challenges is managing the public responsibility of the corporation. What Anita Roddick did personally and intuitively has by now become part of corporate management: an activity requiring planned strategic processes, similar to marketing, HR management and the supply chain. Even in a global economy, challenges of culture, business and consumer environments, and stakeholder webs are local, therefore questions need to be posed and answers need to be found, business operations need to be redefined locally. The management buzz-word of the last third of the twentieth century was 'the marketing-driven corporation'. It is not difficult to predict that successful corporations of the twenty-first century will copy the corporate responsibility-driven model of operation.

Definition of Corporate Social Responsibility

Corporate social responsibility is known by many names and has many faces. There is no agreement on where the boundaries of CSR lie (Blowfield & Murray, 2008). CSR is used in exchange for corporate citizenship, accountability, sustainable development, environmental responsibility, corporate philanthropy and strategy. CSR has national and industry contexts; it is an umbrella term for a variety of concepts and practices, all of which recognize "that companies have a responsibility for their impact on society and the natural environment, often beyond legal compliance and the liability of individuals" (Frynas & Stephens, 2015, p. 485.). It is being used for the philanthropic activities of a corporation but also for the strategic tool used to enhance its competitiveness through stakeholder management. There are a number of definitions to describe corporate social responsibility. According to the ISO, the International Standards Organization, it is the "social responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including health and the welfare of society; [it] takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practiced in its relationships" (ISO, 2010). At the same time, corporate social responsibility as an academic endeavour is in its early phase of disciplinarization. This means that no unanimous and generally accepted theoretical bases have been developed on which a uniform definition could be built, and scientific demarcation from other disciplines, like strategic management, sustainability, strategic communication and organization theory, is blurred. This does not mean that the theoretical bases of this area are not well-founded and detailed in academic literature; nor does the scientific community doubt the independence and academic relevance of the area. Rather it is that becoming an independent discipline of academic studies is a slow and painful process. In addition, a further difficulty has to be faced: if the challenge is a paradigm shift, as I believe is happening in the case of CSR and related areas, the cumulative expectations of 'normal science' and the revolutionary challenges of a paradigm shift must equally be lived up to (Kuhn, 1962).[1]

Of the definitions to be found in the literature this book uses the probably simplest one: *corporate social responsibility (CSR) means the integration of the stakeholders' values and interests into the corporation's business operation.* This definition shifts the focus from the meta (economy/society as a whole) or meso (inter-corporation, governance) level to the individual level. In other words, it is the stakeholders of corporate operation who are at the centre of this understanding of corporate social responsibility: they are the ones who are impacted by the corporation's operation and who do or can affect the operation. Stakeholders can be individuals or groups, yet to perceive their stakeholder position, conscious action is

[1] Academics, due to the principle of 'publish or perish' and the quest for impact factor and citations work in intellectual silos as well as limited spaces for intellectual innovation: high impact factor journals are leading publications of established fields that are not necessary open to 'paradigm shifts'.

needed on their part. Stakeholders need to realize that the corporation's operation has an effect on them and in return they can have an effect on the corporation's operation. This process is not without conflicts: differences in values, interests, backgrounds and visions cause stakeholders to fight for the right of way. The politicization of the corporation needs stakeholders as *zoon politikon* in the Aristotelian sense to be part of the *polis*: people who understand that they have values and interests and are ready to stand by them in the belief that by cooperation, dialogue and engagement negative externalities of corporate operation can be minimized and positive externalities maximized. On the other hand, there are or can be 'silent' stakeholders, just as there can be 'ignorant' stakeholders, namely those, whose life is being significantly influenced by the corporation without them being aware of it, in the same way that they are not aware of the fact that these are not 'natural' processes, but rather the result of human interference. Of course, the generation yet to be born constitutes a separate group, which is both 'silent' and 'ignorant' at the same time. The identity of the stakeholders plays an important role in their relationships as stakeholders, that is, they stand for certain values and represent certain interests, and organize themselves into groups and organizations along those values and interests. These values and interests will be the most important determinants in their relationship with the corporation. Every stakeholder stands or can stand for a number of interests and values, that is, their specific commitments will determine their identity as stakeholders.

According to the definition above, CSR is a *business* activity: the aim and essence of a business activity is the support and promotion of creating value through business operation. However, this should go beyond the instrumental view of CSR focusing on the business case of CSR (Caroll & Shabana, 2010). The incorporation of stakeholder values into corporate operation is less content than form: the efficient management of stakeholders should be made part of the effective operational processes of the corporation, similar to other areas of business, such as marketing, supply chain, production, R&D and HR management. The shift here is that CSR takes corporations to go beyond their mere corporate profit interests and are more directly concerned with public welfare as represented by their stakeholders. Corporations assume responsibility by creating positive and avoiding negative impacts for societal actors. In other words they commit to "actions that appear to further some social good, beyond the interest of the firm and that which is required by law" (McWilliams & Siegel, 2001, p. 117). While CSR literature is inconclusive as to what actually motives firms to "further some social good" it is understood that involving and engaging stakeholders in corporate operations is beneficial to the corporation (Freeman et al, 2007). Parallel to definitions widely accepted in business life, CSR is, actually, stakeholder management. From a strategic management point of view of the corporation, it is the efficient management of corporate stakeholders in the interest of eliminating or at least reducing conflicts and potential risks posed by certain groups of stakeholders, minimizing negative impact on stakeholders, exploiting business potential with given groups of stakeholders, and promoting the successful and sustainable development of the corporation based on cooperation. The aim of stakeholder management is the common creation of mutually accepted and treasured value, maximization of stakeholder value based on cooperation, moderated by discursive institutional processes.

The operation of CSR, the management of stakeholders, is an activity directed and supervised by the corporation. This activity entails the setting of the corporation's aims and goals, determining the reference values and timing of monitoring, the setting up of the organizational structure and its integration, directing the process, determining points of assessment and carrying out such assessments, as well as arranging for feedback channels, i.e. setting up the institutional background for an equality-based cooperation. All this is the task and responsibility of the corporation, with the stakeholders as participants of the process.

For stakeholder values and interests to become integrated into corporate business operation, it is necessary to understand that the boundaries of the corporation do not end at the fence around its property. The corporation impacts the lives of many individuals and groups, each with their own identity, in the same way that these groups also have an effect on the operation of the corporation in a number of ways. Many authors use the model of the corporation being the entirety of its stakeholders, with its most detailed and best known exposition to be found in Edward R. Freeman's stakeholder approach strategic management model (Freeman, 1984). We will discuss this theory and the ensuing management practice in detail in chapters to follow. These theories view and make the corporation appear as more than just a stockholder-owned and run transmission belt which creates economic value for the stockholder by selling products or services produced by employees or suppliers. Other stakeholders of corporate operation are understood to be important and politically equal participants of the corporate value chain, since the corporation and the stakeholders mutually impact each other, they each have resources to be offered and claims to be made, and they each may play an important role in the value creation process, i.e. in the organizational culture of the corporation (Ferrell et al., 2010).

The triple bottom line (TBL) theory of value creation claims that corporate value creation should go beyond financial and economic effectiveness, and that corporate societal and environmental impact should also be measured and managed (Elkington, 1998). This is also reflected in the more popular 3P (people, planet, profit) principle, which has by now become the fundamental approach to sustainability. Similar to TBL, its core message is that on top of operating financial capital successfully, similar success is to be expected from the utilization of human and environmental resources as well. Corporate social responsibility thus means the effective management of stakeholders in order to meet the requirements of the 3P principle as best as possible by involving and engaging stakeholders and cooperating with them in order to integrate their values and interests into the operation of the corporation.

Yet, corporations, just like other institutional stakeholders, are still struggling to make social corporate responsibility part of their core business, consequently missing out on a number of potential opportunities offered by the social responsibility approach (Porter-Kramer, 2006). Many believe CSR is an excellent corporate management/reputation opportunity in the 21st century, however leaders have a hard time coping with the challenges posed by the shift behind the new, political approach to corporate operation.

CSR is more (political) form than societal content. It is a political *process* of checks and balances, distribution of power and discursive institutionalized conflict resolution strategy among stakeholders. Stakeholder claims and expectations surface in the institutional body politics of the corporation for the common good of sustained impact management. To put it differently: responsibility is an institutional-political process and not a well-defined catalogue of values. While the concept of political CSR is a normative model as it integrates values and also offers critical reflection on them, focusing on processes that may change social reality through reforming social practices and institutions. However, instead of prescribing the integration of some socially important principles on top of the public agenda (climate change, inequality and poverty) into corporate operation, in other words the content, this view of CSR is about new ways of involving and engaging stakeholders around commonly determined value-creating goals, substantiated by a new form of (political) legitimation for this process, as well by as the institutionalization of new ways of will-formation of stakeholders, that is, the form of corporate operation.

Thus, to rephrase Milton Friedman's statement: the business of business is the politics of business since the social context of the conditions for achieving corporate goals, the interpretation of economic and societal benefit and the meaning of compliance with social norms have all changed. In order for businessmen to focus on the fiduciary responsibility of increasing shareholder value, they actually have to increase stakeholder value based on the TBL or the 3P principle. Corporate strategy and processes without the effective risk and conflict management of stakeholder politics make successful and sustainable corporate operation impossible.

The history of the development of CSR

Who is responsible and for what?

My interest in the history of CSR is not how and why business should promote societal values or “further some social good” (van Aaken et al, 2013; Scherer, 2017). The point of departure is rather the question – also raised by the first authors dealing with CSR in the twentieth century – of whether corporate decision-makers have any responsibility beyond the financially successful operation of the corporation. The history of modern corporate social responsibility started with issues of ethics in business: does the corporation as an organization have any moral responsibility towards the society in which it operates, and does such a responsibility extend beyond the individual responsibility of the decision-makers of the corporation? This is the age old question of moral agency of corporations. The literature on business ethics leaves the question open: there is a business ethics tradition that views the corporation as ‘moral agent’ (French, 1979), while the Anglo-Saxon ethics culture does not (Velasquez, 1983). Considering that corporations are the most significant players in the economic web of social interactions, the ethical question remains: what kind of moral responsibility do corporations and their decision-makers have towards society? Can the corporation be made accountable for any societal consequences resulting from its operation? If so, in what way? And what should be done to incorporate this responsibility into the business operation? Even if the question of being a ‘moral agent’ is hidden behind a veil of ignorance, the basic normative question still remains: how and in whose interest must a corporation be managed?

Although similar questions were already raised in the thirties and forties of the last century by activists representing the general interests of the minority shareholders, the history of responsibility starts with the book by Howard R. Bowen, published in 1953. Bowen posed the question: What kind of responsibility towards society is to be expected of ‘the businessman’? (Bowen, 1953) He gave an answer to this question which may be considered to be the first definition of CSR. In his opinion, the social responsibility of businessmen (rather: corporate decision-makers) means that they apply such practices, make such decisions and perform such activities which are congruent with the general aims and values of society (Bowen, 1953). In other words, Bowen contended that corporate decision makers had to be aware of the fact that the consequences of their decisions reached beyond their responsibility for the corporation's balance sheet, and that they also had to live up to certain societal expectations, goals and conditions.

It was Bowen's definition that analyses of social corporate responsibility were measured against in the sixties and seventies. Keith Davis developed this thought further and advanced the view that "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interests" (Davis, 1960, p. 70). He maintained that the responsibility of the corporation must be proportionate to the corporation's socio-economic power and strength, thereby placing social responsibility in a political-power context. According to his "iron rule", the responsibility of businessmen must be comparable with their social strength (Davis, 1960). This is the first clear definition of corporations as political institutions.

The point of departure for corporate responsibility literature at the time was that the corporation – whether we transfer a 'personal' moral responsibility to it or not – is a determining factor of the socio-cultural-economic environment and therefore the people who determine the operation of the corporation have/should have a special responsibility for the corporation's participation in the operation of society. However, in the early days, corporate responsibility meant individual responsibility limited to those who determined corporate operation. CSR was viewed and presented as an individual moral question and was not perceived as the organizational or political responsibility of the corporation as a public institution. All this followed naturally from the corporate management and organizational development models of those days, which measured the success of the corporation by the personal abilities, achievements and management techniques of the strategic leader (Drucker, 1954).

The Friedman doctrine

Authors writing about responsibility in the sixties agreed that the responsibility of corporate decision-makers somehow reached beyond economic interests and profit, even beyond legal or regulatory responsibility, and included some kind of social-political responsibility as well. It was amidst this consensus that the controversial piece by the future Nobel Prize laureate Milton Friedman appeared. The fundamental statement of his (in)famous article, published in the New York Times Magazine, was that decision-makers in business do not have and must not have any other responsibilities than to make profits. In one of his earlier books (Friedman, 1962) Friedman had already formulated his statement that later, in its more specific expression, became known as the “Friedman doctrine”: *"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, p. 122). The essence of the ‘Friedman doctrine’ is that business decision-makers only have specific fiduciary responsibility: they must exclusively act for and in the interest of stockholders. The interpretation of the doctrine triggered the first serious debate about potential conflicts between shareholders and stakeholders in the context of interpreting the business responsibility of the corporation. Followers of Friedman, who reject the idea of corporate social responsibility, maintain that business decision-makers only have a responsibility towards stockholders of the corporation, whereas critics of Friedman argue that corporate responsibility extends to a number of other stakeholder groups, moreover, that the corporation can only be directed successfully if the interests of the stakeholders are continuously taken into account (Freeman, 1984). (Stakeholders and stakeholder theories will be discussed in the second and third chapters in detail. The political interpretation of Friedman’s doctrine, i.e. who personally and with what kind of mandate should and must deal with social issues, and where and how the system of checks and balances must be applied, will come under detailed scrutiny in the third chapter of this book.)

At the same time, Friedman’s standpoint is a clear dividing line in the literature dealing with corporate social responsibility. His article was not specifically targeted *against* social responsibility, rather it was written in defense of the free market. The aim of limiting corporate responsibility to fiduciary responsibility is to maintain a free and distortion-free market, which – as postulated by Adam Smith – through its self-regulating mechanism makes it possible for those economic and market conditions to evolve which will move social progress forward. Many, from the

Nobel-Prize winner Joseph Stiglitz to the anti-corporation activist Naomi Klein, have criticized this standpoint as being unviable from the perspective of the real-life operation of the economy. According to Stiglitz and other economists, the self-regulation of the market is not effective, partly because the inequality of access to information by different players in the market cannot be reduced to a degree which would result in optimal conditions (Smith, 1982), and partly because the players in the market are not rational actors, therefore, their decisions are inevitably influenced by biases and heuristics (Kahneman, 2011). Stiglitz put it in the simplest possible way: *"the invisible hand of the market is invisible because it is not there*" (Stiglitz, 2002). Klein goes much further than this: in her opinion it was the Friedman doctrine and the economic philosophy of the Chicago School that was the cause of the financial and economic crisis in the first decade of the twenty-first century, and which also ruined many an economy and society in the second half of the twentieth century (Klein, 2013).

On the other hand, the interpretation of the Friedman doctrine may bring us closer to understanding the turn, resulting from the social processes of the sixties, which significantly changed standpoints regarding the necessity for corporate responsibility. Beside the exclusively fiduciary responsibility of managers, Friedman makes two other strong statements: the activity must be in the interest of making profit, and this must be achieved by "staying within the rules of the game". As already indicated in the introduction, both strong statements are in line with the definition of corporate social responsibility put forward in this book. Friedman is right regarding decision-makers' responsibility beyond their fiduciary responsibility understood as 'staying within the rules of the game' if we apprehend this as being set by other players than those carrying fiduciary responsibility only. In other words, decision-makers must keep to the written and unwritten social norms and values. He is also right that corporations must serve the interests of 'profit', understood as sustainable business success. Integrating stakeholder values and interests into the operation of the business means that this should be done in the same way as any other of its processes and good practices in the course of its operation in the interest of the common goal to be achieved through its operation: that is, 'business' success. As Scherer (2017) points out, "furthering some social good" can be explained by economic calculations and instrumental reasoning based on institutional pressures or NGO/CSO activities.

Friedman is also right in stating that the corporation must achieve its success by considering social norms and values, therefore its operation must at all times comply with the values of the given society and the hard and soft regulating systems stemming from these.

The reason why Friedman is nevertheless mistaken when he actually flatly rejects corporate social responsibility, is that the meaning and interpretation of ‘business success’, ‘profit’, and also the ‘rules of the game’, has changed. Lacking the invisible hand, other principles need to regulate the process of corporate cooperation and competition. As far as the macro-economic processes are concerned, this is the task of governments or larger supra-national corporations, as is postulated – among others – by Stiglitz, or Piketty in his analysis of the operation of capital in the twenty-first century (Stiglitz, 2012; Piketty, 2014). On the level of corporations, (self)regulation may be achieved through equality-based cooperation with stakeholders on a corporate or supra-corporate, multi-stakeholder level (Scherer-Palazzo, 2011). This is what Scherer et al. (2016) mean when they refer to as “firms turn into providers of public goods because local institutions do not work sufficiently, local governments fail to enforce relevant regulations, or because public authorities deliberately shift governance tasks to private actors” (Scherer et al, 2016, p. 278). Change has also come about in the questions of who determines the social norms for ’business success’, and who, and with the help of which apparatus, can enforce these norms. We will further investigate the role of corporations in the provision of public goods in the third chapter of this book.

Triple Bottom Line

Although the aspects for measuring corporate performance beyond financial success were known earlier, it was in the middle of the nineties that expectations beyond financial performance of the corporation were clearly defined. The term *triple bottom line (TBL)* was coined by John Elkington, who gave a detailed explanation of it in his book *Cannibals With Forks: The Triple Bottom Line of 21st Century Business* (Elkington, 1998). According to Elkington’s consulting firm, SustainAbility, the triple bottom line motivates corporations to pay attention not only to economic, but also to ecological and societal value creation (or demolition, for that matter). In a narrow sense, the TBL is a measurement and reporting framework which assesses corporate performance according to economic, ecological and social parameters. In a wider sense, it is a value system including goals and processes that helps corporations reduce damages caused as a result of their operation, in the interest of creating economic, social and ecological value (Elkington, 1998). Although the term has become widely known through Elkington's book, the framework he presented had been formulated earlier, in the Brundtland Report or in the Rio Declaration in 1992. Referring to Friedman, what has changed is our understanding of 'profit', i.e. the increase in the corporation's value. Friedman's formulation is fairly vague: 'profit' as economic value is ambiguous as the "consistent treatment of the nature and source of profits is notable by its absence" (Fine, 1970, p. 105). In reality, what he meant was increasing value for the stockholders, which could be short-, or long-term (sustainable) profit, just as it could be an increase in shareholder value, or a combination of these (Fox-Lorch, 2012). With the appearance of TBL the meaning of corporate value increase has changed. For a corporation to operate successfully in the long-term, i.e. for it to continuously increase shareholder value, as well as to reduce risks stemming from short-term financial gain maximization, it is no longer enough to meet only economic expectations but the corporation must also take social and ecological aspects into consideration and give account of the results of these activities.

It is even more significant that since the publication of Friedman's article the 'rules', namely the framework for the interpretation of written and unwritten societal norms, have also changed. One of the most fundamental changes that has taken place in present-day Global North societies is that the wall separating the public sphere and the private sphere has fallen (Arendt, 1958). As a result of the sexual revolution, the emergence of gender, consumerism and new complex trends of fashion, as well as the internet and social media – just to mention a few of the trends that have formed the cultural-anthropological environment of late modernity – a separation of the private sphere of values and beliefs from the public sphere of shared imaginaries of the political, in which value-neutral processes secure the political cohesion of the community, has lost its significance (Beck et al, 1994; Beck, 1992; Giddens, 1991). With the borders between private and public having become blurred, the values and commitments earlier part of the private sphere have appeared on different public platforms, including societal value preferences, commitment towards the environment and expectations regarding collective cooperation. The fact that protection of the environment, keeping animals under appropriate conditions, respecting the various forms of human dignity and human rights, as well as gender equality are important issues is now part of the public domain and have become the fundament of individual and organizational cooperation. The public sphere has been flooded by personal and organizational identities based upon value preferences, expecting respect from other members of society as well as formulating such strategies in the course of the cooperation with them which respect the values underlying these identities. These expected strategies have also changed the communication between individuals and organizations and their relation to each other, whether in the form of written or unwritten norms. This means that they have transformed Friedman's 'rules'. Therefore, we may conclude that the Friedman doctrine is valid ("increase its profits so long as it stays within the rules of the game"*)*, yet it should be interpreted in a different way than it was in the sixties-seventies of the last century. 'Profit' does not merely mean the achievement of short-, or longer-term financial results, but also the compliance with the requirements of the three-fold success criteria of the TBL. 'Staying within the rules of the game' no longer simply means compliance with the law or regulation or adjusting to the value-neutral processes of the earlier public sphere, but also acquiescence with the value-laden and value-committed cooperative strategies of the public and private spheres. Active participation in corporate value creation of stakeholders has opened up 'fiduciary' responsibility towards other stakeholders beyond stockholders only. Although Milton Friedman was, and is still today seen – not without reason – to be the most significant opponent of a more traditional understanding of corporate social responsibility, a twenty-first century interpretation of his doctrine can provide arguments for substantiating the importance and necessity of a politicized corporate responsibility.

It was the Committee for Economic Development (CED), numbering leaders of the most significant US corporations and researchers from universities among their members, founded in 1942, that contributed best to understanding CSR and to increasing acceptance of corporate responsibility in the beginning of the seventies. In their study, *Social Responsibilities of Business Corporations*, published in 1971, they declared that “[b]usiness functions by public consent, and its basic purpose is to serve constructively the needs of society – to the satisfaction of society” (CED, 1971). The study uses three concentric circles to define corporate responsibility. The inner circle contains the responsibilities necessary for an effective business operation, such as products, employment and the responsibility for economic growth. The middle circle contains those responsibilities which require sensitive attention to the context in which the business operates and changing social values and priorities, such as conservationism, hiring of employees and cooperation with them, compliance with the expectations of consumers and providing them with correct information, due diligence, and the prevention of injuries at the workplace. The components of the *outer circle* are those, as yet not fully developed and ambiguous, responsibilities through which corporations can actively shape their social environment, for example in the interest of reducing poverty or the decay of towns and cities. Here again we see the emergence of an active participation in the provision of some form of social good or the restriction of public bad by the corporation (Scherer et al, 2016).

Ecological tragedies and corporate scandals

Two important and in many respects interlinked phenomena became the driving force behind corporate responsibility in the eighties: the lid was blown off the scandalous ecological and social damage caused by large corporations, and the growing demand for corporations to account for not only their financial results but also for other externalities, risks and impacts in a structured and transparent way.

The first corporate scandal/tragedy, which – with the help of the international media – drew attention to the risks of corporate operation, was the Union Carbide case in Bhopal, India. In the early morning hours of 3rd December, 1984, a white cloud rose from the insecticide manufacturing plant of the chemical giant Union Carbide near Bhopal. The cloud was methyl-isocyanide (MIC). About five-hundred-thousand people were exposed to the heavily toxic gas. The human consequences of the tragedy were truly dramatic. To date this is considered one of history’s worst industrial catastrophes. As a result of having come into contact with the gas, 2259 people died immediately. According to the official investigation by the Indian authorities, the death toll directly attributable to the gas rose to 3797 people. Other estimates speak of eight thousand death cases in the two weeks following the catastrophe, with further eight thousand deaths that could directly be linked to the accident. The investigation by the Indian government, completed in 2006, registered 558,125 injuries, health deterioration and deaths which were direct results of the gas pollution. The real causes of the tragedy have remained unknown. According to activists and the government investigations, weak management and control, as well as the lack of regular maintenance led to water being able to get into the MIC tank. Union Carbide kept to their earlier standpoint, maintaining that the water got into the tank through sabotage. As a result of the legal proceedings ending in 2010, seven former employees of Union Carbide, including the plant's director, were sentenced to two years imprisonment and a fine – the most severe punishment that could be imposed according to Indian law in such a case. Bhopal has become the textbook case for irresponsible environmental operation: the company was operating at a loss and therefore all investments were put on hold. This was not the first such incident at Union Carbide. They had encountered problems with the MIC tank as early as in 1982 and although no catastrophe happened then, none of the protective measures, suggested by the investigation report at the time, were implemented. Beyond the deaths and health problems, the catastrophe caused substantial social and ecological damage, which has had lasting effect on the lives of the inhabitants of the region (Bogart, 1989).

The other most significant ecological catastrophe of the eighties was the accident of the Valdez, the Exxon owned oil tanker. The ship ran aground near the shores of Alaska on 24th March, 1989, spilling some fifty million litres of oil into the sea as a result of the accident. Reports by some NGO's showed that the true extent and quantity of the spillage was underestimated. In the days following the oil spill almost 200,000 birds, 2800 sea otters, hundreds of sea dogs, close to three hundred eagles and countless other animals perished. The accident devastated the habitat of the animals, the breeding places of birds and the micro-organisms of the water thereby disturbing the food-chain of the local fauna and flora. Local inhabitants are still suffering from the remains of the oil and the damage caused to their environment. The tragedy was caused by a number of coinciding factors. Crew members of the ship were overextended and exhausted because Exxon did not allow them sufficient time off. The third officer, who was in command of the ship at the time of the accident, was tired due to days of continuous work without enough rest. The so-called Raytheon Collision Avoidance System (RAYCAS) of the ship, with the help of which running aground could have been avoided, had for more than a year been non-functional – according to reports Exxon's management had not approved the funding for its repair as they thought the costs to be too high (Palast, 1999).

In the ensuing court case, the Court of the State of Alaska compelled Exxon to pay five billion dollars in damages, which was finally substantially reduced to half a billion dollars following a number of appeals. A further relevant outcome, and footnote to the emergence of the global financial crisis in 2008, of the case was the introduction of CDS (Credit Default Swap) as a financial instrument by J.P. Morgan, Exxon's bank to provide collateral for the five billion dollar damages payment of Exxon. A CDS is also called a credit derivative contract and in essence it is considered to be an insurance against non-payment or bankruptcy of the seller of the policy. CDS has been extensively criticized since, due to its non-transparent nature and because its purpose is really to avoid having to create bank reserves for loans or other debt instruments according to the Basel rule – as was the case with the Exxon/J.P. Morgan transaction. Many believe that, due to its systemic risks, the CDS was one of the financial tools that caused the 2008 financial crisis.

A third important case that can be mentioned in connection with CSR was the sweat-shop scandal involving Nike, the sportswear manufacturing company, at the end of the eighties. Nike, similarly to other clothing and sportswear manufacturers, had their products made in the Global South by contract manufacturers or OEMs. In order to be able to make these products at very low costs, workers in these plants were paid extremely low wages, typically between USD 1.25 and 2 per day, combined with working conditions unworthy of human beings, not seldom employing children to do hard physical work. This scandal was especially important from the point view that the abuses were uncovered by NGOs, student organizations and consumer protection movements, who then started a campaign against Nike in their home countries (that is in the Global North – where key stakeholders: stockholders, consumers resided). Similar scandals involving other companies were uncovered later, like the GAP clothing company's scandal in 2007, or the scandals of H&M, Zara and Marks & Spencer in the years to follow. As a result, these companies were forced to introduce control systems that exclude the use of child labour as well as prescribe subcontractors the payment of minimal wages. Despite these efforts NGOs still uncover similar cases from time-to-time, where workers are kept under conditions as described above. The latest such case was when NGOs called for boycott against FoxConn, one of Apple's most significant OEMs, because of inhumane working conditions.

These cases in the eighties directed attention to the fact that social and ecological impacts – the negative externalities of their operation – that corporations have on their environment may have tragic consequences and can cause long-term damage. The need for handling risks associated with these impacts and reforming the operation of corporations in a way that takes the negative externalities into consideration when evaluating the performance of the corporation (or 'internalizing externalities' in econ-speak), and trying to alleviate the effects of these, has become the driving force behind corporate social responsibility during the eighties and nineties of the last century.

Social reports

Since as early as in the beginning of the eighties 'social reports' – beside corporate financial reports – have been published, giving account of a part of the negative externalities for the investors. The theoretical foundations for these reports were laid down by Theodore J. Kreps, professor at Stanford (Caroll-Beiler, 1975). Kreps' aim was to set up a measuring system that would assist corporate decision makers in their efforts to promote social goals by making public information going beyond data contained in financial reports. Howard R. Bowen (1953, quoted above) on the other hand suggested a system in which external auditors evaluate the 'social effects' (remuneration, human resources, social contacts and communication). He, however, proposed it to be used exclusively by corporate decision-makers and not for the general public. These two theoretical approaches clearly reflect the possible dual aim of 'social reports'. The proposition of Kreps puts corporate performance in the foreground and presents it as part of striving towards reaching social goals, whereas

Bowen's method offers corporate leaders a new tool for being able to lead the corporation under their management, with minding public goods, better.

A few corporations in the United States experimented with 'social reports' and even their publication in the early seventies. Research conducted in 1974 showed that 74% of large corporations did prepare some kind of 'social audit', but – partly due to the Friedman doctrine – this did not become a widely accepted practice. Management thought spending money on such reports to be a waste of money, while companies restrained from any publicity regarding their social performance – or the lack of it – for fear of any assumed risks they may run with regard to their reputation (Hess, 2008). Preparing social reports came to a near to complete halt in the eighties, due to the recession and lack of interest. Social report preparation was resumed early in the nineties, partly because of the environmental awareness enflamed by natural catastrophes and as the ensuing refinement of published ecological reports, partly because of the social report initiatives of pioneering companies, such as Ben & Jerry and the Body Shop. In 1977 the Global Reporting Initiative, conceived by the CERES non-profit organization got under way with the aim of preparing a generally accepted and widely applied standardized system of reporting on social and sustainability issues, in collaboration with actors of science and governments. CERES was the driving force behind GRI, and as a result of this cooperation the first GRI reporting standard was published. GRI became an independent organization in 2002, and since then the fourth, revised edition of the reporting standard has already been published. Following the publication of the first standard in 2000 a mere fifty corporations prepared GRI-based reports, whereas this number was estimated to be thousands by the end of the first decade of the twenty-first century. (The GRI, the reporting system and its methodology will be discussed in further detail below.)

Institutional legitimation and responsibility

The appearance of GRI and the general acceptance of social/sustainability reports in corporation circles made theoretical discourse about the legitimation of corporations even more pointed and important. These discourses served later as the theoretical basis for sustainability and social reports. The term *legitimation* was introduced into the literature on organizational sociology by Max Weber (Weber, 1978). The authority types identified by him later frequently became the point of departure for organizational theories. Weber's theory was developed further by Parsons, who viewed legitimation as the organization doing justice to norms, laws and values accepted by society (Parsons, 1971). Authors of organizational theory took this approach as point of departure, yet at the same time the exact content of the legitimation of organizations was disputed, to a large degree due to the ecological catastrophes and social injustices mentioned above as well as others. There was no uniform definition as to the exact meaning of the legitimation of organizations in the seventies-eighties, just as there was no differentiation between the different types of legitimations. Mark Suchman states that "[l]egitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Suchman viewed legitimation, on the one hand, as a question of organization, i.e. how do the norms of a given society become integrated into the operation of an organization?; and on the other, as a strategic tool, the adequate use of which helps corporations achieve success by applying these values and norms in their operation. From all this the definition of a number of sub-areas of legitimation follows. We can differentiate between pragmatic, moral and cognitive legitimation. The origin of pragmatic legitimation is the self-interest of the organization. Its aim is to get reciprocation for achieving legitimation. Moral legitimation stems from the judgement of the environment, and its goal is to get a 'licence to operate'. The basis for cognitive legitimation is 'taken-for-grantedness' or mutual and conscious acceptance. It follows that there can be post-conscious and pre-conscious institutionalization. The former can come to be as a result of an evaluation process based on mutual cooperation, whereas the latter is based upon conscious acceptance or agreement (Suchman, 1995). However, legitimacy problems may arise when companies are deciding on priorities and contributions to public goods without proper inclusion and deliberation with the addressees of their engagement and companies miss the actual expectations of the members of society (Matten & Cane, 2005; Scherer et al, 2013; Scherer, 2016).

There are a number of tools available to corporations to help manage their legitimation: from reputation management using PR through brand building to marketing communication and the tools of internal-external communication. At the same time, there is obviously an information inequality between the corporation and its environment. This inequality must be balanced out as a pre-requisite for the company to obtain, maintain and improve its legitimation. Consequently, the social/sustainability reports in the nineties became tools for alleviating information inequality and managing strategic organizational legitimation, to a large degree due to the question of strategic organizational legitimation having become the focal point and avoiding the problems stemming from the public withdrawal of the ‘licence to operate’. This had a beneficial effect on reporting and on the development of organizational reporting culture, both within the corporations and in organizations supporting the corporations.

Thus, the spread and application of corporate social responsibility was helped by two related circumstances in the eighties and nineties. One of these was the recognition induced by – mainly ecological – catastrophes that corporations and their environments must manage the negative externalities and risks arising from their activities. The other one was that the pre-requisite for managing these negative externalities and reducing risks was the alleviation of information inequalities and preparing for proper inclusion and deliberation with the addressees of provision of public goods or avoidance of public bads, and the tool for doing this was the strategic management of institutional legitimation.

Institutionalization of responsibility

The practice of some form of corporate social responsibility therefore gradually became an important, necessary and finally compulsory area of corporate operation in Western Europe. As more and more corporations published sustainability/social reports, an increasing number of corporations felt that the key performance indicators (KPIs) contained in these reports had to be managed in order for institutional legitimation to be obtainable and sustainable. Also, KPIs where questioned and challenged for accuracy, manageability and usefulness by stakeholder groups entering into cooperation of any form with the corporation. The first decade of the twenty-first century saw the institutionalization of corporate responsibility and its integration into corporate operation. Institutionalization did not only take place in the corporate sphere. NGOs and consulting firms were founded to take on the task of popularizing CSR, thereby helping the process of institutionalization. Independent chairs were established at universities and the issue of responsibility found a place on the agendas of international organizations. Global Compact, a specialized institution of the UN, was set up. The European Union issued communiqués, first about the compulsory nature of reports, later about the strategy -- “Europe as the Centre of Excellence for Responsibility”. According to the Union’s CSR strategy of 2011: “Through CSR, enterprises can significantly contribute to the European Union’s treaty objectives of sustainable development and a highly competitive social market economy. CSR underpins the objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth, including the 75% employment target. Responsible business conduct is especially important when private sector operators provide public services. Helping to mitigate the social effects of the current economic crisis, including job losses, is part of the social responsibility of enterprises. CSR offers a set of values on which to build a more cohesive society and on which to base the transition to a sustainable economic system” (European Commission, 2011). All this is supported by the indices and indicators underlying EU strategy. The strategy states that “The number of EU enterprises that have signed up to the ten CSR principles of the United Nations Global Compact has risen from 600 in 2006 to over 1900 in 2011. The number of organizations with sites registered under the Environmental Management and Audit Scheme (EMAS) has risen from 3,300 in 2006 to over 4,600 in 2011. The number of EU companies signing transnational company agreements with global or European workers’ organizations, covering issues such as labour standards, rose from 79 in 2006 to over 140 in 2011. The Business Social Compliance Initiative, a European, business-driven initiative for companies to improve working conditions in their supply-chains, has increased its membership from 69 in 2007 to over 700 in 2011. The number of European enterprises publishing sustainability reports according to the guidelines of the Global Reporting Initiative rose from 270 in 2006 to over 850 in 2011” (European Commission, 2011). The European Parliament, like many other European organizations, has also formulated what they would expect from the Commission to make CSR general practice, not only for corporations but also in the economy as a whole. Among others, the Parliament’s initiative “[s]tresses that corporate responsibility must not be reduced to a marketing tool, and that the only way to develop CSR to the full is to embed it in a company's overall business strategy and to implement it and translate it into reality in its day-to-day operations and financial strategy; would welcome a link between good corporate responsibility and good corporate governance; believes the Commission should encourage companies to decide on a CSR strategy at board level; calls on the Commission and the Member States to introduce corporate stewardship codes that reflect the importance of responsibility for all in the company and establish a strong link between its environmental, social and human rights performance and its financial results" (European Parliament, 2013). By the end of the first decade of the twenty-first century the issue of responsibility had become accepted and integrated business practice in the developed Western countries.

Social and economic paradigm shift

The ecological catastrophes and their consequences lead to another important social recognition at the turn of the eighties and nineties. Warnings increased that the exploitation and demolition of scarce environmental resources and the natural environment will lead to dramatic consequences even in the midterm. More and more people have come to recognize that the traditional growth of economic/production/consumption 'value' causes damage far in excess of the value created. In other words: the economic value created is lower than the sum total of the consequent social costs. These are comprised partly by the consequences of, offset or hidden, ecological damage already present in mainstream public discourse at the beginning of the second millennium, as well as less present social costs offset by government social transfers, or hidden behind achievements not produced. But the situation is even worse. By ignoring the social costs incurred, GDP/GNP, nowadays the most widely accepted indicators for economic performance summarizing the system of national accounts, do not measure value creation correctly. What is more, economic headline indicators show social costs as value increase despite the fact that these are costs. As Robert Kennedy put it in his seminal speech on GNP at Kansas University in March, 1968: "Too much and for too long, we seemed to have surrendered personal excellence and community values in the mere accumulation of material things. Our Gross National Product [...] counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. [...] It counts napalm and counts nuclear warheads and armoured cars for the police to fight the riots in our cities. [...] Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. [...] it measures everything in short, except that which makes life worthwhile" (Kennedy, 1968). GDP does not measure and does not evaluate environmental damage caused by traditional production growth, just like it does not measure those social damages that are caused by traditional consumption growth. As a result of traditional economic growth the gap between those few who share the accumulated wealth and the majority who are unable to accumulate wealth, since all they are able to do is to earn basic subsistence, is getting wider (Stiglitz, 2013). An increase can be seen in a large part of the Global North of the number of those who have lived in deep poverty, often for generations, struggling to survive without the hope of ever earning a living and therefore not having the remotest chance of accumulating financial security. They are the number one recipients of social transfers, but according to many the system is unsustainable, since less and less income-producing people have to support an ever-increasing number of inactive citizens. As a consequence of global crises and in periods of recession more and more people become inactive. In the process they lose their accumulated wealth and start sliding down towards poverty. The three future shaping key megatrends: environmental, consumer and local consciousness have elevated ecological sustainability (thrifty and conscious husbandry with limited resources) and social sustainability (democracy, based on involvement and cooperation) into the mainstream of thinking and acting.

In 2008, French President Sarkozy commissioned Joseph Stiglitz, professor at Columbia University in New York, who at the time was already known to be a critic of traditional fiscal practice, to investigate whether GDP is a suitable tool for measuring development under modern social and economic conditions. It was hardly surprising that Stiglitz and his colleagues came to the conclusion that the GDP does not sufficiently take into account aspects of quality of life, just as it does not concern itself with the dangers of depleting natural resources and costs of restoration. In short, new indicators and a new economic paradigm were needed. The second, so-called 'higher level committee' started work in 2014. Its task will be to set up the indicators, the economic model and regulating system in line with the principles of the 'new economics' (Stiglitz et al, 2008; 2010).

In the first half of the nineties of the last century, psychologist Daniel Kahneman, who in 2002 was awarded the Nobel Prize in Economics for work done in the field of behavioural economics and decisions under risk, started research into the psychology of subjective well-being and its economic consequences. Kahneman and his fellow researchers were curious to find out which factors and circumstances formed people's subjective feeling of being well or thriving, in everyday language their happiness and well-being. Kahneman's findings, namely that the feeling of well-being is the sum total of a number of 'subjective factors', such as biases, heuristics, and distortions of the remembering self, have influenced the work of numerous researchers. They posed the question: what factors are necessary for people to feel that they are happy with their lives? These researches served as the basis for the economics of well-being, which placed psychological well-being – rather than being materially well-off –at the centre of the operation of economic systems. Many a study was conducted to find out which qualities, forms of behaviour and opportunities mould well-being, i.e. the phenomena that make a significant proportion of people answer the simple question of how happy they generally felt last week positively (Kahneman, 2000; 2011).

All this research has also shaped the public policy discourse on macroeconomics. In the same way that in the early years of our century institutions for supporting, developing and teaching corporate level responsibility were set up, new institutions came into being parallel to the former for the purpose of propagating and advancing the new paradigm of economics. The economics of wellbeing aims at providing individual and communal wellbeing for as many as possible. It considers financial or economic development, social processes and the so-called 'human systems', such as education, health-care, care for the aged, etc., as tools while considering the thrifty treatment of limited natural resources and the search for alternatives to them to be a pre-requisite for achieving its goals. This train of thought has recently become part of economic and policy thinking in Western Europe. British ex-Prime Minister, David Cameron commissioned the British Bureau for Statistics, involving the British think tank, the *new economics foundation,* in the work, to develop indicators for measuring well-being and to start measuring performance. He announced that he is planning to link the effectiveness of his government to the development measured by these indicators (New Economics Foundation, 2015).

Thus the principles and practice of responsibility and their integration into corporate operation presumes that the scientific foundations and paradigms also have to change. Should the integration of stakeholder values and interests into corporate operation become the basis for corporate value creation, and should the performance of corporations not only be evaluated on the basis of their financial success but also according to the principles of the triple bottom line, conceptions about development and progress cannot remain unchanged either. Therefore, ideas about economic progress and growth and the necessity and extent of these must likewise change in order to achieve success of responsibility on a corporate level. Propagators of ecological and social sustainability appeared parallel to the development of CSR. Similarly to the institutionalization of CSR and the new economics, the representatives of the idea of sustainable development established their own institutions. The *Bruntland Commission,* set up by the UN in 1987, defined sustainable development in its report as *"development which meets the needs of current generations without compromising the ability of future generations to meet their own needs"*, which is the central idea that the term sustainable development stands for. According to the representatives of this initiative, development must have regard to limited ecological resources, the Earth's ability to support its population and the depletion of the natural environment. Representatives of sustainable development are critical of over-consumption, growth seen exclusively as an achievement in a material sense, and wastefulness, which can be observed side-by-side with poverty and starvation and serious multiple deprivation. The definition of sustainable development evolved parallel with the thought and practice of corporate responsibility and later became widely known through Lester R. Brown's work, *Building a Sustainable Society*, published in 1981. The setting up of the UN Millennium Project was an important step in the process of institutionalization, which created a framework for identifying the most important global challenges. The Millennium Project viewed the answers to these challenges the most important success criteria in the interests of the future of humankind. As José Antonio Ocampo, Deputy Secretary General responsible for sustainability at the UN stated in the introduction to the Millennium Project: “Six years ago, leaders from every country agreed on a vision for the future – a world with less poverty, hunger and disease, greater survival prospects for mothers and their infants, better educated children, equal opportunities for women, and a healthier environment; a world in which developed and developing countries worked in partnership for the betterment of all. This vision took the shape of eight Millennium Development Goals, which are providing countries around the world a framework for development, and time-bound targets by which progress can be measured” (The Millennium Development Goals Report, 2006, p. 3). The timeframe for the Millennium Project has been set for 2000-2015 with the following eight goals: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat AIDS/HIV, malaria and other diseases, ensure environmental sustainability and develop a global partnership for development (The Millennium Development Goals Report, 2006).

All in all, the pillars of the new social-economic paradigm have become clear by the early twenty-first century: the triple bottom line and corporate responsibility integrating stakeholders’ values and interests into the operation of the corporation (TBL); initiatives for supra-corporative, multi-stakeholder initiated soft rules, recommendations and standardization on the micro and mezzo level of the economy based on the involvement of stakeholders (pCSR); developing and using indicators other than GDP for measuring economic progress; taking into consideration not only monetized social transactions but also the limited environmental resources; giving primacy to the development of human capital (beyond GDP); the ‘new economics’ (NE) and public policy practice, considering the ecosystem of economy-society-environment to be important, and the vision of sustainable development determining the direction of socio-economic development and its possible strategies globally (NE). Therefore, (p)CSR is not an independent and separate territory, but part of a system that fits in organically with the new socio-economic paradigm through the transformation of the politics of corporate level business operations.

Corporate social responsibility is not the only area in the lives of corporations where this kind of shift has occurred. The attitude towards corporate brands has gone through a similar transformation in the past decades. Brands are no longer simply signs of ownership and tools for image building, they have become communities built upon common beliefs regarding a mutually beneficial social exchange based on solid cultural roots and complex organizational contacts. Therefore instead of a purely management task, brand ownership is a mutual process based on negotiation to give meaning and attach positive associations (Fagerholm, 2007). Corporate leaders lose direct control over the identity of their brands, therefore brands also become communities, which assist educated and informed brand selection, that in turn will reinforce the development of individual identity positions (Ind, 2003). Leading brands, like Nike, Coke or Starbucks, have realized that the success of a brand is not primarily decided by the board of directors or the marketing department. The concept of brand ‘co-creation’ and ‘living the brand’ offers brand community models, which can create more value for the stakeholders than brands owned by the shareholders focusing merely on shareholder value. Brand communities are – just like nations – virtual, imagined communities, which are no longer the property of the corporation or its representative, the marketing expert, but of the community and its members (Anderson, 1983). This, of course, does not eliminate the need for marketing professionals, rather it gives them different, political, tools to work with, since mobilizing the community – thus sustaining and increasing the power of the brand – depends on raising a sense of identification and belonging, the introduction and operation of rites and symbols and sustaining the responsibility towards the community (Muniz & O’Guinn, 2001).

Corporate social responsibility, as the new model of corporate operation, extends the brand community over the corporate community as well. Effective and methodological CSR includes voluntary activities, just as it includes compulsory legal and operative practices. It politicizes the corporation as it focuses on the inevitable socio-cultural differences among different stakeholders and the modes that these differences may be reconciled to cooperate in will formation and value creation as well as manage the power setup or the “complex strategic situation in a particular society” (Foucault, 1990b, p. 93). To achieve this it is not enough to understand the new business-social context. The actors have also to become acquainted with the tools of the new context, primarily in communication. For an equal and, to some extent, oppression-free exchange with stakeholders, it is necessary to use multi-directional and multi-sided communication by applying the principles of web 2.0 (many-to-many) connecting the points of a matrix. Communication in this process is not meant to be ‘speaking about something’, nor a mere tool for setting the basis for the action and directing it, but rather – in line with Austin’s *speech act theory* - it must itself be the action (Austin, 1962). Therefore, communication with stakeholders and the politicization of exchange may serve as the basis for the process of developing the corporate constitution, in the course of which the implementation of various principles of communication may lead to the emergence of ‘stakeholder constitutional democracy’. Liberal and democratic corporate communities need to be managed appropriately, cooperative management and discursive legitimacy are to be applied and it is important to involve and engage stakeholders to ensure their commitment. It would be desirable to initiate a constitutional process in corporations, instead of stricter regulatory practices and direct state involvement to arrive at favourable societal outcomes. Supra-national organizations may involve organizational stakeholders in the process of drafting the constitution having regard to the principles of cooperative management. This process can lay down the forms and structures of corporate constitutions, it can provide examples and good practices for the elaboration of such constitutions and it can accept binding legal steps to be incorporated into national legal systems. One of the first steps in this direction was when the EU accepted a directive formulating expectations towards corporations to include in their annual operational report – beyond the financial aspects – ‘strengthened control’, in effect requiring them to include a CSR report as well. Corporations can undergo a process of transformation due to stakeholder pressure, or they can manage such transformations already under way. However, a shift and redistribution of power based on the new concept of marketing-guided communal sovereignty has still only just begun in very few corporate communities (Ind, 2004).

Criticism of CSR

While by the end of the first decade of the twenty-first century the issue of corporate social responsibility has become an accepted and general business practice in the developed Western European countries, many critics of this practice have come forward (Broomhill, 2007; Caroll & Shabana, 2010; Fooks et al., 2013; Fougére & Solitander, 2009; Henderson, 2009). Their criticisms can basically be divided into four groups.

According to the first group of critics, CSR is nothing more than a PR activity, simply serving communication goals for improving the corporation's image. This criticism may be well-founded, although numerous authors – primarily interpreting the question from an organizational legitimation standpoint as discussed above – allow that the acquisition and maintenance of the corporation's image is an important part of corporate operation; therefore, it is part of the management of legitimation. This would be the position of those who share the 'CPA ontology' referred to by Scherer (2016); this is characterized by the premise that corporations engage with the political system, stakeholders included, only to gain economic benefits and further their competitive positions. However, if the corporation presents a positive picture by integrating stakeholder values and interests to some extent, thereby acquiring and maintaining its institutional legitimation, in reality it is managing responsibility. Critics also argue that the corporation can achieve substantial image improvement by showing only modest responsibility supported by effective communication. This criticism may be well-founded, but in this case stakeholder responsibility may have to be scrutinized. Should the stakeholders feel that their values and interests have not been integrated into the operation of the corporation to a sufficient degree, they have the possibility of withdrawing the legitimation from the corporation and, as a final resort, even forcing the withdrawal of the social 'licence to operate'. Managing stakeholders or stakeholder politics is not a one-way-street. It presumes two-way communication, since proper mutual communicative cooperation with the stakeholders is part of a PR that has due regard for responsibility. As mentioned in the introduction, these corporations are on the first level, i.e. they operate according to the anti-democratic operational model showing only sporadic and opportunistic responsibility. Stakeholders have the possibility to force these corporations to change, or to at least to make them move towards an organizational-regulatory democracy, through putting legitimation in jeopardy, by stakeholder actions, such as boycotts, walk-outs and negative reports, by involving direct legislative interference, and, ultimately through the withdrawal of the ‘licence to operate’.

The second group of critics argue that while the issue of responsibility in the whole of the economy may seem to be accepted and have become general business practice, for the time being this only applies to large corporations – smaller companies do not bother themselves much with it. This criticism is well-founded. It is exactly for this reason that the most significant challenge for institutions and organizations in the process of institutionalization of CSR has been to demonstrate the CSR cause, its usefulness and necessity, to all the smaller players of the economy. There are a number of initiatives in the European Union that aim at popularizing and advancing the principles and practice of corporate social responsibility among mainly small-, and medium-sized enterprises. Beyond this, large corporations – as part of their responsibility, yet mainly motivated by the recognition that in the interest of the healthy functioning of the economic ecosystem all members of the supply-chain must operate according to the same practice – can themselves take steps in the interest of making smaller enterprises linked to them part of the system of responsibility. We will return to supply-chain responsibility in Chapter 5.

According to the third group of criticisms, large corporations often seem to operate responsibly, yet in reality, they ‘sub-contract’ irresponsible practices to their partners and contractors. It is true that this does occur regularly, yet here regulation and multi-stakeholder corporate initiatives should play a role in order to prohibit the sub-contraction of irresponsible operation to various points of the value chain. This is what responsible supply chain management, multi-stakeholder self-regulation and full supply chain state regulation are aimed at. These prescribe uniform responsibility systems for the entirety of the supply chain and to corporate partners controlled by third parties.

The fourth group of critics hold that the responsible operation of the corporations in reality exerts excessive influence on the operation of society. This influence can then be used/exploited for unethical or irresponsible practices. As stated earlier, corporations have by the end of the twentieth century become one of the most influential actors in shaping social processes. Therefore, whether we want it or not, it is they who are the key determining factors in shaping our lives. It is corporations that have the financial and human resources, operating knowledge and organizational culture that can be the most important driving forces behind social innovation. This is exactly why involving corporations in the process of societal transformation, the politicization of corporations, is not harmful. This is, I think, what Zadek means when he talks about "civilizing power" (Waddock, 2008). Corporations must participate in designing and setting up spaces for democratic stakeholder politicizing, and establishing its institutions, depending on the social value system, interest relationships, legislative context and political environment. Every corporation politicises in the interest of shaping social conditions according to its goals. The introvert corporation that only represents the interests of its stockholders does not take cognisance of its operation's impact on other stakeholders, there is no offset, limit or mitigation to such negative externalities. The lack of involvement of stakeholders lessens its value-creating ability, since for the twenty-first century cooperation the sharing of knowledge and mutual support maximizes value creation. And this is what produces 'profit' for everyone. The corporation that politicizes consciously is democratic, and creates the institutions for stakeholder involvement, making engagement more successful and valuable for both the stakeholders and society as a whole.

2. STAKEHOLDERS

The GE dialogue

The top management of General Electric met in Brussels in the autumn of 2007. The agenda this time was not the question of a major investment, nor the selling off of a subsidiary. The meeting was convened by Ferdinando Becalli-Falco, Vice President and European Director General of GE and all major areas of the corporation were represented. The HR Deputy CEO, as well as the manager responsible for marketing and suppliers were also present. However, this time GE wanted something more, something different from a meeting of the directors where management deliberates global strategic questions facing the corporation. This meeting fitted into a series of previous ones where GE's declarations "Citizen Report" and "Principles of Human Rights", both published a year earlier, were discussed. In the twelve months since their publication, similar meetings had been held in New York, London, Warsaw and Hong Kong. In these places, GE's top management met with leaders and representatives of groups of the corporation's most important stakeholders, international experts and thought leaders on responsibility, rather than with politicians and statesmen. This series of meetings was organized by the international NGO AccountAbility, in line with the standard for stakeholder dialogue published by them earlier. The meeting in Brussels was chaired by Simon Zadek, Chief Executive of the organization. In his welcome address, one of the directors of GE apologized for not switching off his cell phone during the day. The reason for this – as he explained – was that it was conceivable that he would be called from the Far East, where one of GE's employees had been arrested for refusing to divulge information about the corporation's electronic mailing system to the authorities, and also because another employee in an unnamed North-African country might be asking for help as the authorities there had been putting him under pressure to tell them the names of his colleagues who took part in the work of anti-government NGOs using the corporation's email system.

This welcome address was a good illustration that involving stakeholders and the integration of stakeholder values and interests was not merely a theoretical challenge, but part of daily decision-making by corporate leaders. At it happens, the phone did not ring but the participants discussed in detail the question of what decision alternatives are open to corporate leaders in such situations. How can a global corporation cooperate with the local authorities of a huge country – this being the regulating pre-requisite for business operation – which does not profess to the principles of freedom of speech as practiced in western democracies, while adhering to its own corporate culture based on western democratic traditions and protecting its most important stakeholders. The participants also considered whether an employee should be allowed to use the corporation's email system for their personal political ambitions, and whether after such an incident the corporation has the right and possibility to continuously monitor employees' emails in order for the corporation not to become involved in political fighting.

The meeting was held according to the so-called Chatham House Rule, i.e. *"[...] participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed."* Following heated debates at the Royal Institute for International Affairs, the rule was devised in 1927 and refined in 1992 and 2002. It made it possible for both GE top managers and the participating stakeholder representatives to speak their minds openly and clearly without running the risk of anybody, including the participants, later making all or any part of the arguments public. Non-corporate participants had the opportunity to learn about the influence of a global corporation, the depth of issues to be dealt with by decision-makers and the multi-faceted and often dramatic significance of these issues. A number of arguments, conflicts and differences in interests and value judgments also surfaced during this two-day meeting. Conclusions of the meeting were built into the decision-making process at GE.

Leaders of international organizations, CSR experts, academics and experts on responsibility and human rights are fully aware of just how significantly GE, one of the world's largest corporations, influences the situation of human rights in the world. What is more, it is not only the situation of human rights that GE influences, but also the way people live, how they work, what they eat, what means of transportation they use, people's banking habits, their healing from an illness and whether they have electricity and hot water in their homes. In the course of its operation, the corporation comes into contact with millions of people, it provides information, cooperates or suspends cooperation, buys and sells, hires or fires, provides training or gives support to others who train, pollutes the environment or it cleans it up, develops or destructs, shows direction, argues and conducts dialogue, criticizes, requests and conquers. GE has employees in excess of three-hundred-thousand people world-wide and an annual turnover of more than one-hundred-and-fifty billion US dollars. This is more than the GDP of Norway, Peru or Portugal. Its effect on the world is greater than that of the total number of its employees. Decisions taken by its leaders and the operation of the corporation influence the lives of millions. Its employees provide a living for hundreds of thousands of families, its scientists determine the technology of the future, its financial decision-makers set the financial instruments of today and tomorrow, its engineers and chemists develop medicines and medical instruments for the present day; power plants operated by GE warm households and influence the quality of life of many and through its subcontractors the fate of further millions are influenced. GE’s aeroplane engines transport millions of people yearly, its media companies provide decision-makers and the man-in-the-street with information, its investment decisions can make or break countries around the globe, its innovations control the life of generations, in the course of its daily operation it gets in touch with hundreds of millions, it shows the way, cooperates, participates, gets and gives. As one of the world’s largest corporations, GE basically influences the life of all mankind. Furthermore, it not only affects future generations but also guards and helps preserve the memory and values of past generations.

The participants were in agreement that the intentions of the corporate leaders were honest, their goals clear: ask for advice and offer cooperation in cases where they are less experienced yet their decisions may affect the lives of hundreds of thousands, just as they can contribute to the success of the corporation or also ruin it. Thus, the keynote of the meeting guided the participants towards the very practical questions of the relationship between human rights and the corporation. During the two days the issue of GE’s responsibility was also raised regarding questions of its employees’ cooperation with authorities in a country that does not support human rights, and of how it should reconcile its business interests with principles that western society stands for, and also of how it should meet the expectations put forward by international human rights organizations.

The results of that 2007 meeting have since become part of GE’s decision-making process, and were included in GE’s “Global Citizenship Report” of 2007E. Following the meetings, a commissioned panel of experts formulated recommendations for GE regarding principles of human rights, transparency and stakeholder interests and values to be built into its business operation (GE, 2007).

Who are stakeholders?

The most important insight of corporate social responsibility is that the boundaries of the corporation are not to be drawn along the fences of the company. The operation of every corporation affects the life of numerous people and not only of those who are in direct contact with it. The corporation, especially multinational corporations (MNCs) is a determining player in a complex socio-economic web of interactions. Everybody who is impacted by the corporation and who has an impact on the corporation is part of this matrix. In addition, the players in this matrix are not simply individuals but groups of people, organizations, other corporations, groups of corporations and organizations and sometimes whole countries. Corporations do not only affect others through their business operations but also through other aspects of their operation. Corporations are much more efficient organizations than governments or other societal players, including NGOs. As Jeffrey Swartz, former CEO of Timberland put it, *“Business has such strengths to share – innovation and resources and expertise – that are useful and applicable far beyond creating a great service or product. We live in this world and whether we want to or not, we have an impact on it … why not try to make that impact as positive as we can, since we can?”* (AccountAbility, 2011). As such, the integration of stakeholder values and interests into business operation or into the DNA of the corporation is one of the greatest challenges of the twenty-first century. By the effective management of the company the operation, the business success of the corporation as well as the operation based on the triple bottom line principle can be influenced, and at the same time the world can be made a more livable, better and safer place for everyone.

The history of stakeholder theory

The stakeholder theory of corporations evolved in the eighties. Research into corporate impact or corporate politics was present earlier, stating that “[c]orporations have ceased to be merely legal devices through which the private business transactions of individuals may be carried on”, since “grown to tremendous proportions” in reality it “has attracted to itself a combination of attributes and powers, and has attained a degree of prominence entitling it to be dealt with as a major social institution” (Berle & Means, 1932, p. 3). Yet, it was only in the eighties that the question of the responsibility of business decision-makers in issues regarding the impact the corporation makes on the environment and society was raised. The corporate strategy theories of those days did not help decision-makers to meet the challenges of the era, or at least to provide a foundation for management practices for combating obvious corporate environmental and social risks. As we saw in the previous chapter, corporate leaders of that time had to face numerous, earlier unknown environmental and social challenges. The handling of ecological catastrophes, accidents, labour abuses and other social conflicts; the proper evaluation of the operating environment and the working out of the appropriate strategies, all required a new leadership understanding and tools. As Edward. R. Freeman (1984), godfather of the stakeholder theory, wrote in his seminal *Strategic Management: a Stakeholder Approach*: “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” (Freeman, 1984, p. 5).

The stakeholder theory of corporations was to become this new conceptual framework. The point of departure of this approach is that the corporation does not end where its property ends: corporate decision-makers have to do more than simply manage the employees and its immediate business environment. They face a complex interest, identity, vision and value matrix, in which everybody participates who has an impact on the realization of the strategic goals of the corporate community, or on whom the corporation has an impact in the course of realizing these strategic objectives. Stakeholders of the corporation are all individuals and their groups in contact with the corporation who may have a claim or interests regarding corporate operation without limits in time or space. They are individuals or groups who are affected by the operation of the corporation or who can have an impact on it, whether they are aware of it or not.

The term ‘stakeholder’ is a play on words, echoing ‘stockholder’ and referring to one of the important theoretical points of departure of the theory: the fiduciary responsibility of corporate leaders and its extension to stakeholders. One of the possible ethical conclusions of the stakeholder theory may be that the fiduciary responsibility of a corporate leader does not only extend towards the stockholders-owners but also to every stakeholder, even if not to the same degree. There are a number of authors who are of the opinion that the *triad* of fiduciary responsibility – loyalty; goodwill and diligence; complete transparency and openness – is applicable to every stakeholder relationship and not only to the stockholders of the corporation (Atherton et al., 2011). The conclusion is therefore that substantiating the stakeholder approach can be done not only on strategic but also on ethical grounds. According to Freeman we may “revitalize the concept of managerial capitalism by replacing the notion that managers have a duty to stockholders with the concept that managers bear a fiduciary relationship to stakeholders. Stakeholders are those groups who have a stake in or a claim on the firm. Specifically I include suppliers, customers, employees, stockholders, and the local community as well as the management in its role as agent for these groups. I argue that the legal, economic, political, and the moral challenges to the currently received theory of the firm, as a nexus of contracts among the owners of the factors of production and costumers, require us to revise this concept. That is, each of these stakeholder groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake” (Freeman, 2001, p. 39).

Other authors see a difference between the fiduciary responsibility of stockholders and that of other stakeholders. These authors contrast the so-called ‘multi-fiduciary interpretation’ of stakeholder relationships (in which the corporate leader also has a moral responsibility for protecting and increasing those values which are ‘owned’ by the stakeholders) with the corporation’s strategic interpretation, in which stakeholders – though aware of their strategic significance – do not generate a moral responsibility for the leader of the corporation and are simply tools to be managed for achieving corporate strategic objectives: they do not ‘possess’ anything of the corporation (Goodpaster, 1991). At the same time, one of the points of significance of the stakeholder theory – as formulated by Freeman – is that it offers theoretical bases to the search for practical answers: how are corporate decision-makers to lead their corporations under changed social, cultural, and environmental conditions?

The fact that the corporation operates in a complex business environment in which many different aspects have to be taken into consideration, is nothing new. As early as in the sixties researchers came to understand that a business context reaching beyond the traditional borders of the corporation may be of importance in the course of strategic planning, as players of the business environment might be obstacles in the way of realizing the achievable goals. Corporations were seen by researchers more and more as ‘open systems’, therefore they recommended building a system which takes the environment into account and defines itself according to this environment (Katz-Kahn, 1966; Thompson, 1967; Ackoff, 1970; Pfeffer & Salancik, 1978). These approaches, however, concerned themselves with the organization itself, rather than with the corporate decision-makers and the responsibility they carry for their decisions. They viewed the corporate environment as a hindrance, rather than a help or a partner to be involved in solving the problem.

The term ‘stakeholder’ appeared first in the studies of researchers at the Stanford Research Institute (SRI) early in the sixties. An internal memorandum of the project’s participants is the first to mention a group “without the support of which organization as such will disappear” (quoted in Freeman et al, 2010). The notion goes back as far as the discussion in 1962, where thoughts were exchanged in SRI about strategic planning. The key question was: Who should have a say in formulating the corporation’s mission? This question was at the time thought to be one of the most important elements of strategic design. The discussion revolved around those individuals and groups who could contribute to the success of the corporation, and whose interests and needs the management had to consider, at least to some degree. And then Marion Doscher, who had at the time been with the organization for just a few years, exclaimed: “you mean the stakeholders, since all of them have a stake in the corporation”. She explained that the origin of her exclamation was an old Scottish saying, which referred to people who had a legitimate claim for some of their valuables (quoted in Freeman et al., 2010). The thought and its definition were readily accepted by those present at the discussion. Consequently, it was included in the working material of the working group entitled ‘*The Theory and Practice of Planning’,* and following this, the basic methodology for stakeholder need assessment, accompanied by a simple diagram, was presented in the SRI study *Strategic Planning*.

At the same time, similar thoughts were in the process of being formulated in other research centres as well, such as the Tavistock Institute in London and the National Training Laboratory in Maine, US. Here the focus of research was on human resources and the problem was approached from a socio-psychological and psychoanalytical point of view, looking at various facets of group cooperation. Business and ethical aspects were not the primary interests in this research, i.e. the goal was less to determine the necessary conditions for the survival of the corporation, but rather the question of how the corporation should adapt to its environment, and how and to what extent it must take into consideration the opinion and needs of individuals and groups making up that environment. The original formulation of the stakeholder theory used here was, “Determination of corporate purpose requires comprehensive information about the expectations of the firm’s ‘stakeholders’. (These are all groups – such as owners, employees, and suppliers – who have something directly at stake in the company’s progress.)” (quoted in Freeman et al., 2010)

It was not merely the introduction of the new term that lead to a turnabout in thinking, but also the fact that the environment – the stakeholders – of the corporation were no longer seen as a hindrance, but rather as a necessary prerequisite for achieving business success through their involvement and support. Stakeholders as the corporation’s environment could formulate ‘expectations’, they had an interest in the operation of the corporation and they could come forward with ‘legitimate claims’. Thus, according to this approach, the success of the corporation depended on how much the strategic decision-makers considered these expectations and to what extent they were able to cooperate with the stakeholders in the interest of common success. This theoretical point of departure was developed further in the eighties by the participants of a series of seminars on the theoretical questions of corporate management at the Wharton School in Pennsylvania, partly involving in these seminars the researchers of SRI and the Tavistock Institute who designed the stakeholder theory originally. Freeman's theory grew out of these seminars, the primary goal of which was to find a statistically provable connection between stakeholders and business success, as well as to show that management practices that have regard to the interests of stakeholders create economic value.

The historic background outlined by Preston in his work published six years later is slightly different from that of Freeman (Preston & Sapienza, 1990). He claims that the origins of the stakeholder theory can be traced as far back as the thirties, though it was not called that at the time. During the Great Depression, the internal documents of the General Electric Company identified four important groups that were necessary for business success and for overcoming the world-wide financial crisis. These groups were the *owners,* the *employees*, the *consumers* and *public opinion*. John Wood Johnson took these four groups as the basis for formulating the basic corporate philosophy of Johnson & Johnson, in which the most important 'strictly business' groups – *consumers, colleagues, managers* and *owners* – were listed. In the fifties General Robert Wood, CEO of Sears mail-order company, named four groups essential for every business: *consumers, employees, community* and *shareholders*. The novelty of Wood's approach was that here the origins of the philosophy of modern corporate responsibility can already be detected. According to Wood, profit was only a by-product of satisfying the legitimate needs and interests of groups which are in contact with the corporation. He claimed that building the interests of the first three groups into the business operation properly will benefit the fourth group, the shareholders (Preston & Sapienza, 1990).

The stakeholder theory was important for more than the theory and practice of social responsibility. Taking the interests of stakeholders into account and, as shown earlier, predicting the movements and actions of stakeholders have become important factors in the process of corporate strategic planning. The purpose of strategic planning is to optimally design and utilize the external and internal resources at the corporation's disposal. In the course of this process the planners evaluate and analyze organizational resources, skills, risks and opportunities that may come about in the internal and external environments. The significance of the stakeholder theory for strategic planning was that information provided by the environment of the corporation, changes and processes in that environment, strategically important issues, recognition of problems and challenges, and the assessment, evaluation and integration of these into the planning process is an indispensable part of strategic planning. Stakeholder theory became similarly important for organizational development. Those who concerned themselves with organization theory saw and presented the corporation as a ‘system’ in which the cooperation and interrelationships between the various actors was of utmost significance. Problems arising in the ‘system’ could only be solved through the cooperation and involvement of all stakeholders that is every participant in the system. Furthermore, in this framework organizational development cannot only pertain to one single organization, since the economy as a whole is systemic, therefore a system design must take the operation of the system – the entire stakeholder network – into consideration.

Definition of stakeholders

In Freeman’s original definition stakeholders were the suppliers, consumers, employees, the owners, the local community and the management. These were the groups that could contribute to the success of the corporation and that could legitimately enforce their interests and claims against the corporation. Later other authors expanded the number of groups by adding governmental bodies, various political and social organizations and institutions, competitors, trade unions, representatives of the media, and past and future generations. Whereas the original stakeholder theory of Freeman considered only individuals and their groups to be stakeholders, by now numerous authors interpret the built and natural environment as an independent stakeholder as well.

I agree with Freeman that stakeholders are always people or their groups, even in institutional form. According to the concept forwarded in this book, therefore the environment or nature cannot be considered stakeholder. The essence of stakeholder theory is that interests and values of people or their groups be integrated into the business operation (adhering to principles of the triple bottom line – though this is, of course, not used by Freeman at the time). Stakeholders are moral agents having values and interests which they are capable of formulating and representing, by which they may stand unflinchingly, and for which they are prepared to enter into conflicts and subsequently participate in their resolution. Stakeholders are able to evaluate and operate institutions, and take part in hierarchies which they understand and which they can influence. Stakeholders are capable of forming alliances, establishing cooperative relationships and being part of power contexts through the representation of their interests and values. Protecting ecological values is part of responsibility towards future generations. Conserving the environment protects the interests and values of generations not yet born, which must be part of corporate operation. Stakeholders and their relationships with the corporation are clearly not limited in space or time. Under today's globalized socio-economic conditions, stakeholders do not have to be in physical contact with the corporation – stakeholders may be in a different country or on a different continent. Time limitations do not apply either, since the not-yet-born may also make claims to the corporation *via* their representatives, while upholding the memory of past generations and representing their interests and values today may also be part of corporate operation.

The point of departure of stakeholder theory is common value creation, which presumes that value creation must happen in such a way that it serves the interests of all stakeholders or it does not cause any of the stakeholders irreparable harm. Thus, from an ethical point of view, common value creation presumes a 'contractual' relationship between members of the stakeholder network, which takes into account the normative expectations of autonomy, decency and solidarity as formulated by Rawls, Rorty and other liberal philosophers (cf. Rawls, 1971; Rorty, 1989). In other words, stakeholders are all those who participate in common value creation, and who can expect that their relationship with the company be shaped by taking these aspects and the normative content of the 'contractual obligation' into consideration. The normative content, the basic rules for the 'contractual relationship', stakeholder relations and stakeholder policy will be discussed in the third chapter.

The question of who exactly the stakeholders are is answered in the literature in different ways. It was Freeman, once again, who posed the basic question to be answered in the form of assessing *"who and what really count?"* (Freeman, 1984). Answering Freeman' question may be approached from several aspects: there are primary and secondary stakeholders, owner and non-owner stakeholders, those who act and those who are affected by others' actions, stakeholders whose relationship with the corporation is voluntary and those whose relationship is not, possessors of rights, stakeholders claiming legal or moral rights, ones who have their own resources and those who depend on the corporation, risk-bearers, and influencers and stakeholders who are influenced. There are many different descriptions which – in a broader sense – endeavour to define all stakeholder groups and assist corporations by offering pointers as to who are or could be their stakeholders.

The most important difference in defining stakeholders is whether a *narrow* or a *broad* approach is applied. The purpose of a narrow definition is to give corporate leaders a tool for meeting external challenges taking the corporation's limited resources and the limited time and attention span of managers and employees into account. A *narrow definition* of stakeholders attempts to specify the stakeholder groups according to the immediate significance they have in achieving the corporation's primary business goals. The narrow definition rests on *ethics*. Its goal is to determine a normative basis which can serve as a directive for corporate leaders in deciding which stakeholders' claims are *legitimate* and which ones are not. In this sense, the purpose of involving stakeholders is the maximization of direct corporate goals, and in order to achieve this, the efficiency of the integration of stakeholder interests and values must be maximized. Clarkson's stakeholder definition, based on voluntary and non-voluntary risk-bearing, is an example of this approach, "Voluntary stakeholders bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm. Involuntary stakeholders are placed at risk as a result of a firm's activities. But without the element of risk there is no stake" (Clarkson, 1994:5).

The purpose of a *broad definition* is to account for *each and every* person or group that could be the corporation's stakeholder. According to Freeman's by now classic definition, "[a] stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984:46). Stakes can be mutual or one-way and this definition of 'stake' as mutual affect is so broad that virtually anybody who gets or can get in contact with the corporation is considered a stakeholder. In this case the principle focus is not on providing corporate leaders practical help but rather on the structure of common corporate value creation. The broad interpretation tries to take into account what kinds of stakeholder relationships exist, which individuals and groups may formulate legitimate claims and stakes towards the corporation and who can legitimately state that the operation of the corporation has an impact on them. In this interpretation the point of common value creation is to take *all* stakeholder interests and values into consideration because in this way it can be assured that possible risks are avoided and opportunities are exploited. This can make dealing with possible stakeholder conflicts on the basis of equality possible through guiding them into the institutional hierarchy. Value maximization is to be achieved according to strategic interests and by acquiring and sustaining the necessary legitimation.

There is no such thing as '*right amount of*' or '*complete'* responsibility. Analyzing and managing stakeholder relationships is an ongoing learning process, in which the continuously expanding and dynamically developing relationship between the stakeholders and the corporation is the key to business success and growth according to the triple bottom line criteria. The basis of the broad interpretation is *political*: its goal is to create a system in which everybody can become a stakeholder if they get into an interest- or value based relationship with the corporation in order for potential conflicts to become manageable and institutionalized. The broad definition assumes that a stakeholder matrix, widely framed, is political in its nature: stakeholders hold different values and interests that may get into conflict with one another; thus managing stakeholders requires an institutional setup in which diverging and conflicting stakeholder claims may be discursively aligned.

One further, debated, question related to 'stake' is whether a group or an individual can be a stakeholder without actually having contact with the corporation. We can differentiate between real and potential stakeholders. Some authors argue that there cannot be a stakeholder relationship without actual contact, whereas others suggest that the potential or latent stakeholders – in the interest of increasing management efficiency and problem-solving ability – should also be considered. I argue that for the efficient management of stakeholders a broad interpretation of stakeholders should be applied. If we accept that the purpose of social responsibility is to 'integrate the interests and values of stakeholders into the business operation', then questions of legitimation are secondary to political interests. Meeting the criteria of the triple bottom line efficiently is a political question: taking interests and values of *all possible* stakeholders into account, managing potential conflicts, creating and operating institutional hierarchies is necessary for the corporation to avoid or minimize risks and to exploit or maximize its opportunities. The goal of the corporation, in stakeholder theory, is the maximization of societal value through attending to both private and public interests. This can only be achieved if the interests and values of all stakeholders are – at least potentially – integrated into the operation. Institutions of stakeholder cooperation and engagement, and discursive and deliberative practices offer methods and processes for this. At the same time, the narrow interpretation is also relevant, as this makes the prioritization of the claims of stakeholder groups and individuals and the successful allocation of resources – as the indispensable prerequisite for efficient stakeholder management – possible.

Thus, our point of departure is the broad interpretation of who is a stakeholder. All stakeholders are equal but not in the same way: anybody can become a stakeholder and therefore important to the corporation, yet their claims on the corporation do not all carry the same weight and it is the responsibility of the corporate decision-makers to assess to what extent and how they should consider these claims while making decisions. Further, it is important that *latent* stakeholders, those stakeholders who have yet to come to terms with or define their stake, are also stakeholders, but they can only come forward with their claims once they have 'established' themselves as stakeholders and put their claims in. This can happen proactively out of own initiative or passively as a result of the corporation's action. This has a bearing on stakeholder management, since the interests and values of stakeholders must be taken into account even if the stakeholders did not put in their claim for them, in the same way that stakeholders cannot lose the right to their claims only because they did not put in their claims.

The different forms of stakeholder relationship: three strategic communication approaches

Since the appearance of stakeholder theory it has become one of the most important fundaments of strategic management. Strategic management recognizes that the corporation is not a transmission belt between the stockholders, employees and consumers, but rather the key player in a complex network of different stakeholders. Business success builds on how successfully the corporation manages its stakeholders, to what extent it uncovers risks borne by and opportunities represented by stakeholders, as well as assesses values, stakes, claims and goals that can be integrated into the common value creation process. All this is not only relevant in terms of corporate social responsibility. The stakeholder approach is being used in a number of areas of strategic management: here I focus on three key strategic communication areas that are of special importance for the communication between the corporation and the stakeholders. These are the *management of the communication of the responsibility*, *of the reputation* and of the *brand of the corporation*. We will be looking at similarities and differences between these three strategic communication areas to see which communication area's toolkit should be used and when in the process of designing the efficient management of stakeholders.

Corporate social responsibility, as discussed, is about integrating stakeholders' values and interests into business operation through the efficient management of stakeholders. In terms of the broad interpretation of stakeholders used in this book, the target group of corporate social responsibility are all stakeholders; its means are the management of stakeholders by reducing information inequality through prioritization of stakeholder values, interests, goals and challenges as well as utilizing an equal and two-way network of communications and, in an organizational sense, the establishment of a widely shared discursive legitimacy through stakeholder democracy.

To understand the significance of stakeholders in strategic communication, it is worth looking at the relationship between other important areas of strategic communication: reputation management shaping corporate image and goodwill, and brand management developing corporate identity and corporate community. The clarification of these terms is aimed at pinpointing the stakeholder based structural similarity of the three areas, and at the same time demonstrating theoretical and managerial differences between them, as well as showing what role these different yet interlinked areas play in corporate politics.

Reputation, or goodwill, management focuses on shaping corporate image. Its aim is to create a picture of the corporation in the heads of stakeholders, which will help the corporation in maximizing common value creation. The target group of image management are all stakeholders, yet in the course of prioritization and segmentation of the target group special attention must be paid to the key opinion leaders (KOLs). Reputation, according to Fombrun & Van Riel *"*is a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and externally with its stakeholders, in both its competitive and institutional environments*"* (Fombrun & Van Riel, 1997). According to the definition, stakeholders play a key role here as well, however, it is the *representation of* "a firm's past actions and results", which becomes a value creating power for the corporation through the goodwill perceived by the stakeholders.

The definition used here does not differentiate between the identity, image and goodwill of the corporation. However, we may still attempt to make some distinction between the terms *image*, *goodwill* and *reputation* in order to see how the areas of strategic communication – CSR, reputation and brand – are related to each other. Corporate identity serves as the base for strategic communication. It is 'inside' the corporation as the central element of corporate operation, differentiating the corporation from other players, being permanent and enduring and therefore linking the corporation's past with its present and future. This is, in its classic form, what Balmer and Soenen (1999) call 'ideal and desired identity'. Identity is a cultural phenomenon, which is the sum total of symbols, convictions, values and basic assumptions. On the other hand, the *image* of the corporation is the entirety of impressions of the stakeholders about the organization, or to put it in everyday language, the emotions and opinions that are invoked in the stakeholders by a logo or a name. Image is the picture of the organization in the minds and souls of people. While it is based on its identity, it is not totally under the control of the corporation, since it is shaped by numerous stakeholders, primarily by key opinion leaders. According to Balmer & Soenen, this is *conceived identity*. *Reputation* is an opinion or judgment that stakeholders form or make when they come into contact with the corporation. Making a judgment is mostly forced by some event or situation.

Mutual corporate value creation is supported by 'corporate reputation capital', the immaterial value stemming from reputation. Whereas corporate identity (ideal and desired identity) is stable and static, the image and reputation (conceived identity), and with it 'reputational capital', constantly change. The aim of reputation management is to shape the image through KOLs bending reputational judgment – the goodwill – in a positive direction to increase reputation capital. Reputation management takes stakeholder values and interests into consideration only to the extent it is necessary for increasing the reputation capital of the corporation. Reputation management is about convincing others and it does not strive for communication equality. Its behaviour is value-neutral in stakeholder conflicts and it enforces corporate interests through power structures. As in CPA, a traditional approach to reputation management is based on a narrow view of corporate politics; its main goal is to bring about changes in perception to promote private interests or corporate goals. One may be of the opinion that the goal of reputation management is to create a ‘perception capture’ in which democratic stakeholder processes are undermined by the power discourse of KOLs increasing ‘reputation capital’ even at the risk of directing away stakeholder perception from public interest or public goods.

The primary target group of ‘brand management’ is consumers but target group segmentation must take into account that all stakeholders may influence consumer behavior. Therefore, it is an important aspect of brand management to uncover stakeholder values and interests, so that it can facilitate and influence consumer decisions through these stakeholder values and interests when activating the brand. The objective of brand management is to establish a multi-level relationship between the brand and the consumers to anchor consumer decisions. Anchoring consumer decisions – turning potential into a loyal consumer – helps the corporation maximize common value creation through value-based activation of the brand. The basis for brand management is corporate identity, the sum total of symbols and cultural values as represented by and at touchpoints consumers may interact with the brand. Its tool is the shaping of the image of the brand, in other words, of the picture and impression perceived by the consumer about the identity, *actual and communicated*, and the activation and bringing to life of this image to assist consumers arrive at desired decisions.

Establishing a common identity is an especially important tool of modern marketing. In order to maximize the value of the brand, the corporation must form consumers related to the brand into an ‘imagined community’ avowing the same identity. Similarly to nations, there is a tight bond between members of this community: they are aware that their community is limited (they do not know every other member) and restricted (they know that there are other similar communities), yet sovereign (it derives its cohesion and self-awareness from inside the community and not from any external power) and its members are joined together by a strong comradeship into an alliance, for which they are prepared to bring various sacrifices (Anderson, 1983). The cohesive power that is similar to national sentiments was applied to brand communities by Muniz and O'Guinn (2001). In their interpretation, members of a brand community – as actual or potential consumers – are joined together by a multi-level and multi-threaded network in which the community is held together and built further by different levels and forms of brand bonds, operating common symbols and rites and a sense of moral responsibility felt for and managed by the community (Muniz & O'Guinn, 2001). The common identity that joins the brand community together is the identity of the consumers, in which corporate identity, consumers' stakeholder identity and the commonly professed and represented brand-community identity are all mixed together. Members of the identity community fulfil different roles, like *teacher*, *hero* or *idol*, which have an impact on their stakeholder relationships. Furthermore, brand communities are not the sole players on the 'markets' of identities. Oppositional loyalty increases the power of belonging to the community and it sets members of the community against other communities, who will in this way be prepared to take on political roles in the interest of protecting their own community.

The common basis for responsibility-, reputation- and brand management is corporate identity – symbols, convictions, values and basic assumptions – which the three areas put into the service of common value creation in different ways. We have seen that all three areas use a stakeholder approach. Their point of departure is identity and the management of value and interest relationships between the various stakeholder groups in the interest of common value maximization. On the other hand, target groups and means are different, just as the quality, depth and content of relationships are also different. The communication of responsibility utilizes the integration of values and interests into the business operation. It helps uncover stakeholder values and their prioritization, so that the chosen and mutually agreed values and interests may get integrated into the common identity or get closer to the corporation's identity. Reputation management aims at influencing stakeholder judgment. The judgment will be positive and transformable into reputation capital, if the values of the corporation and that of stakeholders coincide or are similar, and if, through the credibility of KOLs, the corporation can convince stakeholders that it manages its activities in accordance with those values. However, in the case of reputation management stakeholder values may be captured and attention may be directed away from public interest. In the course of brand management, the values and convictions underlying corporate identity become mingled with the values and convictions of communities which identify themselves as consumers: the brand loses its direct influence over the set of values of the community, but it can support, help and from time-to-time influence the identity of the community. In addition, members of the community are prepared and inclined to take on political roles (to experience stakeholder conflicts and act on them, whether in support of or against the brand that is the basis for their identity community, or against members of another community). A brand community is special in that it can happen that the corporate ‘owner’ of the brand totally loses influence over the brand community, and the identity of the brand – possibly even after the corporation/brand ceases to exist – lives on in the identity of the community (Muniz & Schau, 2005).

All three strategic communications areas play an important role in corporate politics. Leaning on each other and helping each other, using the different means for achieving a common strategic goal, they can further the integration of stakeholder values into the business operation thereby increasing the corporation’s goodwill, strengthening the brand community and creating the methods for handling stakeholder conflicts and for acquiring and upholding corporate institutional processes and stakeholder legitimation. One of the possible methods for defining relevant stakeholders is asking the question: what role does a given stakeholder group play in a strategic communication process? For this, however, we have to move on to presenting and analyzing different strategic stakeholder approaches.

Static and dynamic stakeholder approaches

Freeman (1984), in his classic work, differentiates between three levels of stakeholder management. These are the *rational,* the *processes* and the *transactions* levels. On the rational level, answers are sought to the questions: who are the stakeholders of the organization and what stake do they have? Once the stakeholders have been identified, a map of the corporation's stakeholders can be drawn up showing the stakeholder groups of the corporation.

[**Insert here: Freeman' basic stakeholder map**]

The second level is connected with the strategic management of the corporation–stakeholder relationship: it studies the processes through which the corporation manages its relationship with the stakeholders. Here the strategic management toolkit of the corporation must be restructured to fit in with the challenges posed by the stakeholders and to make it capable of managing stakeholder relationships. In Freeman's approach the third level, the level of transactions, is when stakeholder values and interests become integrated into the business operation. On this level corporate processes and corporate operational practices already take into account stakeholders' interests, notions, intentions, needs and claims and make these part of the operation during corporation-stakeholder transactions.

Donaldson and Preston (1995), analysing different stakeholder strategies, argued that since the publication of Freeman's work the fact that corporations have stakeholders has become a commonplace. Dozens of books and hundreds of studies deal with the relationship between the corporation and its stakeholders. The authors divide stakeholder theories into four categories. They differentiate between *descriptive*, *instrumental*, *normative* and *managerial* approaches.

Descriptive stakeholder theories show what the corporation is. These theories describe the corporation as a self-contained net of cooperative and competitive interests, demonstrate the development of corporation–stakeholder relationships in the past and in the present, as well as set up prognoses as to the possible development of these relationships. Other approaches are *instrumental*: these theories examine the correlations between stakeholder management and corporate goals. Their assumption is that if corporations manage their stakeholder relationships effectively then they will be more successful than other corporations measured by traditional performance indicators, i.e. profit, stability and growth. These theories show what corporation–stakeholder relationships are. Yet, it is the *normative* approaches that are the true basis for stakeholder theory: they identify stakeholders according to their interests and study whether the corporation has any functional interest in dealing with these stakeholders. These theories show who a stakeholder is. The fourth group of stakeholder theories are the *decision-maker* or *managerial approaches*. These theories not only describe existing or potential relationships but they also propose views, structures and various actions. Here the emphasis is on how corporations incorporate the legitimate needs, claims and interests of all stakeholder groups into the business operation, and what kind of organizational structures, operational principles are introduced to this end, and – from time-to-time – which individual managerial decisions are made. These theories show what the management of corporation–stakeholder relationships is.

In other words, descriptive theories show that corporations have stakeholders; instrumental theories show that corporations which consider their stakeholders may develop successful operating strategies; normative theories pinpoint why corporations have to concern themselves with their stakeholders at all, while managerial approaches show how corporations should cooperate with stakeholders (Freeman, 2004).

To be able to answer Freeman's, previously quoted, classic question: *"Who and what really count?"* the typology of stakeholder groups has to be established. Clarkson, in his work introducing the definition of corporate social performance, speaks of primary and secondary stakeholder groups. His point of departure is his own stakeholder definition: "[s]takeholders are persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers, and so on" (Clarkson, 1995:106). This means that people with similar interests, claims or rights may be considered as part of the same stakeholder group.

He considers primary stakeholders to be those without whose continuing participation the corporation cannot survive as a going concern. Typically, these stakeholder groups are the shareholders and investors, employees, consumers and suppliers, but governments and communities also belong to these groups. The latter, as regulators and operators of the infrastructure, whose rules must be adhered to and to whom taxes and levies must be paid, provide the conditions for business operation. The corporation is dependent on the primary stakeholders: if one of these groups becomes dissatisfied with the operation of the corporation and withdraws its support from it, the whole or part of the operation of the corporation suffers severe damage and may make its survival as a going concern impossible. As Clarkson puts it, “the corporation itself can be defined as a system of primary stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations, and responsibilities. The corporation's survival and continuing success depend upon the ability of its managers to create sufficient wealth, value, or satisfaction for those who belong to each stakeholder group, so that each group continues as a part of the corporation's stake-holder system” (Clarkson, 1995: 106).

Secondary stakeholders are those who influence or affect the corporation, or are affected by it but they are not themselves engaged in transactions – as in Freeman – with the corporation and are not essential for its survival. Clarkson considers special interest and lobby groups to be part of this group, having significant power to mobilize public opinion for or against the corporation, as, for example, in the cases of corporate scandals mentioned in the first chapter. “The corporation is not dependent for its survival on secondary stake-holder groups. Such groups, however, can cause significant damage to a corporation. […] Secondary stakeholders may be opposed to the policies or programs that a corporation has adopted to fulfill its responsibilities to, or to satisfy the needs and expectations of, its primary stakeholder groups” (Clarkson, 1995:107).

The most cited example of instrumental stakeholder theories is the *power-legitimacy-urgency* based approach proposed by Mitchell and his fellow researchers (Mitchell et al., 1997). The authors, similarly to Donaldson and Preston, propose that the various stakeholder approaches should be organized into a theoretical structure in order to be able to get through the “stakeholder minefields” (ibid, p. 862). They maintain that analysts propagating the *narrow* view of stakeholders stress the *legitimacy* of stakeholders’ claims causing disadvantages or advantages to the corporation stemming from some contractual relationship, transaction, other relationships, legal or moral obligation or moral interests. On the other hand, those professing to the *broad* view of stakeholders stress the *power* stakeholders have to influence corporate operation. They assert that for defining the necessary actions regarding stakeholders, the two views have to be reconciled, since if only power is taken into consideration the incorporation of legitimate claims into business operation can be ignored and that can mean the end of the corporation. On the other hand, not every stakeholder claim has the same weight, thus determining the legitimation of the individual claims may be important for the corporations. Consequently the authors suggest, as a bridge solution, the introduction of *urgency*, which is capable of resolving the opposition between the narrow and broad views, making the theory more useful, clearer and more dynamic.

The point of departure for the authors was Max Weber's definition of *power as* "the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance" (Weber, 1978, quoted by Mitchell et al., 1997, p. 865) To paraphrase it, in stakeholder relationships power is when some stakeholders have or acquire such forceful, utilitarian or normative means which make it possible for them to force their will onto the other party. However, the possession of such means is varying and not permanent. This is the reason why *power* is temporary: in the same way it can be acquired, it can also be lost. While numerous authors link the terms legitimacy and power, Mitchell and his colleagues stress that a differentiation is important: although a stakeholder may have legitimate needs and claims on the corporation, if they do not have the power to enforce them, or at least to create the appearance of doing so, the corporation can ignore the legitimate interests and claims. A claim, need or stakeholder can be considered legitimate, if it is acceptable, just and proper according to some social norm, value, conviction or definition. While the terms 'power' and 'legitimacy' bring the corporation closer to being able to manage stakeholder relationships, they do not describe precisely enough the needed actions to be taken in a given relationship. For this, the introduction of the term *urgency* is necessary, i.e. to what extent does a stakeholder claim require immediate action on part of the decision-maker? This has two aspects to it. On the one hand *time pressure*: to what degree will a delay in making a decision regarding the management of a claim or relationship make it unacceptable to the stakeholder?

On the other hand, the *critical nature* of the claim or relationship: how important is the claim or relationship to the stakeholder?

[Insert here: Mitchell's diagram (page 874.)]

Based on the aforementioned, Mitchell et al. differentiate three main categories of stakeholders and within them three, three and one sub-categories respectively. *Latent stakeholders* are groups where only one of the above described attributes – power, legitimacy and urgency – is present. Decision-makers do not concern themselves with these groups, they ignore their existence. The category of latent stakeholders includes three sub-categories. *Dormant stakeholders* have power but they have no legitimate contact or urgent claims. Dormant stakeholders do not have any contact with the corporation, yet they are capable of acquiring a further attribute at any time, thus becoming an entity to reckon with. *Discretionary stakeholders, although* they have legitimacy, have neither urgent claims nor the power to assert any possible claims. The most important characteristic of these stakeholders is that there is no corporate interest whatsoever in getting into contact with them but decision-makers may decide to do so. The no-obligation beneficiaries of corporate charity are typical examples of this (Caroll, 1991). *Demanding stakeholders* formulate some urgent claim, though they have neither power nor legitimacy. They can make a lot of noise but unless they acquire another attribute, no further attention is paid to them: they are irritating but irrelevant.

The other large category is made up of the *expectant stakeholders.* They have two of the three important attributes and as such, they can expect the attention of corporate decision makers and, under given circumstances, demand action on their part, since the third attribute is easily attainable by them. But it can also happen that the corporation will pre-empt this process and take up formal contact with these stakeholders. There are three sub-categories: the *dominant*, *dependent* and *dangerous* stakeholders. *Dominant stakeholders* have power and legitimacy, therefore they can expect special attention on the part of the decision makers. The corporation maintains formal and continuing contact with these stakeholders, and they are integrated into the business operation in an organizational sense as well (employees and shareholders get representation on the board of directors, the corporation has its own HR department and there is a dedicated person dealing with government and regulatory bodies). *Dependent stakeholders* have urgent claims but they have no power to enforce them. These stakeholders often depend on other stakeholders to have their claims recognized and integrated into the business operation. In the event of ecological catastrophes such stakeholders can be the local inhabitants who, for lack of power, have to rely on strong international organizations or local authorities to enforce their interests. *Dangerous stakeholders* are those who have urgent claims and also the power to enforce them, yet no legitimacy. They are, in the strictest sense of the word, dangerous since they often attempt to enforce their claims with threats of terrorist activities or religious motivations.

The third category is constituted by those stakeholders who have all three attributes: they have urgent and legitimate claims and the power to enforce them. *Definitive stakeholders* are those with whom decision-makers must concern themselves without delay and with full mandate. These groups are made up of dependent or dangerous stakeholders, who turned into definitive stakeholders by getting representatives with power on their side or acquiring legitimacy through some social or political process (Mitchell et al., 1997).

[Insert here: Donaldson & Preston exhibit, page 74.]

We may see politics as a process involving the exercise of control, constraint and coercion in society. Stakeholder segmentation, as presented by the power-legitimacy-urgency matrix, follows the structure of political logic in many aspects. It approaches stakeholders from a power point of view: the primary aim of segmentation is to keep control, maintain constraint and manage coercion, to avoid or reduce risks, as well as to maximize potential benefits. The political approach corresponds to the *organizational-regulatory level* of the politics of corporations. Here corporations attempt to live up to stakeholder expectations enforced by regulators and multi-stakeholder organizations. They prioritize stakeholders according to the power and legitimacy of political pressure and its urgency, but at the same time strategic decisions based on such prioritization are individual and not institutionalized.

Organizational steps are only taken if these are required for a more efficient utilization of resources. Corporate operation is not democratic: the interest and values of stakeholders do not appear on the strategic decision-making level, the focus of value maximization is of an economic nature and the ecological and social values underlying stakeholder legitimacy are only interesting for the corporation inasmuch as the minimization of risks and the exploitation of opportunities stemming from them promote value creation.

For the discussion of the normative theories we return to Freeman. He suggests that if value creating activities are viewed as contractual relationships between the parties, then it should be possible to define the normative principles underlying these relationships. He posed the following question: if both the corporation and the stakeholders accepted the 'Doctrine of Fair Contracts' based on liberal principles (autonomy, solidarity and fairness), then what common ground-rules would they set up on which a contractual corporation–stakeholder relationship could be built? Freeman formulated six ground-rules that serve as the basis for a normative stakeholder-corporation relationship. These are *the principle of entry and exit, the principle of governance, the principle of externalities, the principle of contracting costs, the agency principle,* and *the principle of limited immortality.*

The *principle of entry and exit* means that it is clearly defined how a stakeholder can enter, exit or renegotiate a contract. The aim of the principle is straightforward: each stakeholder must be able to determine when a contract exists and what the conditions for its fulfillment are. The *principle of governance* says that the procedure for changing the 'rules of the game' must be agreed upon by unanimous consent. The *principle of externalities* says that if a contract between a stakeholder and the corporation imposes a cost on a third party, then the third party has the option to become party to the contract, and the terms can be renegotiated thereby reducing costs (externalities). The *principle of contracting costs* says that all parties to the contract must share in the cost of contracting, none of the parties gets a 'free ride'. The *agency principle* declares that any agent acting in the common interest of the parties must serve the interests of all parties involved. The *principle of limited immortality* states that the corporation is to be managed as if it could continue to serve the interests of stakeholders through time. Stakeholders are uncertain about the future but, subject to exit conditions, they realize that the continued existence of the corporation is in their interest. Therefore, it would be rational to hire managers who are fiduciaries to their interest and the interest of the collective. If it turns out that 'collective interest' is an empty set, then this principle simply collapses into the *agency principle* (Freeman, 1994).

Of course, other sources can also be taken as a basis for defining the normative bases of stakeholder theory. Other authors argue that the normative aspects of ownership rights are similar to those of stakeholder theory. While it may sound surprising that stakeholder theory finds its normative bases in the ownership theories it was meant to oppose, the right to ownership has a much wider meaning than just protecting the rights of owners. It defines the rights and duties of owners, and it demarcates the boundaries of a complicated web of rights and duties that protects the owners' rights and prescribes their duties at the same time. However, it also protects the human rights and dignity of all those who could be impacted by the 'operation' of property. If we accept this pluralistic view of ownership rights, the relationship between the normative bases of right to ownership and stakeholder theory becomes more obvious (Donaldson & Preston, 1995).

Yet other authors base their stakeholder theory on feminist ethics. They argue that the standpoint of feminist ethics, especially the 'ethics of caring', may provide the right point of departure for re-interpretation of the stakeholder theory by eliminating limitations and shortcomings caused by present-day use of masculine phrases and metaphors. Here the basis for a stakeholder-corporation relationship may be trust, cooperation, reciprocity and equality (Wicks et al., 1994).

Stakeholder theory lays the foundation for corporate politics showing that stakeholders have rights and claims against the corporation. They are able, or can become able, to assert their political influence in the interest of common value creation. They have ethical grounds for enforcing stakeholder equality, to voice their opinion and to assert their claim for having a say in strategic decision-making (Freeman, 2014). The normative contract, as proposed by Freeman, has stakeholders as equal contractual parties with a wide range of differing values and interests. Stakeholders representing such values may get into conflict with one another as well as with the corporation with its own set of values and range of interests set dominantly by one stakeholder group: its stockholders. Normative theory, however, does not stipulate that contractual parties have trust-based institutions, which are capable of resolving conflicts stemming from value-differences and stakeholder segmentation (Freeman et al., 2010). The contractual normative foundations of stakeholder theories, therefore, provide the basis for corporate politics, while offering no guidance with regards to the organizational hierarchies and legitimate modes of resolution in potential conflicts (Scherer & Palazzo, 2007). To resolve this ambiguity, we turn, in the next chapter, to the political ethics of Jürgen Habermas.

The difficulty of making predictions

While we are all aware that the world is changing and therefore prognoses have to be made, making predictions is not easy. For example, towards the end of the nineteenth century in London and in New York traffic was considered the biggest problem. These fast developing cities were the centre of world trade, where millions lived in a relatively small space. Traffic in those days meant, of course, horse-drawn vehicles, with which numerous problems were associated. Thousands of horses – slow and in unexpected situations not seldom dangerous – worked in London. They had limited capacity and ‘working hours’. However, this was not the biggest problem. The horses needed a lot of hay for feeding, which had to be transported to the city, and what went in also had to come out. Horse manure started to cover the streets threatening to become a crisis situation, they hindered traffic, spread diseases and, when it rained, the sewage system suffered. A town-planning meeting called to address the issue had to be terminated ahead of time because it soon became obvious that no solution to the problem would be found and therefore it made no sense to carry on the discussion. *The Times* made an important and exact prognosis for the city of London in 1894: by 1950 London’s streets would be covered in horse manure three meters high. A similar prognosis for New York predicted that by 1930 horse manure would be three storeys high in the streets of Manhattan. This was not how it happened, although at the time these prognoses seemed to be reliable.

The case of horse manure was, however, not the only one where such prognosis failed. Predicting changes in writing and written communication proved to be just as difficult as predicting the future of urban commuting. Pupils mostly used pencils for writing, though ink and pen had already been widely in use at the end of the nineteenth century. Both were not without problems: using ink was a challenge as far as keeping the notebooks neat and clean, whereas in the case of using pencils, their sharpening caused problems. The US National Association of Teachers in the US declared in 1907 that one of the biggest problems in teaching pupils was that “students today depend too much upon ink. They don’t know how to use a pen knife to sharpen a pencil. Pen and ink will never replace the pencil." (Vielmetter & Sell, 2014, p. 9).

One might think that neither the experts concerning themselves with the problem of horse manure, nor the teachers could have anticipated the innovations that would determine the future. For them the horizon reached as far as trying to solve the problems of horse-drawn carts and hand-sharpened pencils or dip pens. Therefore – one might assume – it was inevitable that they were blind regarding the future. But this is not true. The internal combustion engine, the all-determining basis for the modern automotive industry, was invented thirty years prior to 1894. Siegfried Marcus, a Viennese innovator, had already experimented with his four-cycle engine and was the first to use gasoline as a fuel in the 1870's, while Carl Benz patented the automobile as early as in 1886. Furthermore, in 1894, when the above-mentioned *Times* article appeared, the serial production of automobiles had already started. Similarly, John J. Loud patented the first ballpoint pen on October 30, 1888, developed by him to be able to write on leather, for which traditional ink and pen were unsuitable. At the time of the teachers' declaration in the US, the technology for solving the problems had already been available for close to a quarter of a century.

All this confirms what the Danish physicist, Niels Bohr – quoting a Danish showman – once said, "Prediction is always difficult, especially if it is about the future". (Just by the way, this apparently also holds true for the past, since – according to other sources – the above-cited quotation is also attributed to K.K. Steincke, published in his *Farvel og Tak* book in 1948, and also to Mark Twain, Samuel Goldwyn and Robert Storm Petersen).

Megatrends

The theory and practice of corporate social responsibility means a major shift in corporate operation and the politics of the corporation. In order to understand the depth and quality, as well as the future direction of this shift, we need to look at the future. In this chapter we will look at megatrends that shape our future, and their macro- and microeconomic impacts. We will see how these megatrends influence economic and corporate processes and how they transform corporate operation.

Megatrends reflect the main processes in society and the economy, whereas corporate endeavours are social constructs, therefore corporate politics is a reflection of what kinds of consequences megatrends and their impacts have for the operation and management of corporations. The term ‘megatrend’ was introduced into public discourse by John Naisbitt’s book of the same title. He argues that megatrends are long-term, transformational processes with global reach, broad scope, and a fundamental and dramatic impact (Naisbitt, 1982). Megatrends lead to transformations that require institutional answers. The majority of Naisbitt’s recognitions concerning megatrends became a determinant part of the processes ensuing around the turn of this century, i.e. the transition from an industrialized society to a knowledge-based society, general acceptance of globalization, the need for long-term strategies, the strengthening of participatory democracies and a world that has progressed from one offering few opportunities to one offering a wide variety, all these factors have led to changes that determine our everyday social processes. Yet the changes that occurred in the last two decades of the past century were only the beginning of the megatrends of the shift. Following Naisbitt’s lead, a number of scholars started to map out the phenomena, changes and hidden sources of information that could be signaling megatrends. Making predictions about long-term societal processes has become an independent area of research and business studies, for which the beginning of the new century also meant a natural dividing line. Since the millennium, many a book, research paper and consultancy document has been published trying to analyze and evaluate the megatrends of the twenty-first century. Going into their details would go beyond the limits of a book on corporate social responsibility. However, it may be useful to see the common elements in these megatrends that will most probably determine the next one-hundred years. According to megatrend researchers the following process will determine our future:

- globalization, demographic changes, health-care revolution;
- ecological and climate change, the scarcity of natural resources;
- urbanization, new individualism and value-pluralism;
- digitization, connectedness and technological convergence;

- community, gender equality and consumer and life-style consciousness (Naisbitt & Aburdene, 1991; Vielmetter & Sell, 2014).

Globalization, demographic changes and health-care revolution

According to forecasts, the Earth's population will exceed nine billion people by 2050. Life expectancy, which in the Global North increased by nearly twenty-five years by the end of the twentieth century (1960-1990), will keep on increasing. The fast development of medical science also means better health and therefore longer active years. This will be supplemented by advances in genome editing technology (CRISPR cas9), as well as technology entering end of life care and being utilized for possibly further extending biological life. All this makes present-day old-age care unsustainable and will need to be reformed. Pension systems, health care services are unsustainable by current regimes of financing; as are systems to manage short or longer-term temporary or structural unemployment. To accommodate the longer active years, totally new life-cycle planning strategies, career paths and work-life equilibrium are needed. These processes will increase the need for an extended and more generally available social welfare system, including, potentially, some form of unconditional basic income or living wage to cope with basic needs and offer basic social security for all.

Ecological- and climate change and the scarcity of natural resources

Ecological changes, global warming, transformation of ecosystems and the extinction of species of flora and fauna have initiated long-term and fundamental changes in the natural and built environment. Climate change is no longer a threat, but an everyday reality. Its effects – natural processes, changes in ocean stream patterns and temperature and precipitation cycles – cannot yet be foreseen exactly. These processes have an impact on the Earth's capacity to sustain its population and on the quality of life of human beings. The scarcity of fossil energy resources is likewise no longer a threat, but reality. Therefore, it is of paramount importance that renewable energy be used as widely as possible, energy efficiency be increased and zero emission be targeted. From all this, it is clear that the present-day use of energy, production methods and environment-polluting emission processes are unsustainable and have to be re-thought, together with our relationship to the natural- and built environment and planning- and life structures.

Urbanization, the new individualism and value pluralism

In 2008 half of humankind lived in an urbanized environment. Forecasts predict that by 2050 64% of the world population and 86% of the population of the first world will be living in urbanized areas. Consequently, the proportion of large urban sprawls will increase, new mega-cities and urban regions will be created. All this will radically change urban traffic, its infrastructure and modes. The huge, concentrated urban population will change the pattern of population density and the metabolism of the city (the structure of in- and outflux, its products and processes) will be transformed. This will make the present-day individualistic and automobility-dominated lifestyle of urban citizens unsustainable: various forms of public and shared mobility services will get preference, attempts will be made to slow down traffic and to reconcile individual and public modes of transport into a seamless mobility-as-a-service (MaaS) offering; socialities of work, home and education will emerge and transform in spatially versatile new forms, and the structure of time utilization and planning will change. Mobilities and other socialities will be shared in co-working, co-creating environments; smart and intelligent transportation systems with autonomous, connected vehicles will dominate urban mobility; shared public urban spaces will be occupied by diverse ‘mobility things’ operating autonomously enabling urban flows of people, goods and information providing safer, more effective, cheaper and more accessible modes of transportation for all.

Digitization, connectedness and technological convergence

Current and yet-to-come technological innovations, 3D printing, genome editing, artificial intelligence, development of robotics, autonomous vehicles, multi dimensional connectedness, digitization and convergence all increase the possibilities of *ubiquitas* (being present everywhere and at all times) and radically improve process efficiency. Technological advances in robotics will create job losses making a considerable number of people, especially in the short run, redundant from work; will further decrease job security, while also creating new types of occupations and ways of life. Additive manufacturing and other forms of small-scale local production will reverse offshoring processes and onshore/bring back the making of artifacts to Global North environments. The speed and quantity of data processing create new knowledge with new challenges and solutions. Mediascapes will continue to transform, social media and other algorithm manipulated platforms will create and maintain filter bubbles and echo-chambers influencing perceptions of the public and the private realm of values, cultures and identities. Multidimensional connectedness will further advance the creation of human-non-human hybrids, conflate the public and private realms into different form of ‘priblics’. Scientific breakthroughs, especially a deeper understanding of quantum theory and mechanics will bring about new paradigm changes in our concept of timespace and our basic philosophical constructs such as causality. This will change attitude towards traditional socialities of work, knowledge, learning, and transform value-creating processes, as well as assist the transition from a knowledge-based society into what Stiglitz and Greenward (2014) call a “learning society”.

Gender equality, community and consciousness

By 2020 a significant number of top managers of the five hundred largest global corporations will be women, who will play a determining role in both corporate management and in social-political and economic decision-making. Also by 2020, one third of the world’s population will be made up of those born after 1980, the so-called Generation Y. As digital natives they have fundamentally different habits, life-styles and convictions from the generations before them. Their influence on consumption, on the structure of acquiring and providing information and on learning processes will be significant, as Generation Z, born around the Millennium with radically new ways of thinking and ability structures, will reach adulthood. All this will fundamentally change the conditions for decision-making, trust and cooperation: new community-based processes (clouds and crowds) will be introduced and/or made to reign. As natives of a world of cyberized interconnectedness, climate change and genome editing, their decision-making as well as social skills will be different from that of previous generations. It is yet to be seen how the generational transitions will inform and change interactions in- and between communities, approaches to consumption and consumerism, glocalities as well as online and offline interconnectedness.

As pointed out in the introduction, it is not easy to predict the future. Consequently, it is not certain that these will be the determining processes, yet it is probable that the direction and character of changes will be along these lines. Moreoever, the consequences of these megatrends are not linear, but complex: multi-directional, open-ended, interlinked and mutually reflective. The megatrends will have significant and mutually enhancing impacts on each other, thus these processes will take place relatively quickly in the next few decades. Megatrends will change our knowledge of the worlds around us, both on a planetary and interplanetary scale; our socialities and social interactions as well as our imaginaries. Most of these processes involve technology and some form of hybridization: the cooperation and co-existence of human-non-human entities. Science and innovation will continue to be driving forces of our techno-social futures while they are also changing; new societal challenges will bring about new methods, approaches and attitudes to societal engagement, inclusion and multi-faceted openness.

These fuzzy, vague yet impactful processes create the macro-level paradigm-shifting context of corporate social responsibility. All these megatrends and their varieties will determine our societal relationships, likewise our values and organizational environment. As a result of the changes, our organizations will shift from mechanical, organism-like, centrally-directed structures to team-centered, participatory organizations, in which the individual will play the determining role (Ackoff, 1994). On all levels of the organization, the centrally-directed structures need to be replaced by decentralized management, organizational and cooperation models, which are more capable of organizational adaptation and learning (Evans & Wurster, 1997). There will be less need for representation and indirectness on the level of both global and local management, and more participation, more efficient organization and regulation (but not control) of information- and knowledge flow and of the communication channels, a better understanding and management of the ever-growing complexity, and a wider range of problem-solving tools will be called for. New thoughts, knowledge, abilities, enhanced innovation, the coming to the fore of *glocal* (global and local) capabilities, adaptation to the continually changing processes and the acceptance and endurance of a state of uncertainty will be needed (Beck, 2006; Standing, 2011). As a result of these processes, the political role of national states will diminish, since the international integration of the capital- and labour markets will require regulatory, managerial and organizational models and organizations which can generate global or regional social and economic orders and processes reaching across borders (Ohmae, 1995). Not only technologies, but also social traditions, convictions, modes of cooperation and global norms will be transformed and adapt themselves to each other (Spies, 1998).

3.3. The politics of corporate social responsibility

Political CSR

Megatrends determining the social and political processes of the twenty-first century have not left corporate operation untouched either. Globalization has weakened the earlier accepted Westphalian order of national states, which was the basis for the cooperation with and regulation of the business sphere, that is of corporations, stakeholders and markets. Demographic changes require new generational cooperation structures as well as new, less age-dependent identity strategies, while prolonged life expectancy, due to the health-care revolution, calls for new strategies for career paths. Environmental and climate change is creating a context in which eco-political questions carry increasing weight and every actor of the eco-system of the Earth is turning into an active and responsible participant of the ecological processes. Urbanization is creating a new more interactive culture and new, multifaceted identities with ensuing new value-systems, whereas urban life brings about new stakeholder relationships, and new types of equality-based eco-systems and cooperation models. Digitization, the new interconnectedness and technological convergence create new communication channels and forms among stakeholders, thereby supporting and strengthening the equality-based bi- or multi-directional communication models and practices. Ubiquitous technology (mobile handsets and the Internet of Things [IoT]) offers new possibilities for political participation and may create new structures and modes of expressing opinions and wills. Communality creates new, politically defined relationships, new forms of identity; patterns of consumption, choices of workplace, and creating work-life balance will become more conscious and value-driven. As a result of all this, the relationships between corporations and their stakeholders become radically transformed, new channels of communication, new spaces for (inter)action and thus-far unknown challenges are born, which require new models of corporate operation and a new theoretical foundation underlying these models.

Following the normative foundation of CSR, as described in the first two chapters, a new stakeholder driven theory of corporate responsibility is needed: one that takes into account social processes of the twenty-first century as well as enables corporations to integrate consequences of current megatrends into their operation.

Many an author has argued that a ‘positivist theory’ of CSR is unsuitable for furthering the establishment of the new corporate operation. Based on the natural sciences, traditional theories of CSR have approached corporate responsibility and the role of corporations in society by wanting to draw up ‘general rules and regularities’ for the normative foundation of the operation expected from corporations. A new theory of corporate operation accepts that in the age of globalization multinational corporations (MNCs) – as societal actors disposing over the most significant resources and management capabilities – must establish a new type of relationship with politics. It is not only necessary to transcend the Friedman doctrine – which took the fiduciary responsibility of corporate leaders as its point of departure and limited corporate decision-makers’ obligation for social responsibility – but also to develop a new kind of stakeholder-based social and political involvement that goes beyond passive compliance with laws, norms and regulatory practices or philanthropic support of social issues. In the globalized world ‘business’ is no longer – only – part of the private world, just as politics does not happen exclusively in the public sphere. On the one hand, as a result of globalization, nation states are less and less capable of meeting the challenges posed by global regulations; on the other hand, parallel to this, the privatization of numerous areas which had previously been considered the exclusive privilege of nation states (health-care, education, law-enforcement) is under way. As a result of globalization, the world order of nation states as it evolved following the Peace of Westphalia, which framed their traditional roles, was undermined.

The Peace of Westphalia laid down a number of principles which determined the role of nation states in establishing the world order and its political structure from the seventeenth century right through to the end of the twentieth century. The Peace spelt out the principles of the sovereignty of states and their right to political self-determination, the equality of states, and the principle that no state has the right to intervene in the internal affairs of another state. Based on these principles, the international order of the Age of Modernity was called the Westphalian world order. Globalization, reinterpretation of the role of nation states and the strengthening of supra-national participation in international organizations questioned the validity of the Westphalian world order towards the end of the twentieth century. This is exemplified in a 1999 speech by the then British Prime Minister, Tony Blair, in which he spoke of the need for “a new, post-Westphalian world order”.

These two processes – the reinterpretation of the role of nation states and the social participation of global corporations – have led to the need for a new, political approach to the role that corporations play in society in the age of the new post-Westphalian world order (Scherer & Palazzo, 2010). The central thesis of political CSR is that the classic liberal political standpoint, i.e. the radical separation of the economic and political spheres, is not sustainable. Parallel to the decrease of the global regulating ability and role of nation states, the mode and means of regulation have also changed: hard rules are ever-increasingly being supplemented by soft regulation tools, and the means and institutions for mutual- and self-regulation are evolving. In these, corporate legitimacy is no longer derived from living up to the expectations set by ‘social rules and norms’. ‘Living up to’ is being more and more replaced by adaptation to the principles of multi-level social connectedness: in a pluralistic, heterogeneous and unregulated political environment, legitimacy is no longer to be had by operating by the letter of the law, nor by adapting to social norms. Rather, corporations – just like any other social actor – have to ‘create’ legitimacy in a continuously changing and recreated discursive and political space influenced by the social actors (Edward-Wilmott, 2011). In other words, corporations and their decision-makers must take on active political roles in which the minimum of corporate responsibility is laid down by laws, yet “as the system of law and the enforcement apparatus of the state are incomplete there is a likely possibility of regulation gaps and implementation deficits which have to be filled and balanced by diligent managers with pro-social behaviour and an aspiration to the common good” (Scherer & Palazzo, 2008). As such, it is no longer satisfactory for corporations to look upon rules or stakeholder demands reactively or even with strategic foresight, but they themselves must become proactive, influential and shaping participants of social processes in order for them to become part of solving ecological and social challenges still ahead of us.

Political corporate social responsibility is thus defined as corporations “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. […] These corporate engagements are responsible because they are directed to the effective resolution of public issues in a legitimate manner, often with the (explicit) aim of contributing to society or enhancing social welfare, and thus not limited to economic motivations (Scherer et al, 2016, p. 275). Other definitions draw the scope of political CSR more boadly, as “activities where CSR has an intended or unintended political impact, or where intended or unintended political impacts on CSR exist (i.e. impacts related to the functioning of the state as a sphere of activity that is distinctive from business activity)” (Frynas & Stephens, 2015, p. 485). However, such a broad definition leaves important aspects of CSR undefined. In Freynas & Stephens (2015) it seems that there is a vaguely defined ‘basic CSR’ domain understood in terms of corporate citizenship, accountability, sustainable development under the umbrella of “companies hav[ing] a responsibility for their impact on society and the natural environment, often beyond legal compliance and the liability of individuals” (Frynas & Stephens, 2015, p. 485) and a sub-set termed political CSR with “intended and unintended political impacts”. As Scherer (2017) points out, the broad understanding of pCSR does not clarify the notion of ‘political’, or leave concepts such as the ‘state’ and ‘the functioning of the state’ also undefined. It is also not clear how political impact differs from impacts on society and the natural environment. The definition used by Scherer et al. (2016) and the definition used in this book may be aligned as, in conceptualizing pCSR, corporations engage in public deliberations, collective decisions and joint activities with stakeholders in order to (1) anticipate, respect and be responsive to values and interests of stakeholders; (2) integrate their stakes into corporate operations and processes; and (3) take on the provision of public goods or the restriction of public bads in cases where public authorities or other societal actors are unable or unwilling to fulfill this role.

For justification of corporations' political involvement, the theory of political CSR reaches back to the deliberative democracy concept of the German social philosopher, Jürgen Habermas. For Habermas, the basis for legitimacy of societal decision-making is the open, public deliberation of free and equal citizens, in the course of which the institutionalization of the processes of opinion- and will-forming and their general applicability creates legitimacy for the decisions (Habermas, 1996). Thus, the basis for the political legitimacy of business operations is not the disclosed interest or verbalized opinion of the individual or institutional stakeholder but – similarly to all other participants in the political space – the *institutionalization* of different forms of public dialogue and the modes of the *processes* of social will-forming. The task of corporations, therefore, is to contribute to creating spaces for deliberation and institutions for common will-forming, to participate pro-actively in such processes, and to accept common decisions arrived at in open deliberation. As Scherer and Palazzo put it: "The legitimacy-ascribing environment of globally active corporations consists of a multiplicity of – often contradictory – legal and moral demands from a wide range of institutional and cultural environments in the different host countries. Accordingly, questions of corporate responsibility are of a much higher level of complexity than in more homogeneous national contexts. For a corporation to deal with changing societal demands in a reasonable way, it must replace implicit compliance with assumed societal norms and expectations with an explicit participation in public processes of political will-formation. We consider this shift as the politicization of the corporation" (Scherer & Palazzo, 2007, p. 1108).

Stakeholder democracy

A theory of the politicization of the corporation requires the analysis of corporate social *impact* as well as corporate political *structures*. As regards social impact, the question is: What kind of procedural responsibility do corporations have to mitigate social consequences of their operation, and what rights and duties do the stakeholders have to influence such consequences? Regarding the political structure of operation, the question is: Whether the institutional decision-making processes of corporate operation are suitable for stakeholders to influence social consequences efficiently and to mitigate conflicts of stakeholder values and interests, and what kind of procedural and institutional changes are necessary so that stakeholders can mutually maximize values created?

As the corporation is viewed as an equal participant in shaping global social processes, the corporate community, as the sum total of stakeholders, must be looked upon from a different perspective. If corporations are seen as political institutions, the relationship between the corporation and its stakeholders must also be politicized. Stakeholders do not only have interests towards and stakes in the corporation but – similarly to the members of the political community – they have also various rights and duties, and the opportunity and/or duty to participate in the process of political opinion-formation and decision-making (Marshall, 1964). Thus, members of the corporate polity, corporate citizens, have basic rights, societal, political and social rights and duties, as well as opportunities to take part in the corporate democratic processes. A political stakeholder theory would assume that stakeholders as corporate citizens may participate in deliberative democratic processes, may create democratic intra- and inter-corporate political institutions and form a democratic stakeholder community. Citizens have not only rights and duties, but represent different identities and their struggle for recognition. Based on these identities citizens formulate demands which can serve as a basis for social recognition and inform processes of economic re-distribution.

An identity-based corporate citizenship, the foundation of stakeholder democracy, may be approached from three different viewpoints: *cosmopolitan*, *ecological* and *cultural* (Crane et al. 2008). *Cosmopolitan citizenship*, beyond citizenship in traditional nation states, may entail new types of transnational rights, duties, opportunities for participation, and communication platforms. *Ecological citizenship* refers to rights, duties and opportunities of participation stemming from commitment to the environment. Similarly to the term *cosmopolitan citizen*, this approach covers a broad area of interpretation, from the commitment to a given region or lifestyle to the interpretation of rights and duties reaching far beyond the current frameworks for interpretation of one's environment, without limitations in time or space. *Cultural citizenship* resolves the contradiction between certain groups of society feeling both part of the political community, as well as outside of it. These identity positions lead, or may lead, to special limitations of rights and/or to a broadening of rights and duties. Typical examples for this are ethnic or sexual communities, who, although they are members of a given political community, still have to face significant limitations if they want to live a full life according to their interests, lifestyles and desires.

These forms of citizenship can also be interpreted in the context of corporations. The idea of the *cosmopolitan corporate citizen* makes it possible for corporate stakeholders to become part of the processes of global transnational decision-making, while also highlighting the limits corporations face in their global social-political participation. *Ecological corporate citizenship* may lay the foundations for fighting for corporate responsibility to make air-pollution, the climate-change caused global risks and the responsibility towards the not-yet-born future generations part of corporate operation. *Cultural corporate citizenship* allows corporations to reflect on differences between identities, such as the so-called 'pink economy', which produces goods for consumers with a homosexual identity. Through cultural citizenship, corporations are able to contribute to the existence of certain identities, for example, by offering goods and services which provide the various groups with identity challenges (those challenged in their mobility, ethnic or sexual minorities) with the opportunity of political participation (Crane et al., 2008).

Stakeholders are members of the political corporate polity and their positions, interests and action do not only stem from their stakes in the corporation but their identity positions. Conflicts arise between stakeholder groups in a corporate environment because of the struggle for recognition of these identities. Survival, growth and success of the corporation depend on the institutionalized management of such conflicts and the democratic resolution thereof to maintain the corporate polity as a whole. Therefore we suggest that *impacts* of corporate operation, its negative economic, ecological and cultural externalities, are to be mitigated by processes entrenched in a political system of 'stakeholder democracy', a corporate system of political checks and balances with institutionalized democratic public political spaces for deliberation, collective decisions and joint activities; such mitigation geared towards the provision of public goods or restriction of public bads, designed and operated for and by free and equal corporate citizens. We can now turn to the political *structure* of operation.

Time-travel – absolutistic corporations and late-modern stakeholders

To have a broader take on corporate responsibility, I believe that one of the great contradictions of the day is that there is a huge gap between the politics and communication of present-day enterprises and the world surrounding them. To put it more simply: while we live in the social, political and communications environment of the 21st century, modern enterprises are the products of the age, the 17th century, in which they evolved. The Peace of Westphalia in the seventeenth century created the new order of nation states just as the birth of the modern enterprise was the Industrial Revolution, also in the seventeenth century. CSR may be seen as an attempt to bridge the socio-corporate gap between the age of the birth of modernity in the 17th century and the post-industrial late modernity of the 21st century.

Societies in late modernity have been flooded by organizational and personal identities confessing to definite value preferences expecting respect from other members of society, and that, in the course of cooperation with them, strategies be developed which respect the values underlying such identities. As seen earlier, these different identities are different stakeholder positions which also justify different rights and duties relationships between corporations and stakeholders. The public sphere is flooded with identities holding definitive value positions looking for mutual respect; strategies of cooperation between such institutional or personal identities need to respect the values supporting such value driven stakeholder positions. These positions also underpin specific rights and duties in relation to stakeholder contacts with corporations.

While a homogeneous world market does not exist, a global culture does, and is manifested through numerous communication channels. The tastes and value systems of global consumers differ, yet the same global icons, global brands and corporations, embodied by the same global symbols, are present in their lives. These corporations are no longer ‘conveyor belts’ transporting goods and services to consumers and in return profits to the shareholders. They are much rather important actors shaping the present-day social structure in a web of interactions; values are determined by stakeholders, who are directly part of the given social structure and in much more complex ways than earlier. They have to manage involved relationships in order to gain respect for their identity and acknowledgement by all stakeholder groups. “Many consumers are awed by the political power of companies that have revenues greater than the GDPs of smaller nations and that have a powerful impact on people’s lives as well as the welfare of communities, nations, and the planet itself.” (Holt et al., 2004, p. 69). Authors of the *Global Brands Study*, published in 2002, stated that stakeholders choose and pay by weighing up three main characteristics of global brands on offer: quality label, global myth and social responsibility. Through their global power, they are all sufficiently well-informed to influence the world around us. Stakeholders form opinions, they dispose over the means for effectively expressing their ideas and ideals and, furthermore, they have the power to form alliances and to increase their opportunities beyond their individual limits. Today it is just as important as ever for corporations to understand these changes, since they are the most powerful players in the net of interactions through the enormous resources at their disposal, their successful operating practice and influential communication channels. Corporations, utilizing their wide-spread technological, innovative and marketing capabilities, may be able to manage problems with which governments and NGOs have been struggling for decades. This is exactly what Scherer et al. (2016) mean when they write about turning corporations into political actors by “the provision of public goods or the restriction of public bads in cases where public authorities are unable or unwilling to fulfil this role” (p. 275).

The most important characteristics of modernity, the socio-cultural context of modern capitalism, is the emergence of public spaces. Habermas argues that the “bourgeois public sphere”, striving for equality and being accommodating and critical, had established a communication environment in which new arenas for discourse, urban public spaces and more open forms of social life had appeared, publishing had evolved at an enormous speed, thereby creating a new forum which furthered the development of political-social-economic knowledge and dialogue (Melton, 2001). The concept of the public sphere rests on Kant's ideal that rationality, the mind and wisdom, liberates human beings from their self-imposed imperfection; thinking leads to rational dialogues, which in the end result in contractual social, political and business cooperation. The belief in the superiority of reason and the search for intellectual instead of transcendental truth furthered the appearance of a new form of trust, which transformed the context of the public sphere striving for intellectual equality. This concept of trust is rooted in the universal nature and localizability/traceability of truth on the ground of which all conflicts may find proper ordering. The public sphere continuously needs reliable and trustworthy information in its search for the truth in the course of resolving all manner of conflicts and arguments. Truth is based on the ever-increasing volume of information to be had at any time, through all the channels and from numerous trustworthy sources. Taking social-political development as our point of departure, three essential viewpoints have appeared in 21st century late-modernity in the Global North which are the basis of present-day western social establishment, determining the rules of engagement in relationships between identities.[2]

Liberal democracy. The political structure of late-modern western societies is liberal democracy, where checks and balances guarantee that every member of the community can participate in decision-making processes related to their being governed. In liberal democracies there is universal suffrage and decisions are made by the grown-up members of the community. The constitution of liberal democracies guarantees that the leaders of the community cannot misuse their mandate, separation of powers is secured, the judiciary, accepted and legitimized by the community, is independent and the checks and balances function in order to secure the independent

[2] It is important to note that Global South contexts provide other possible points of views. The emergence of illiberal democracies or authoritarian forms of capitalism in India, China or Singapore that have, however, provided social development and middle-classification unparalleled in the histories of these countries deserve a closer look. The success of these countries in raising living standards and providing middle class status to a huge number of people merit an in-depth analysis of the socio-economic as well as political impacts that are not easily refutable on politico-moral grounds.

nature of the three branches of power. Value-based rights and freedoms are limited by bureaucratic processes, which create a *modus vivendi* between social actors with mutually exclusive values, and – should the community wish so – change such a *modus vivendi.*

Pluralistic set of values. The values of western societies in the 21st century are pluralistic, i.e. in these societies there is no single, universally accepted and externally legitimated set of values which are enforced by virtue of the power controlled by a few members of society. Values which mutually exclude each other are placed behind the "veil of ignorance" (Rawls, 1971) – for example, the right to self-determination of women over their own bodies, and the foetus' rights from the moment of conception – and moral decisions are based on the consensus of equal actors committed to power-free, rational discourse (Habermas, 1984). Moral decisions are context-dependent and pragmatic: the values professed by one are just as valuable as the values professed by others – and anyone can continue to stand by them unflinchingly even if we know that they are relative (Berlin, 1968).

Interactive media culture. With the appearance of web 2.0 solutions in mass communication, the media are no longer a 'one-to-many' type of communication tool. Web 2.0 can be described as a web-based system that furthers communication, information sharing, joint work, common creation and the ability to cooperate. The old methods of sending messages and the external monitoring of information flow and dialogues led to new forms of information exchange making it possible for participants to choose the sources, channels and depth of trust preferred by them much more freely. Social media transformed media consumption patterns; media representation and contexts creating filter bubbles and echo-chambers, thus shifting trust relations in information acquisition.

These three essential structural elements underlie the political-social context of deliberative democracy as put forward by Habermas. It is in this context that the public dialogue of free and equal citizens emerges, in the course of which processes of opinion and will-forming become institutionalized through legitimation within the socio-political space (Habermas, 1996). In this space, corporations and their stakeholders make up an involved matrix with numerous inter-linkages. Corporations, as the ones with the most significant resources, have to act in a way that both makes them capable of managing and directing stakeholders within the matrix to achieve corporate goals as well as adhere to TBL principles of value-maximization and the need for provision of public goods while paying due regard to the fact, as part of the equality matrix, that they have no special legitimation but attain it only through democratic processes within the deliberative space.

An intellectual shift, typically, also brings change to the origins of trust which are the basis for interactions and identity relationships in the, by now global, deliberative space. The Information Age opened the way for the Age of Communities, in which arguments and dialogues may result in agreements, contractual relationships and – by their nature – conditional values, rooted in the communal characteristics of trust. The trust needed for power-free dialogue aiming for contractual relationships does not stem from intellectually trustworthy and rational sources of information. This trust originates in the community of stakeholder relationships, in which interactions are based on mutual, yet not exclusive engagement in open and non-traditional forms of dialogue with other stakeholders. The level of stakeholder relationships, proximity and importance is dependent on the influence and effect stakeholders exert on each other. Trust is community based, entirely entrusted to the judgment of the community of stakeholders. The emergence of the concept of “fake news” and the mechanics of ‘echo-chambers’ and ‘filter bubbles’ is an, albeit negative, case in point.

It is not surprising that corporations do not operate according to 21st century principles. Corporations still live in a dual world; while they operate in late modernity, they are the last bastions of enlightened absolutism, the political system of their conception in early modernity. Stakeholder relationships within the corporation are not guided by liberal democracy, value pluralism or interactive media culture. Rather, just the opposite. Political decisions are being made by a few chosen ones, there is no universal suffrage or any participatory practice in corporate decision-making, the ‘government’ is not selected with the participation of – even if only in limited numbers – stakeholders, and there are no checks and balances guaranteeing the impartiality of the various branches of power within the corporation. Value-based rights and freedoms are not limited by democratic and bureaucratic processes which secure the *modus vivendi* between stakeholders confessing to mutually exclusive values. Further, there are no processes for changing the *modus vivendi*, should the community choose an alternative strategy. Pluralism of values does not exist within the current system of relationships between stakeholders: they are being ruled by centrally determined values of stockholders, and actualized by a limited number of stockholder approved and selected stakeholders: the management. Moral decisions are made based on the value judgment of those in power, without any equal and rational dialogue involving affected or other stakeholders. There is no impartial remedy process for breaches of stakeholder values; nor are there processes to mitigate between conflicts of value. Moral decisions are independent of the context and they serve one single purpose: the well-being of the aristocracy of corporate absolutism, i.e. that of management and shareholders themselves. There is no interactive media: messages are sent through channels of ‘one-to-many’. Information flow is strictly controlled and centralized. The web is typically used more as a platform than as a concept and its main role is to convey the messages of stakeholders in power to employees without access to other sources of information.

Inevitably, stakeholders live in a dual world: on the one hand, in the late-modern age liberal democracy of the 21st century and, on the other hand, in respect of numerous corporate stakeholder relationships, they are stuck in the enlightened absolutism of the 17th century. Similarly to the employees, to use the language of history, they are also subjects of the enlightened absolutistic ruler, i.e. the CEO or the Chairman of the Board and the aristocracy and nobility surrounding them. It is ironic that even the aristocracy may live in a dual world: in the corporate world they have power, yet at home or in other socio-cultural contexts they are just one of the many stakeholders participating in dialogue.

Without wanting to expand too much on historic analogies, we all know what happened to the aristocracy during the revolutions of the 19th century. The bourgeoisie, deprived of political power yet disposing over substantial economic resources, took over power. These revolutions also extended the world of enlightened rational dialogue to areas which had earlier been exclusively controlled by the absolutist power of the Church. The price was high: massive bloodshed and social turmoil. In the world of corporations, CSR offers the opportunity of a way out, without ‘bloodshed’, based on changes not threatening anybody’s social status or existence.

Well-described and well-executed CSR strategies may help corporations utilize their development energies instead of revolutionary dynamics; to engage with stakeholders around the negotiating table and to start to reorganize the political and social environment of corporate politics. They may begin to engage in public deliberations, collective decision making, and the provision of public goods (Scherer et al., 2016). The transformation of this environment means more than innovative leadership and application of the skills and means of an already existing CSR management. Paradigm shifters now – as always – face an almost insurmountable hurdle. They have to change the language and the rules of the game while carrying on playing the old game, according to the old rules, using the old language.

Rather than redefining their strategies relating to their identity, corporations need a new identity. They must come to accept that corporations are political communities and not royal courts. The boundaries of the corporation are not where the walls of the 'corporate castle' end: the world out there, beyond the fortifications of the corporation's headquarters, is not a world of desperate corporate subjects just waiting to be subjugated by the marketing-broadsword, the gun of precarious labour or the weapons of sales. The corporation is the sum total of all stakeholders. These stakeholders affirm values and they have interests and emotions; they are ready to join the political community of the corporation provided it does not necessarily mean giving up their identity.

The literature on political CSR is divided regarding the question of the equality of stakeholders (Crane, Matten & Moon, 2008). While stakeholders are not equal as far as their influence, effect and their position in corporate politics is concerned, with regard to their basic rights corporate citizens – just as any other citizens – must be equal. They must be treated as such in their role as stakeholders and in view of their identity: freedom of expression and stakeholder dignity must be upheld. Their stakeholder rights and freedoms as well as the means of practicing these rights and freedoms deserve due protection otherwise the deliberative democratic space does not exist and stakeholder democracy would not happen. The burden of absolutism can be shed by allowing stakeholders to enjoy their value pluralism, which had previously been extended to the public sphere. As regards the management of corporate communities, it is important to introduce a system of checks and balances via public deliberation and collective decision making. While the corporation is exclusively owned by the shareholders, corporate communities are not, although their political management is the task of leaders. Corporate leadership must use cooperative forms of management. More open formats, involving as many stakeholders in decision-making as possible, must be developed.

Stakeholder democracy also presupposes the responsibility of stakeholders. Creation of new corporate ‘social contracts’ are needed, one formulated by each and every corporate community through stakeholder involvement, dialogue and engagement. Organizational and individual stakeholders must understand that the corporate purpose for acquiring a licence to operate is to strive for sustainable economic success. Stakeholders must also realise that when they vote with their chequebooks, common values come with a price. Responsibility must also be shared – locally produced goods may be more expensive than goods flown in from faraway countries with low cost of labour and weak standards of operation; natural ingredients and the output of ecological production is healthier, yet pricier; better, safer and more flexible working conditions reduce bottom lines, which must be compensated by different pricing and profitability strategies. It is important for stakeholders to realize that they are also consumers. In their different roles and stakeholder relationships they must not give up the values they represent.

Cooperative governance is becoming more and more a form of managing cooperation between organizational stakeholders, i.e. the corporation, government and NGOs (Zadek, 2006). In post-industrial societies each corporation represents such organizational power that it prevents them from concluding balanced and transparent agreements with other players of the public sphere. They are ‘too big to fail’, they control too many communication channels, and they are capable of mobilizing enormous financial and other resources in the interest of achieving their goals. When they enter the social arena of deliberation and provision of public goods, as they have to in the 21st century, the stage is transformed.

Corporations must therefore go through an internal change by transforming themselves from absolutistic royal courts into democratically managed corporate communities. The different bodies of corporate communities must work out strategies which will make it possible for stakeholder representatives to sit at the 'licence to operate' negotiating table and take part in the decision-making process. Boards of directors of corporations have already well-tried methods for involving people not part of management; there are working examples of employee and non-executive stakeholder participation in decision-making bodies. Leadership also must be made more politically accountable and therefore better balanced between the various branches of power, i.e. the 'judiciary', 'executive' and 'legislative'. This has already started at multinational corporations through the establishment of ethics committees, the introduction of procedures for handling complaints of public interest, and the employment of compliance officers. On the other hand, because no independent, representative bodies of stakeholders exist to report to, experimenting with initiatives for making the corporate 'judiciary' more open, as corporate scandals prove, have proved to be in vain. In liberal democracies, top leaders are responsible to elected, representative bodies of the political community. Making stakeholder interest part of business decision-making and operation presumes strong stakeholder representation and the political accountability of corporate leaders.

Corporate management is not the only area where this kind of shift is happening. The concept of the corporate brand has gone through a transformation in the last decade. Brands are no longer simply a means for marking ownership, image building and anchoring consumer choice. They have become communities with solid cultural roots and complex organizational relationships, building on common value-creation and the conventional belief in mutually beneficial social exchange. Therefore brand ownership, instead of being a corporate management job, is more a mutual activity based on deliberative processes to endow brands with meaning and help brands stir positive emotions (Fagerholm, 2007). Corporations gradually lose direct control over their brands. Brands become political communities which make free and informed brand choices possible, thus assisting in developing their own identity (Ind, 2003). The leaders of the world of branding, such as Nike, Coke or Starbucks, have realized that the success of their brands is not always decided in board meetings or in marketing departments. The concept of co-creation and idea of 'living the brand' offer brand-community models, which can create more value for the stakeholders than corporate brands owned by shareholders focusing only on return on investment. Brand communities – just like nations – are virtual, imagined communities (Anderson, 1983), which are not owned by the corporation and its representative, the marketing expert, anymore, but by the corporate community as a whole. This does not make marketing experts redundant – they are merely offered different tools. Mobilization of the community – which keeps up and increases the strength of the brand – depends on invoking functioning identities, introduction and operation of rites and symbols, and on sustaining a sense of responsibility towards the community (Muni & O'Guinn, 2001). Corporate social responsibility, as the new model of corporate operation, extends the concept of brand community to the corporate community. Efficient CSR includes voluntary activities, as well as legally and operatively compulsory practices. Stakeholders as corporate citizens are equal and provided with the right to participate in corporate politics. Participation and engagement is an option for every member of the corporate community.

The Founding Fathers of the United States, through the opening sentence of the Constitution: "We, the people of the United States", created a people from scratch simply as a result of the constitutive power of the written and uttered word. The Constitution, by its sheer declaration, created a web of relationships which led to promises, duties, abilities and interactions earlier not seen and which could hardly be foreseen at the time of foundation (McGowan, 1998). It created the brand "America" as an imagined community. The American Constitution declared the exclusive political sovereignty of the people. Modern constitutions determine types of governments, basic rights, responsibilities as well as duties of constituents they regulate the relationship between individual and organizational stakeholders, as well as between the executive, the judiciary and the legislative. Constitutionalism and democratic representation of stakeholders need to enter the corporate world. This is the only non-violent alternative to one-sided usurpation of power by a group of stakeholders within corporate administration. Corporations need a constitution based on the principles of political democracy and value pluralism of the 21st century, instead of a tradition of political operation according to the principles of the enlightened absolutism of the 17th century.

Corporate constitutionalism must be based on stakeholder sovereignty, cooperative management and stakeholder engagement or, in legalese, accountability, contestability and deliberation (Bottomley, 2007). For corporate constitutionalism, effective multi-directional communication is necessary. Stakeholders do what they have to do – they represent, they demand, give feedback, and they participate. However, CSR is about the institutional responsibility of corporations in the provision of private as well as public goods. It is about what corporations can do in the interest of the shift happening gradually and continuously, without 'bloodshed'. For equality based, authority-free communication, application of multi-directional and multi-sided communication is needed, using the principles of web 2.0 (many-to-many), which connects points of the web of social interactions (Barabási, 2003). But this is not sufficient. Constitutive communication, much as in the case of the founding of America, would lead to corporate constitutionalism and to the emergence of corporations becoming 'stakeholder constitutional democracies'. This would create an operational environment that reduces the effects of negative externalities as well as mitigates their harmful economic, ecological and cultural consequences. A new political corporate operational structure is needed, one which ensures that the power sphere needed for deliberative democracy to prevail rests on equality, in which the corporation does not participate with a sovereignty independent of stakeholders claiming legitimacy outside the deliberative space; and where the equality before 'the law' of stakeholders is secured. In other words, the political structure of the corporation must fulfil the requirements of the principles of stakeholder democracy.

The role of the generations in the CSR process

Responsible operation and the emergence of 'stakeholder democracy' presupposes a new vision of the corporation and the world surrounding it. CSR is a shift in the philosophy of corporate management and business strategy. This is not an automatic process. Corporate decision-makers are not yet ready for a major shift; neither are their shareholders. Obviously there are a number of reasons for this, one of them being that their business philosophy and cultural background rest on totally different traditions. Most top managers are baby-boomers, born in the decades after the Second

World War, who did their business studies in the seventies, acquired their business- and MBA experience in the 90s and gained leadership experience around the turn of the century. Although most of them recognize the problems facing societies and corporations of today, their experience, knowledge and skills are deeply rooted in the traditional way of thinking about business and society. The successes that elevated them into their present positions stem from a totally different kind of social and business environment.

Post-war generations are generally divided into three categories. There are the ‘baby boomers’, the generation that was born in the period from after the Second World War to around the middle of the sixties, with the rise in the quality of life. A new culturally and economically self-determining generation evolved. Culturally, baby boomers rebelled against their parents, but were also a generation of talent-based independence and progress. A substantial part of today’s leaders are members of this generation. Their rebellion has by now turned into conformity and the desire to safeguard their success and the status quo. Their road to becoming leaders may have been instructive and full of experiences, yet their advancement was less conscious and planned. While the audacity and courage of this generation caused a number of limits, walls and taboos to disappear in the sixties, through their determining years and life experiences – both in view of their rebellion and the ensuing consolidation – they are strongly attached to a world of cultural and technological challenges much different to those of today.

The baby boomers were followed by Generation X, today’s 30–40 year olds. They had little room for rebellion, since it was exactly the generation of rebellion that had created a livable world for them. Consequently, for them rebellion meant the return to the conservatism of the grandparents, the pre-war generation, as well as to respect tradition and order. Internationally this generation saw less opportunities ahead of them and experienced the world not as continuous progress, a series of steps towards a better life, but as slow development interrupted by crises not seldom resulting in longer periods of regression. While, technologically speaking, the world had opened up, when as young adults they witnessed the spreading of computers and the internet and the new technological revolution of the late eighties and early nineties, few of them could take advantage of the opportunities offered by this brave new world. Some of our current leaders and the next generation behind the baby-boomers – after lots of enthusiasm and major failures – usually prefer to follow the well-tried path of considered progress and experimentation. This generation, having lived through the era of eastern European wild capitalism and the dotcom crisis, today tends to hold back and hinder progress, biding their time and hoping.

Generation Y – instead of rebelling – simply had to occupy the ‘ready-made space’. After the technical and social uncertainties of the generations before them, members of this generation are natives of the new world: technical novelties do not pose challenges and opportunities for them, but are simply part of the natural environment and everyday skills. Email, interactive social media, mass and consumer culture, and the unclear borders between freedom and licentiousness have made this generation both introverted and extroverted. While they turned away from areas of traditional economics and public politics, another social space, the spaces of social media, opened up for them or they created these for themselves. They do not chat with each other upwards and ahead, but rather sideways and in the present. They have limited goals but a lot of sensitivity, knowledge and skills – one of the challenges for Generation X and the baby-boomers is how to put all this in the service of serving public goods. While baby boomer and Generation X leaders inherited the old way of knowing, more and more of their employees, consumers, and stakeholders have completely changed in their way of thinking, consumption habits and identity. The baby-boomers see value creation as continuous growth, and success in monetary terms and financial security. They maintain that success is to be achieved through expertise in production and technologically-directed expansion. They view communication as a necessary evil and, although they know the potential of modern technology and communication, they do not enjoy it; they apply it but they do not use it. For them the world of work is a given, business is a means of proving themselves. In this world work comes first and well-being comes second. This generation lives to work, while generation Y works to live. The Y generation prospers through open communication, understands the media and information, is prepared to cooperate, is ready to network, and accepts mutual dependence in the interests of attaining its goals; one of its major strengths is striving for the creation of a work-life balance (WLB) (Jorgensen, 2003).

The question arises: what will follow? The fourteen and eighteen year olds of today, born around the turn of the century, may become just as radical a generation as the baby-boomers used to be at the time. They are the ones, who – despite crises – are growing up in prosperity and security – at least in the Global North –, yet they see the internal and external challenges posed by this fast-moving world. They use the products of technological achievement with natural tranquility and no longer with the joy of recognition, they see both the advantages and disadvantages of the effects of the second half of the 20th century and they dare to and do ask questions, some of which have no easy and satisfactory answers. According to them, work has to serve life, the past has to serve the future – they are looking for everyday happiness rather than for self-justifying experience. Their identity, being different and showing it off to the world, is important to them: everybody is equal, which is why everybody can be different. Consumption is not acquisition but the opportunity of belonging to a community, cultural icons such as 'Hello Kitty' and 'Bakugan' have no message to convey and that is the way it should be, because in this way they can fill it with any content they wish, with what we are or could be. And most importantly: nobody will solve the world's problems if they do not do it. Solutions should not be expected from the state or from politicians: they can and must find them and force them into being. The power of their communities lie, or could lie, in exactly this: they are capable of joining forces to achieve their goals as consumers, future employees and activists. Their culture is not that of confrontation and competition, but of cooperation. They are responsible for themselves, for their freely-chosen communities and for their present and future – for which they are prepared to act. They could be Generation R, the *responsible* generation, although according to the alphabet (BB, X, Y), the next generation would have to be Generation Z. Generation R/Z could ensure that – instead of the Post-Westphalian state – modern corporations (in cooperation with the communities and in line with their values), as agents with the greatest societal impact, meet the social challenges of the economic success achieved during the past four hundred years. When it comes to brands, they are the ones who can no longer be satisfied by relationships based on economic interest only (price, services, quality), as the baby boomers were. In the same way, they are not too interested in the pseudo-emotional bonding (dogs, children, love) created by brands either. They desire value relationships and brand communities where the product or service is born with their involvement; where the brands bravely declare their values and become loveable thereby; where belonging to a brand is a value declaration; where the brand is a means of demonstrating value-based identity and not the symbol of falling prey to consumerism. Generation R/Z could deliver the consumer from the compulsion of consuming. This does not mean a battle against consumption but rather a choice of values in the interest of valuable consumption – the embodiment of sustainability, ecological awareness and freedom from oppression in consumerism (Tulgan, 2013; Klaffke, 2014; Ingold, 2016).

Equality and communication in the stakeholder network

‘Stakeholder democracy’, based on the principles of deliberative democracy, requires new forms of stakeholder-corporate cooperation. It is not only that the impact and political structure of operation are not sustainable anymore, but the application of new principles in communication between stakeholders is required. The new principles of communication have to be congruent with the principles of stakeholder democracy. They have to contribute to the free, equal and public dialogue of corporate citizens, to the institutionalization of the democratic processes of opinion- and will-forming. Furthermore, corporations have to accept the validity of agreements concluded within the corporate community in the interest of gaining the necessary legitimacy.

The principles of the new communication practice could be the following:

Sharing. There is considerable information asymmetry in communication between corporate leaders and stakeholders. Therefore, in order for an equal and domination-free communication to prevail, this asymmetry must be reduced. To this end, structured and comparable information is needed, which is interpretable for stakeholders both quantitatively and qualitatively, as well as analyses and rankings which make expert interpretation possible – wherever this may be necessary. Sustainability reports based on international standards serve just this purpose at present, in the same way as rankings and analyses based on these reports do. They are but the minimal pre-condition for the evolution of deliberative spaces: communication is influenced by numerous other factors, such as institutional processes of legitimation and decision-making heuristics and biases (Kahneman, 2011).

Commitment. Easing communicational asymmetry leads to dynamic relationships between corporations and stakeholders. Mutual articulation and representation of values and stakes can become the basis for stakeholder relationships in which the coordination of values and stakes becomes the goal of communicative actions. Deliberative corporate spaces are to be created. Stakeholder dialogues based on various process descriptions serve this purpose at present. In the course of these, stakeholders – through the participation of a mediating third party – get the opportunity to express their values and interests. Corporate managers define their expectations towards stakeholders and the business goals they want to achieve with the help of engaged stakeholders, and then allow these to confront each other and endeavour to come to a consensus regarding the possibilities of joint action.

Engagement. Stakeholder dialogue and other communication practices aimed at invoking commitment may lead to stakeholders' formalized involvement in corporate operation and decision-making, to the evolution of institutions of stakeholder democracy, and to the systematic application of the models of co-creation and competition (competitive cooperation).

New corporate communities in modern liberal democracies need more cooperative forms of management and it is vital to involve and engage the stakeholders. A series of crises – the financial crisis in 2008, Brexit, the refugee crisis in Europe, the rise of populism and the far right, the alt-right movements entering mainstream politics – offer an opportunity for corporate and political leaders to act in support of CSR instead of falling to prey to stakeholder 'revolts'. Their remit is to politicize their corporations: to turn their business' into political actors by entering in public deliberations and collective decision-making with their stakeholders about and for the provision of public goods including, but not limited to, contributions to governance, public health, education and infrastructure, enforcing social and environmental standards, fighting against global warming, corruption, discrimination and inequality (Scherer et al., 2016). We have already seen what power stakeholders have and what results the revolts of corporate communities can achieve against corporations such as Gap, Nike, Shell, Exxon or Arthur Andersen. Brands such as Timberland, Interface, Seventh Generation, The Body Shop and Ben & Jerry's, which started building corporate communities, prove that there is no inherent conflict between increasing competitiveness, mitigating the impacts of negative externalities, and the transformation of the political structure of operation, provided the given brand commits itself to a new type of value-creation. The following chapters will show in what areas and with what means the principles of political corporate social responsibility may be put to use.

PART II: APPLYING RESPONSIBILITY

4. Responsible corporate management

The Enron story

At around 2 a.m. on January 25, 2002 J. Clifford Baxter, once the strategic director of the Enron oil company, woke up in his Texas home, arranged his bed as if he was still fast asleep under the blankets so that his wife would not notice that he had got up. He put on a T-shirt and a tracksuit, quietly went down to the garage so as not to wake up their two children. He got into his Mercedes 500 S and drove off into the night. Twenty minutes later he stopped the car on Palm Royale Avenue, put his wallet on the car seat and shot himself in the head with his Magnum. Next to his wallet he also left a letter addressed to his wife: “I am so sorry for this. I feel I just can't go on. I've always tried to do the right thing, but where there was once great pride now it's gone. I love you and the children so much. I just can't be any good to you or myself. The pain is overwhelming. Please try to forgive me. Cliff” (McLean & Elkind, 2004: xi). Although this suicide did not put an end to the Enron story, the pistol shot in Texas has become a tragic milestone in the rise and fall of Enron – and of modern business operations paved by ethical offences.

J. Clifford Baxter, son of a New York police family, achieved a great deal in his life. Eight months earlier he had been the strategic director of Enron, the most trusted man of CEO Jeff Skilling and the man thought to be the brains behind Enron. Thanks to the share options he had received from Enron, he was a multi-millionaire. Between 1980 and 1985 he served in the US Airforce and he took his discharge as captain. Following his army years, he graduated from Columbia University in New York with an MBA degree. After a short period of working as an investment banker, he joined Enron in 1991 and gradually progressed to the position of strategic director.

Enron used to be one of the largest and most valuable US corporations. Fortune magazine awarded it the title of the “most innovative company” for six consecutive years. Distinguished people like Henry Kissinger or James Baker, the Chief of Staff of the Reagan and Bush Administration, lobbied for them. Nelson Mandela, Colin Power, US Secretary of State, Mikhail Gorbachev and Alan Greenspan, former FED Chairman, all highly valued the Enron Prize awarded to them for their social participation. Although Greenspan, as Chairman of the FED, could accept neither the US$10,000 Prize nor the statuette worth US$15,000 USD, in his speech he stressed how honoured he felt to be among the awardees. Enron declared bankruptcy only nineteen days after that award ceremony. At the height of its success Enron employed twenty thousand people and it was one of the largest companies in world in the electricity and gas production and distribution sector with some interests in the paper industry as well. Its annual turnover reached USD 111 billion in 2000, according to the financial statements of Enron. As one of the world's most valuable companies, Enron was included in Fortune magazine's "Top 100 workplaces" in the year 2000.

The original company, Northern Natural Gas Company, was founded in 1932 in Omaha, Nebraska. In 1979 the company went through a re-shuffle and, after the merger of a number of companies with the same industry profile, Enron came into being, headed by Kenneth Lay, CEO. Later, beside Lay, Jeff Skilling took over the operative management, and he, together with Andrew Fastow, Vice-President for finances and Clifford Baxter, made the company grow into one of the world's largest corporations in the energy industry – partly by taking advantage of the liberalization of the energy sector, partly by making use of the latest financial tools. At the zenith of its success Enron operated close to forty power stations, many tens of thousands of kilometers of gas- and oil pipelines and a broadband data provider world-wide from India to South America. The corporation disposed over huge marketing resources and the price of its shares kept rising.

Enron declared bankruptcy in 2001 after it came to light that the corporation had manipulated its turnover figures and had enormous debts. Within days, the price of its shares plummeted to a few cents per share from the earlier 90 dollars. This was history's biggest stock exchange bankruptcy, only to be surpassed by WorldCom and Lehmann Brothers in later years. The collapse of Enron also meant the end of its auditors, Arthur Andersen, one of the four largest auditing and management consulting firms in the world. Prior to declaring Enron's bankruptcy Kenneth Lay, Clifford Baxter and other top managers of the corporation sold many ten millions of dollars' worth shares in an attempt to save their private fortunes.

The most valuable part of the corporation, Northern Natural Gas Company, was sold to investors from Omaha, who relocated its headquarters to Nebraska. Today it is a profitably operating member of the Berkshire Hathaway group headed by Warren Buffet. The leaders of Enron were tried in court. Jeff Skilling is currently serving his 14-year jail sentence in Alabama, USA. Andrew Fastow was sentenced to six years imprisonment and left jail in 2011. Kenneth Lay was found guilty of fraud on May 25, 2006. He could have expected a jail sentence of 10-30 years, however he died of a heart attack on July 5, 2006, before the court could announce its sentence.

The story of Enron is one of the most important sources on business ethics for textbooks and case-studies. As a consequence of it, a number of important legislative steps were taken: rules, laws and limitations for corporate management were introduced. The most important of these was the Sarbanes-Oxley Act of 2002 (*"To protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes")* which radically changed the rules of corporate management, controlling and accounting procedures in the United States. The story of Enron, beyond being a case study in business ethics and corporate management, is exciting because it is all about the essence of the modern business. It is about how smart and successful business people become prey to their own human weaknesses and their financial ambitions; how they are deceived by irresponsibility, the unconditional pursuance of growth and expansion, their belief in the opportunities offered by liberalized markets, the legitimacy of success and by the ruthless and finite risk of the Ponzi schemes played on the stock-exchange. Enron was a successful company, its leaders were everyday, smart, talented and respected businessmen. The operation of the corporation affected the lives of millions, often permanently. The story of the rise and fall of Enron is the story of ruined people: investors, analysts, accountants, employees and managers. "People didn't just go to work for Enron" Skilling said. "It became a part of your life, just as important as your family. More important than your family. But at least I knew we had this company" (McLean & Elkind, 2004: xxi). Skilling, when still top manager of the company, left his wife and children. He went to psychologists and lived on anti-depressants. Baxter took a long sailing cruise before his suicide. He wanted to relax, contemplate and forget. On his return to Florida he called his psychologist, telling him that he needed help. The psychologist could only give him an appointment for February but Baxter could not wait that long. He should have given his testimony in court in February but he chose suicide instead.

The Enron story brought to the surface the archetypical symptoms and problems of business legitimacy: the conflict between stockholders, managers and other stakeholders, the remuneration of management, as well as questions of corporate governance, modern business and responsible operation. These issues will be dealt with in the rest of this chapter.

The ethical aspects of the Enron story, however, had a continuation after the bankruptcy. Lynn Brewer, an employee of Enron, published a book in 2004 with the title: *Confessions of an Enron Executive: a Whistleblower's Story*. Following the publication of her book, Brewer became a celebrated lecturer and hero of ethical corporate operation. The fee she received for a lecture often exceeded ten thousand dollars. Her company, the Integrity Institute, acts in the interest of stakeholders by validating corporate management models and ethical systems as independent experts. She was awarded numerous international distinctions and the official recognition of the Nobel Peace Prize Committee. The only problem is that – as was uncovered by an article in *USA Today* in October 2007 – Brewer never belonged to the management of Enron, a large part of the Enron story as described by her is not proven, all or parts of it are said to be clearly fabricated. Her boss at the time does not recall her ever having reported him about misuse of power or having made other constructive proposals. She left Enron because she was dismissed due to an ethical offence – while in London on company business, she and her friend rented a car at Enron's expense and travelled across England for a week, but at the same time the task she was sent to do remained undone (Farrell, 2007). The Enron story and the story of Brewer proves that in the business world nothing is what it seems to be, the stakes and values of stakeholders differ, the legitimacy of the various participants is different and trust, the basis for cooperation, is fragile as well as person and situation dependent.

The theory of corporate governance

According to modern theory of corporations they are "jointly managed transactions", meant to supplement the imperfections of eventual contracts regulating transactions between parties disposing over different kinds of resources (capital, labour, raw material, consumer decision, etc.). The premise is that the joint, contract-based exploitation of these resources – this is the corporation – creates added value compared to each owner of the different resources utilizing their resources individually. On the other hand, it is obvious that earlier deals, contracts, agreements regulating transactions in the course of joint utilization of resources are inevitably imperfect, since not all possible events that may occur while transacting can be foreseen during prior negotiations. In addition, in order to utilize resources in an optimal way, further investments may often be necessary, notwithstanding the fact that the conditions of the contract can – to optimize it in view of events occurred – be renegotiated after investments had already been made or having given resources in joint use. It may so happen that parties begin to act in a self-interest directed, opportunistic way and the participants in the stronger position become egoists at the moment of renegotiation when it comes to distribution of the added benefit created, channeling the value surplus towards themselves. Should the owners of resources participating in the joint transaction expect this to happen, they will keep the availability of their resources and their investments below the optimal level – in order to minimize risk – thereby endangering effectiveness, value-maximization and competitiveness.

The corporation can counteract this problem by establishing appropriate authority position(s): the owners of the resources – generally investors – give someone a mandate to eliminate the imperfections of prior agreements through their decisions without renegotiating prior contractual agreements thereby allowing the control of transactions requiring continuous decision-making, as well as providing the optimal supply of resources. In this way the company becomes a system based on special contractual relationships: when events occur which prior agreements are not capable of handling, the original contract is fulfilled by applying a "residual right of control". This gives the owner of such a right the mandate to make decisions in issues that formerly could not be foreseen and therefore were not regulated in earlier contracts. Issues are further complicated by the fact that those providing the – mainly financial – resources, especially in the case of MNCs, are numerous, with individually small contributions, therefore for them it does not make sense to take part in supervising the "residual right of control". Thus, the owners of the resources give the mandate for exercising the residual right of control to dedicated people involved in corporate management: they will be the operative leaders of the corporation.

Therefore, due to the large number of those providing the financial resources, the costs of attention and aspects of effectiveness the title of ownership and management are divorced from each other in a significant number of corporations. When the title of ownership and management are divorced from each other, the 'principal-agent problem' appears. Within the corporation, the principal-agent relationship is one where the owner of the resources/shareholder (principal) consigns certain people (agents) to provide certain services in their interest, for which they get the necessary mandate from the principal. On the other hand, if both parties strive for benefit maximization, there is good reason to assume that the agent will not in every instance act in the exclusive interest of the principal. The principal can reduce the risks associated with this attitude by bearing the costs of control. Likewise, they can motivate the agent by providing additional resources, and they can offset residual loss stemming from the consequences of the difference between the ideal decisions expected by the principal and the actual decisions. In other words, it seems reasonable to assume that the interests of the principal suffer harm, and also that – in order to minimize such harm – they have to bear significant costs. Should these losses exceed a certain level, or if they are disproportionately distributed among the various owners of resources with different stakes and stake-optimizing strategies, the effectiveness and competitiveness of the corporation may suffer damage (Jensen & Meckling, 1976).

Modern corporations do not only have to deal with the limitations of contractual relationships. The legitimacy of corporate operation (i.e. individuals enter into contractual relationships in the interest of accumulating personal wealth, they hire agents to represent their interests and in connection with this they set up motivational tools, they deal with risks, and they submit their resources to a common management in the interest of creating surplus value to secure personal benefits for themselves) does in itself not have any social acceptance and support. Corporations can expect social acceptance and support if they operate according to prevailing societal norms and expectations, and their goals are reconcilable with social goals and visions in a broader sense. In other words, the legitimacy of corporations is dynamic and temporary: to uphold the 'social licence to operate' corporations must make an autonomous effort in the interest of complying with societal norms and expectations. It is because of these theoretical premises that the issues of corporate governance reach beyond a simple principal-agent relationship, requiring structures which ensure that the interests of the agents do not significantly differ from those of the principal(s) and that the operation of the corporation is in line with the norms of society in the interest of attaining legitimacy and obtaining their licence to operate.

Corporate governance is the sum total of processes, customs, incentives, culture, institutions and practices that influence and determine how the corporation is directed, managed and controlled in the interest of producing goods and services effectively (Turnbull, 1997). According to another definition, taking the principal-agent problem as point of departure, corporate management is “a complex set of constraints that shape the ex-post bargaining over the quasi-rents generated in the course of a relationship” (Zingales, 1997). The definition of the OECD is the following: “Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring“ (OECD, 2004). As we have seen, the basic issue of corporate management is how corporate operation can be optimized in the web of imperfect contracts and “residual rights”, minimizing necessary agents’ costs while attaining and sustaining social legitimacy and cooperation with stakeholders.

Models of corporate governance

Authors investigating issues of corporate governance take two different points of departure. The narrow approach takes the interests of the stockholders of the corporation as a starting point and tries to find an answer to the question: what customs, institutions and rules must be introduced in the interest of benefit maximization and competitiveness in order to be able to fully enforce the fiduciary liability of manager-agents while minimizing agent costs paid by the stockholder-principal? This train of thought sees the corporation as machinery, where the task of management is – through utilization of the resources provided by the stockholder-investor – the efficient production of goods and services and the organization of other stakeholders participating in the process, while effectively limiting the assertion of self-interest by the agents. The point of departure of this approach is the *stake* of the stockholders and it sees as goal the sustainable maximization of the ‘quasi-rent’ due to the stockholders from the value surplus generated for them, while at the same time complying with the norms of society in the interest of attaining and retaining macro-level social legitimacy. This is called the stockholder or fiduciary view of corporate governance.

The broad approach of corporate governance takes the social norms, values and interests represented by the stakeholders as point of departure and proposes that all stakeholders put their resource-investment at risk, therefore – in proportion to the risk assumed and resource investment made – they also have a legitimate claim on the value surplus created. As a consequence, this approach moves away from the principal-agent model toward the team-cooperation problem: the task of corporate governance will be the development of effective cooperation, negotiation, coordination and conflict management models which will ensure the maximization of common profit and the proportionate distribution of it among the providers of the resources. Sir Adrian Cadbury, in a speech delivered at the Global Corporate Management Forum, said that: "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society" (Cadbury, 2000, p. vi.). According to this model, the long-term success of the corporation does not mean the maximization of stockholder profits over a long period of time but rather the fullest possible realization of the part-interests of stakeholders and the distribution of the value surplus in a proportion that ensures the sustained commitment of stakeholders necessary for maintaining their cooperation (Ayuso & Argandoňa, 2007). This may be called the stakeholder approach to corporate governance.

Departing from these two basic concepts, a background paper for the OECD recommendations on corporate control differentiates between four models of corporate management: the simple finance model, the stewardship model, the stakeholder model and the political model (Hawley & Williams, 1996). The simple finance model is the basic case of the principal-agent problem. Here the task of corporate management is – as shown earlier – to adjust the optimum agent costs and the costs of the risks associated with authority transfer: the determination of the costs of supervision/control of the agents, of binding them to the principal, and of residual losses proportionate to the expected profits. This model is the rudimentary form of corporate governance. The managers of the corporation always retain sufficient authority to have the possibility – acting out self-interest – not to want or be able to further optimize the competiveness and value-creating ability of the corporation: a significant part of stakeholders is not involved in any strategic value-creating process, they participate in the process only by making their resources available. According to this model, the task of corporate management is both control and supervision, the prevention of assertion of self-interests and minimizing the principal-agent conflict. Corporate governance must become independent of daily management: the operative responsibility of the managers is ensured by controlling organizations independent from them. The best example for the simple finance model of corporate management is the operation of the peripheral local subsidiaries of global corporations. Taking advantage of the low income level of the economy as a whole, these corporations determine the costs of binding those participating in the management of the corporation to the principal (management remuneration and benefits) disproportionately (compared to local pay) high and accept the similarly high residual losses (corruption, inefficiency and 'constitutional costs'). Local top managers receiving much higher salaries than their market value – compared to similar positions in local companies, government servants and entrepreneurs – would fully exert their fiduciary responsibility, to a large degree at the cost of other stakeholders (employees, suppliers and consumers), in order to comply with the profit maximizing expectations of their stockholders. Thus, in reality, the agent becomes an 'exploiting supervisor' of the stakeholders. The frail social norms, weak interest-protecting organizations and the inability of stakeholder representation in these countries do not make it possible for stakeholder interests to be built into the business operation and for stakeholders to participate in the value-creating process in a strategic way. This corporate management model follows the model of the 'antidemocratic corporation' as described in the introduction of this book. One of the more extreme examples to this mode of operation is where discretionary stakeholders, having social legitimacy but neither urgency nor the power to assert any possible claims (Carroll, 1991), get involved through ad hoc, sporadic charity and environmental protection programmes and cooperation, in the interest of assisting the company upholding the appearance of social legitimacy, this maintaining its licence to operate.

Unlike the simple finance model that starts out from limiting the egoistic self-interest of agents, the *stewardship model of corporate governance* presumes that the agent/manager is not simply motivated by material self-interest but by the full exploitation of the values inherent in cooperation and common success. The steward – although he is also a rational decision-maker – is not interested in individual profit but rather in the results of community cooperation: thus the stake of the caretaker/manager coincides with maximizing the wealth of the principal. The main representatives of the theory, Donaldson and Davis, put it as follows: "the executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Thus, stewardship theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire. Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. The issue becomes whether or not the organization structure helps the executive to formulate and implement plans for high corporate performance" (Donaldson & Davis, 1991, p. 51). The agent model presumes an inherent conflict between the interests of the principal and the agent, therefore the task of corporate management is to reduce such conflicts and to minimize the costs associated with it. The steward model presumes that the interests of the principal and the steward coincide, therefore the task of corporate governance is to facilitate a best possible cooperation: the coordination of achieving the common goals should be as effective as possible and the boosting of the steward's motivation as successful as possible. The steward model also presumes that the manager values internal motivations, mutuality, goal-orientation, growth, duty and success higher than external, material motivations (Donaldson & Davis, 1991; 1993). As a result, the costs of controlling and binding the manager to the principal can be reduced significantly and the aim of investments relating to control is mainly to increase the effectiveness of cooperation and the organizational motivational structures in the hope of common profits. Here the aim is not so much the setting up of controlling bodies independent from the managers, but much rather that the managers become participants in the long-term success of the corporation, seeing it as their own success, going beyond being part of the daily management of the corporation. Therefore, this model does not support the establishment of independent strategic controlling bodies but rather that the responsibility of management should manifest itself in a not only short-term but also long-term institutional framework. This model backs the heterogeneous personal composition of the board and management and the participation of management in controlling and strategic bodies. While the point of departure of the model is still the fiduciary responsibility of the managers towards the stockholders, it strengthens cooperation with stakeholders and joint success in the whole organization. This model fits in with the level of the 'organizational-regulatory democracy' level described in the introduction: leaders carrying fiduciary responsibility, who are success-oriented and looking for legitimacy, try to comply with stakeholder expectations enforced by regulators and legitimate political institutions – adequacy, reporting, consumer protection and environmental rules – yet they do not do this in a systematic and strategic fashion. The stakes and values of only those stakeholders who are necessary for economic value maximization appear on the level of strategic decision-making, however managers would not shy away from business activities that turn corporations, to a limited extent, into political actors. Corporations in this model may engage in public deliberation and the potential provision of some social goods, but ecological and societal values are only relevant in as much as they support economic value creation and consequently the economic success of the managers of the corporation. Thus, the corporation does not display any (explicit) aim of contributing to social welfare beyond economic interests (Scherer et al., 2016).

The stakeholder model moves away from fiduciary responsibility towards stakeholder responsibility and presumes that the goal of the corporation as 'jointly managed transactions' is the realization of the interests of all stakeholders and the maximization of the various benefits for them stemming from making their resources available. Margaret Blair (1995b) defines corporate governance in this broader context and she argues that corporate governance should be considered as the set of institutional solutions for governing the relationships among all stakeholders that contribute firm specific assets. This model requires corporate management structures and solutions in which representatives of different stakeholders play a role and which even make it possible for the relevant stakeholders to get stockholder rights or real ownership in the interest of collective corporate success. This model supports joint management structures as well as cooperative and associative as opposed to market and hierarchy based organizational management models (Turnbull, 2000). This is the operative model underlying inter-corporation stakeholder democracy. Here the leaders are inclined to participate in and accept the institutions and modes of operation for soft legislation, recommendations, norm determination and joint regulation which were set up together with the stakeholders and where they, even as directors, are active participants in multi-stakeholder organizations, be it international or national. In this governance model the buds of the institutions of democratic stakeholder politicizing appear or could appear in the same way as some form of the stakeholder approach is realized at corporations participating in such cooperation and in strategic decision-making. In this model corporate engagements are directed to effectively and legitimately resolve public issues, provide public goods ad contribute to society with the explicit aim of enhancing social welfare beyond economic motivations (Scherer et al, 2016).

The political model of corporate governance recognizes "that the allocation of corporate power, privileges and profits between owners, managers and other stakeholders is determined by how governments favour their various constituencies" (Turnbull, 1997 p. 191) as well as that organizational management and influence allocation is not of a market-economic but of political nature within the corporation. The basis of the theory is that the corporation is part of the national and global social-economic ecosystem, therefore the coordination of the various stakeholder interests must reach beyond the operating systems within the corporation. In this theory, the corporations are a determining part of a complex socio-political matrix in which it is the task of the various forms of soft and hard legislation reaching beyond the boundaries of the corporation to ensure the optimal distribution of the complex network of stakes, values and influences. Joseph Roe (2003) calls this the precondition for the peace necessary for economic success. It is the duty of the representatives of interest and value relationships reaching beyond the corporation and of their institutions to determine what this distribution should optimally look like. In this model, the goal and task of corporate management is no longer only to maximize corporate value surplus, it is not satisfied by corporations complying with social norms and expectations, but it expects corporations to operate as efficient resource-utilizing partnerships in the interest of the whole society, involving every active and passive stakeholder and cooperating with them.

This model comes close the definition of political CSR used by Frynas & Stephens (2015) as corporations having "intended or unintended political impacts or where intended or unintended political impacts" (p. 485) on the corporation exist.

This definition utilizes the CPA approach of Lawton et al. (2013). Freynas & Stephens approach to political CSR, however, is criticized by Scherer (2017) claiming that the concept of 'political' is unclear as is the substantiating claim of this being a 'sphere of activity that is distinctive from business activity'. In this definition, as Scherer (2017) emphasizes, concern for public interest is largely excluded, the negative implications that CPA practice may hold for society are not considered and only political strategies that enhance corporate profits are explored. The criticism also claims, rightly in my view, that while defining political CSR in CPA terms aims at dismissing the normative standpoint to political CSR, they actually follow a hidden normative agenda of profit maximization, potentially at the expense of being detrimental to society (Scherer, 2017). A political model of corporate governance, following political CSR principles, may work effectively if the power allocation within the corporation is adjusted to the stakeholder model, thus applying modes of operation based on equality, power division and cooperation instead of on hierarchical models of governance.

Political institutions may influence corporate governance in a number of ways. Regulation may stipulate the form and extent of ownership, the form, size and modes of remuneration; it can regulate relationships within the corporation, just as it can determine compulsory management structures and internal regulations. If the political model is evaluated according to the aspects of the principal-agent model, political entities – international and national governmental and non-governmental political institutions – are able to reduce or increase agent-related principal costs (through taxes, salary limits, preferred forms of payment, limiting rentierism and corruption) in the interests of upholding certain social values and goals, or they can regulate principal-agent relationships in other ways (voting limitations and securing special ownership rights). Furthermore, through political deliberative and collective decision processes, co-created soft or hard regulatory practices can influence or prescribe the participation of certain stakeholder groups in management (collective rights, works committees, employee supervision and controlling rights). In addition, the political model can also help the various stakeholders not only in being able to put in their claims regarding resource allocation, but also in their making use of other political means of pressure within the corporation in the interests of realizing their stakeholder interests. This model means or may mean the evolution of more complex management structures, which may eventually lead to the liberalization, the coming into being of ‘stakeholder democracy’ and the enforcement of ‘stakeholder sovereignty’ in the operation and management of the corporation. This is the level of ‘corporate stakeholder democracy’ when stakeholders become full corporate citizens, basic institutions of deliberative stakeholder democracy come into being and corporate strategic decision-making happens along the lines of the principles and operation of democracies. This also brings with it changes in legitimacy in the structures of corporate management, since ownership of resources will no longer be the only legitimate source of participation in management but numerous other factors of legitimacy (development of human capital, support of learning society) and stakeholder goals (wellbeing, creating shared value) also become possible (Porter & Kramer, 2011; Stiglitz, 2014).

Institutional ethical issues

As we have seen, the separation of the right to ownership and to management brings numerous theoretical problems to the surface, which manifest themselves in different management models. As corporate management is of a practical nature, the problems also appear in specific forms of organization and models of operation. When different approaches to the principal-agent model are discussed, there are basically three areas around which the practical questions of separating ownership and management revolve. These are *agent control/supervision*, *agent bonding* and *residual costs*. Numerous organizational problems can be traced in all three areas.

Independent governing bodies

The issue of control/supervision manifests itself in the introduction of independent boards of directors. In the interests of limiting the room for maneuvering by self-interest driven managers, and of optimizing the provision of resources, stockholders set up controlling and directing bodies that are not involved in daily management. However, independence has become a goal that has often proved to be difficult to put into practice. While appointing outside members – who are as such, independent of the management of the corporation – to the board of directors seems easy to realize, attaining independence is by far not that simple. Theoretical independence often does not go hand in hand with operative independence: the meeting schedule of the board and the structure of disseminating information is determined by the operative managers of the corporation: they are the ones who in most cases have control over the salaries and other forms and modes of remuneration of the members of the board and they have the final say in who can participate and in which committee of the board. This being the case, it is possible to influence the seemingly independent board members and reduce the effectiveness of their controlling function. In the principal-agent relationship, managing the 'independent board of directors', especially in the case of large corporations, has become a task on its own, through which the costs of participation of the stockholders again increases the marginal costs of control, or the participation of small stockholders in managing the board is made impossible. Similarly, the theoretically independent members of the board – those who have real business experience and are therefore able to exert effective control – are in contact with the managers in charge of the corporation in numerous ways due to the nature of the market(s), and they are dependent on them. The smaller the market, the more often the actors of the market are interconnected through numerous visible and invisible threads. Mapping these threads and cutting them once again results in increased costs to the stockholders. In order to achieve true change in this connection, a transformation must take place in the institutional order and hierarchy of management, as well as in the mode of legitimacy of the independent management bodies. Strategic stakeholder engagement in governance can come about if the independent governing bodies rest on true, widely spread and democratic stakeholder legitimacy and involvement.

Management remuneration

Agent bonding problems manifest themselves in management remuneration. In the case of large corporations, the remuneration of top management has for long been a fundamental question of business ethics. In 2006, the year before the crisis, the ratio of management remuneration to average market regulated income was 411:1 in the United States. And this did not change significantly in the first year of the crisis: it dropped to 344-fold. The most dramatic ratios were to be observed in the remuneration of financial investment managers: in 2008, the top fifty best paid financial investment bankers earned $588 million per annum each, 19,000 times as much as the typical US worker (Executive Excess Research, 2005, 2008). According to an international survey conducted by Kelly Services, an international human resources company, 57% of the employees were of the opinion that managers earn too much and their income is not commensurate with their performance. The extraordinary management earnings in themselves pinpoint the failure of corporate governance regulation.

The sheer volume of managerial salaries and other benefits is dramatic enough but especially so in the light of how it compares to the performance of managers. Management income grows at a faster rate than corporate profits and that they do not drop even if the corporation or an industry in a given period performs below expectations. Research by psychologists studying business decisions confirms that it is most seldom that there is any correlation between measurable corporate performance and the performance of management. Management performance – just like success in general – is influenced by a number of illusions, heuristics and biases which radically distort the correlation between performance and how well-founded action is. *Optimism bias,* as when wanting to achieve something the real chance of failure is systematically underestimated; the *illusion of validity* as when interrelated or preconception-based information is taken as independent or proven; or the *return to average* – the phenomenon where performance over a longer period of time converges to the average are all such cognitive biases. As most assumptions and prognoses on which decisions are based cannot be proved, and as decision-makers tend to make their decisions based on superficial or limited information, biases or simple errors, it seems to be obvious that management performance is mainly influenced by luck (Dorff, 2009). Overall, research shows that while performance is overwhelmingly influenced by sheer luck, decision-makers often see their predictions of the future or the information and assumptions underlying their decisions as verified (Kahneman, 2011). While from the principal-agent relationship it would follow that the limitation of the self-interest driven managerial behaviour and the determination of the optimum ‘bonding cost’ could best be done by linking management remuneration to performance, based on the above income paid to management is, simply, pay for luck.

This does not only happen because it is questionable how well-founded management decisions are, but also because the tools for measuring performance are not available. Due to the nature and complexity of the market and the limited possibilities of influencing it, the observable elements of corporate performance do not change, increase or decrease because of management either but rather because of factors independent of the corporation. As such the salaries of managers linked to corporate performance are in reality: ‘payment for luck’. On the other hand, the extent of ‘payment for luck’ can be reduced by appropriate corporate governance tools, primarily by appointing independent board members not attached to the managers. In better managed corporations the salaries of the managers are lower and they are less dependent on luck (Bertrand & Mullainathan, 2001).

Transparency

Residual costs are influenced by numerous factors. As was shown earlier, the substantiation of management decisions and their prognoses for the future are dubious; managerial performance is luck-based. Accordingly, managers often make wrong decisions: errors are enhanced by *optimism bias* or *over-confidence caused by the illusion of validity* – experts/managers often overestimate their own expertise while it is exactly for their firm determination that the market rewards them, by selecting and holding them in great esteem. Thus it is very probable that there would be a significant difference of opinion between the non-entrepreneur and non-expert investor and the manager continuously falling prey to optimism bias and the illusion of validity. This is the basis of the residual costs to be carried by the principal. On the corporate level, it can be counterbalanced if strategic decisions are made by the board of directors consisting of independent stakeholder members, or if the validation is done by those who have an overview of the operation of the corporation, even from a societal perspective. At the same time, exactly because the salaries of managers are linked to corporate performance, corporate managers will be interested in increasing corporate performance by using non-market-conform tools and by keeping such tools underlying corporate performance hidden from members of the independent corporate institutions. Such non-market-conform tools could be corruption and the extortion of certain stakeholders. Corruption may not only refer to state rent seekers. It is also corruption when business success is achieved by catering to the personal needs of the buyer’s decision-maker in a way separate from corporate interests, for example, or by any form of bribery (involving but not limited to backdoor payments based on non-transparent systems of incentives), rather than by competitiveness, competition and excellence. Extortion of stakeholders can also take a number of forms. One of these is when the buyer, through the abuse of market power, pushes down the price in the extreme. This forces the supplier to reduce the actual costs by cutting the offered price by certain cost elements, such as taxes and other dues, thus channeling negative externalities in the direction of certain groups of stakeholders. Examples for this are outsourcing, or employees paid as quasi-entrepreneurs against invoices submitted by them, a practice common in post-transition Eastern European countries. Increasing transparency, and making the income of management and the stakes of the corporation in the supply chain fully public could help reduce ‘residual costs’. Conscious illegal pay-outs and the extortion of stakeholders could be stopped by full dissemination of financial and non-financial information, in the case of large corporations in a compulsory manner, in a standard structure and in a form that is transparent and comprehensible for stakeholders. The reduction of information deficiency and the increase of transparency through compulsory reporting will be discussed below in connection with the tools for stakeholder management, under *Sustainability report*s.

Tools of corporate governance

The toolkit of corporate governance looks for more than just an answer to problems stemming from the principal-agent relationship. Often the interests of stakeholders must be upheld against specific, disadvantageous market processes.

Independent members of the board and committees have already been touched upon. The two most important committees of the board are the audit and the remuneration committees. The audit committee is the board of independent, non-executive directors who select (propose to the Board for selection by the shareholders) an independent auditor to review a financial progress report. This committee also reviews, audits and evaluates the corporation's and its officers' financial and related activities and risks. In two-tier Board systems the Audit Committee is a committee of the Supervisory Board. However, in jurisdictions where the Supervisory Board powers are limited, a subcommittee of the Board of Directors (that includes non-executive members) also assumes and takes responsibility for similar financial and risk management responsibilities as the Supervisory Board’s Audit Committee (AmCham, 2011). The remuneration committee’s purpose and responsibility is to review and approve Chief Executive Officer and other key executives’ compensation, evaluate their performance as well as to determine and approve their remuneration levels. This committee makes recommendations on incentives such as equity-based plans (subject to Board approval) (AmCham, 2011).

These committees support and help the management of the board of directors in order that the managers disposing over corporate resources do not significantly influence the independent board. The internal audit serves to supervise management and the '*reduction of residual costs*'. The task of the internal audit is the ongoing appraisal of the governance, risk management and internal control processes of a company's operations. Internal audit can be executed by disciplined and specialized employees of a firm, independent from management processes, or by external service providers (outsourcing). Internal audit provides the management and the board both assurance of compliance and consulting regarding critical business decisions (AmCham, 2011).

The rules limiting the self-interest driven actions of managers and those establishing liabilities of managers beyond legislative regulations fit in with the order of corporate governance. Such rules are the ones limiting 'insider trading' and those breaking down the limited liability of managers. Insider trading is understood in terms of direct or indirect dealing in financial instruments by any person (insider) who possesses material, non-public (insider) information in relation to shares, securities and other financial instruments, and the encouragement of others to carry out such deals, as well as the disclosure of insider information to any other person, before its publication. In a broader sense it refers to unethically acting on non-public information for personal gain (AmCham, 2011). The purpose of breaking down limited liability is to abolish protection ensuing from the limited liability if the damage or loss occurred because of an ethical offence. Accordingly, the CEO or stockholder of the corporation can be made responsible for liabilities of the corporation even if the law secures them limited liability.

The limitations stemming from adhering to market processes also fit in with the system of corporate governance. These are the application of the 'poison pill', the 'white knight' or the 'golden parachute'. These limitations serve the purpose that managers should not want to support or oppose corporate mergers and buy-outs which are not in the interests of stockholders or stakeholders. The 'poison pill' makes it possible to prevent someone from taking over control of the corporation by buying up a certain number of shares contrary to the interests of the stakeholders. Existing shareholders – under preferential conditions – get the chance to purchase further shares, thereby reducing the percentage stake of the new buyer and preventing the taking over of control or making it disproportionately expensive. Thus, the 'poison pill' makes it impossible or at least very dangerous to 'swallow'. The 'white knight' refers to a corporation that steps in and buys up the target company in a ‘friendly way’ in the event of a third party wanting to acquire it in a hostile manner. The ‘golden parachute’ is a tool that provides managers with the guarantee of a substantial severance pay in the event that a change in the control of the corporation should take place, in order for them not to hinder a merger when it serves the interest of the stakeholders. These limitations create political institutional hierarchies which provide institutionalized systems for managing inevitable stakeholder conflicts, but are typically not democratic and represent the interests of specific stakeholders, and do not create modes of deliberative and democratic will-forming applicable for mitigating the interests of all stakeholders.

Regulating corporate governance

One of the most important regulating steps taken concerning corporations listed on United States stock exchanges and operating globally is the Sarbanes-Oxley Act of 2002, also known as "*Public Company Accounting Reform and Investor Protection Act*" passed by the 107th US Congress. The purpose of the Act is to increase the financial transparency and reliability of the reports of corporations listed on US stock exchanges and to make their operation more controllable. The Act was submitted for adoption by Senator Paul Sarbanes and Congressman Michael Oxley. It has an influence on a number of areas of corporate governance and accounting procedures. Among other things, the Act provides for stricter control of and limitations to the rights of managers, it increases the accountability of corporate leaders (e.g. it prescribes the re-payment of premiums and sets much more detailed rules for conflicts of interest), strengthens the independence of the members of supervisory boards and audit committees, and regulates procedures of public accounting practices more strictly. The Act also prescribes a much more detailed and circumspect reporting obligation for corporations, it makes the rules applicable to auditing firms significantly stricter, it increases the publicity and transparency of corporations, introduces stricter criminal liability sanctions for ethical offences, strengthens the rules and institutions of internal control, creates official institutions for whistle-blowing. In addition, the CEO and CFO are responsible for keeping to the rules of the controlling system and for taking the necessary precautionary steps, and their declarations to this effect must be attached to the balance sheet. The purpose of the institutions for whistle-blowing is to guarantee the safety and stability of the international financial markets and to fight corruption, banking and financial crimes and insider trading. A further aspect of the regulation is the modified rules relating to the composition of the boards of directors.

Legislation and recommendations support an increase in the proportion of the different ethnic, sexual and cultural groups on the boards. Similarly, it is necessary to strengthen the participation of the different stakeholder groups on corporate boards and in their committees. Corporate boards today consist of white men mainly: in the countries of the European Union over ninety percent of the members of the boards of directors of large corporations are men. Therefore the European Committee issued a directive in 2012 according to which the proportion of women on the boards of large corporations (companies employing more than 250 people and/or with an annual turnover exceeding 50 million Euros) must be increased to forty percent by 2020.

These corporate governance structures, modes and rules increase the participation and diversity of stakeholders in the strategic governance of the corporation but they do not improve the circumstances of stakeholder democracy. Certain stakeholder groups are put in a better position than they were in earlier and the general vulnerability of stakeholders is reduced by them, but overall they do not create deliberative institutions based on equality which could make obtaining and maintaining social legitimacy possible through democratic stakeholder structures, just as they do not facilitate the involvement of stakeholders in the process of value creation.

Institutions of stakeholder democracy

As discussed in the previous chapter, corporate politics complying with the challenges and social structures of the twenty-first century have shifted corporate operations in the direction of stakeholder democracy. It is the standpoint of this book that processes institutionalized for free and equal corporate citizens of the deliberative corporate public political space and entrenched in a system checks and balances may be able to ease the negative impacts and harmful economic, ecological and cultural consequences of corporate operation. For this, a political operational structure is required which ensures that the power sphere necessary for enforcing discursive democracy is based on equality; in which the corporation does not participate claiming independent sovereignty and legitimacy from outside the deliberative space; and where the equality of stakeholders is guaranteed in terms of basic rights. Guiding principles of institutions of stakeholder democracy are similar to those of a general democracy; they ensure the separation of power inside the corporation, guaranteeing basic rights, the democratic participation and representation of stakeholders, and the principle of one stakeholder one vote. In the past few years, numerous steps have been taken in the area of corporate governance towards increasing the transparency of decision making for the stakeholders, the independence and accountability of decision makers, and stakeholder engagement in the process of decision-making. Regulations of the past years – especially the rules relating to female members of the boards – significantly increase the diversity of the governing bodies. However, this is not enough. A new model of corporate operation is needed, allowing more room for stakeholder participation and representation in corporate decision-making processes, i.e. the creation of governing structures and institutions must be targeted, allowing for the engagement of different internal and external, active and passive stakeholder groups and their political representation. It is also necessary that the selection processes of the governing bodies become democratic, different individual and organizational stakeholders be able to participate in the selection process, and that it be possible for them under given circumstances to support members of the governing bodies in the selection and decision-making process with their votes. As opposed to the financial model based on the principal-agent relationship, it is necessary to strengthen the stewardship role of corporate decision makers. To this end, organizations may adopt processes to support governance based on cooperation, equality and mutuality. Supra-national organizations as well as global multi-stakeholder initiatives may play a significant role in the development of the corporate institutions of stakeholder democracy.

As a result of the research of Piketty (2014) and others, which pinpoint the structural disproportionality between the return on capital and the growth of labour based income, and in the interest of lessening the detrimental effects on society and quality of life stemming from the inequality caused by this, the operation of the market must be regulated in a number of ways (Piketty, 2014, Stiglitz, 2012). The global tax proposed by Piketty is only one of the possibilities. It is important to put limits on management income, and transparency must be increased. The present conceptualization of corporations no longer complies with the findings of the analyses of the role played by the various forms of capital (financial, human and ecological) in the twenty-first century. Therefore a radical re-think of the operation of organizations using such capital has become necessary. In the words of Scherer and Palazzo (2011), the traditional concept of the corporation is "within and between those stable and democratic Western capitalist countries where governments are in principle willing and able to deal with externalities and to tame and frame homo oeconomicus through strong legal frameworks. […] The primacy of property rights, the belief in self-regulative markets, and the assumption that the pursuit of private interests automatically promotes the common good are premises that need to be reconsidered under the post-national constellation. The theory of the firm needs to be developed further for managerial decision-making in extremely difficult regulatory contexts" (p. 40).

The Wal-Mart case

On January 12, 2006 the phone rang in the office of Jeff Immelt, CEO of GE. It was Lee Scott, CEO of Wal-Mart at the other end of the line. It seldom happens that the CEO of a global corporation that is the buyer consults with the CEO of the supplier. This is what happened this time. As a result of this discussion, a deal was concluded that fundamentally changed home energy consumption in the United States. But the story did not start with this telephone call.

In August 2005 Katrina, one of the most devastating hurricanes in the history of the United States, swept through the country's southern states causing the death of 1833 people. No other hurricane had claimed this many lives since the 1928 Okeechobee hurricane; in addition Katrina caused 100 billion dollars' worth of damage in property and buildings. In a strategic meeting in the autumn of 2005, the CEO of Wal-Mart proposed that Wal-Mart should help the victims. "Not in the form of charity but by giving them more for their money" - he said. Following this meeting Chuck Kerby, Vice-President for procurement (hardware and paints), convened a meeting with his senior procurement staff, posing the question of what they should do. There had been earlier discussions about how energy costs could be reduced. At the time they were only thinking in terms of their stores. Someone put forward the suggestion that the light bulbs in the ceiling-ventilators in the shops could be changed. There are four bulbs in each ventilator and there are ten different ventilators exhibited in each store on average. This means forty bulbs in each of the 3230 stores. A quick calculation showed that this step could save Wal-Mart 6 million dollars per annum on energy costs. They could not believe it. The figures were recalculated, over and over again. Every time the same result came up. After the CEO meeting, Kerby did what he always did when they were contemplating offering additional benefits to their customers: he went shopping in a Wal-Mart store.

The vice-president had started his career at Wal-Mart as a shopping cart collector in Missouri twenty-three years earlier. He knew everything about the company. On this occasion he only bought products used when refurbishing an apartment, were necessary for quickly fixing something, or making the apartment/house more livable. Back at the office he and his staff went through each item one by one and tried to think of ways of reducing costs to their customers. Among the products there was a small package: three GE energy saving light bulbs at a price of $9.58. For the price of this single energy saving bulb, twelve old-fashioned 60 Watt bulbs could be bought. When Kerby picked up the box everybody remembered the 6 million dollar meeting. Diana Lindsay, responsible for buying light bulbs, immediately started negotiations and after two weeks she managed to convince GE to give a 21% discount in order for the two companies to jointly help the victims of Katrina. Although this was still the price of 10 traditional bulbs, the price drop could be felt by the customers, too.

Energy saving bulbs were first put on the market on March 28, 1980. The product has gone through many changes since then: today their usage value is the same as that of traditional bulbs. The changes extend to almost every aspect: its appearance, light intensity, the colour of the light and the mode of operation. Yet two things have not changed: to achieve the same light intensity as with traditional bulbs, 75-80 % less energy is needed, and it has a life span eight to ten times that of traditional bulbs. If only one bulb would be changed in each of the 100 million households in the US it would mean an energy saving equal to the annual energy consumption of 1,5 million people. On a side note, there are between fifty and a hundred light bulbs in each US household. The conclusion was clear for Wal-Mart: this was a change that could only bring benefits. Wal-Mart drew up a plan and made it its goal to sell one hundred million energy saving light bulbs annually. For this, however, Wal-Mart alone was not enough. Sixty percent of the light bulb market was in the hands of GE and for Wal-Mart to start their energy saving bulb revolution the cooperation of the supplier was also needed. Factories had to be redesigned, production structures changed, innovation and – taking the new quantities into account – a new pricing structure were needed.

GE had launched their *Ecomagination* program years earlier. The purpose of this program was to produce more useful and ecologically less harmful products through product development and innovation. The plan of Wal-Mart fitted in exactly with the Ecomagination program. Even if, as a consequence, factories had to be closed down and the manufacturing of traditional bulbs had to be stopped. Andrew Ruben, Vice-President for sustainability said after the launch of the program: “We realize that we can influence big things. Energy usage. Efficiency. Dependence on foreign oil. And we realized that if we're really going to move things, it's not about our direct footprint—our stores, our offices—it's about our supply chain and our customers. So this is about selling lightbulbs, but it's far bigger. This has huge implications for the world" (Fishman, 2006). Today a traditional bulb costs little more than one dollar in Wal-Mart (Osram, 4-pack, $4.95), while the energy saving bulbs cost not quite double this, $2.44 (GE, 4-pack, $8.88). This is a dramatic offer: double the price, eighty percent energy saving and a tenfold life span.

This is why the phone rang in the office of Jeff Immelt.

Ecological responsibility

Although the literature on ecological responsibility, as part of corporate social responsibility, is most extensive and corporate attention to the environment is the most accepted and most widely used tool in relation to business and ethical behaviour – both in terms of regulation and of everyday voluntary practice – the literature on the theory of ecological responsibility is surprisingly uncertain. As discussed earlier, from the 1960s, mainly under the influence of the ecological catastrophes caused by corporations, the conviction started to spread that corporations must bear special responsibility towards the environment.

The origin of the ecological movement in the United States is taken to be the book, *Silent Spring,* by Rachel Carson (1962), in which she showed, supported by proof and professional arguments, that the widely used industrial pesticide DDT (dichlorodiphenyltrichloroethane) drastically reduces the reproduction capability of animals that were not targeted by the insecticide. This endangers the functioning of the ecosystem and, what is more, it accumulates even in human beings and can have a negative effect on child conception (Carson, 1962). Shortly afterwards, the use of DDT was prohibited almost everywhere. As a result of the book and the ensuing environmental movements, legislation initiatives, hearings and media campaigns, the demand for ecological responsibility on the part of the corporations commenced (Newton, 2010). Beyond the damage caused by corporations, the foundations of ecological responsibility are rooted in normative declarations: "deep world-wide poverty, increasing population growth, and limited resources within an already threatened ecosphere […] raise a serious economic and moral dilemma. Significant economic activity will be necessary to meet the basic needs of an increasing human population, yet economic growth itself is responsible for much of the environmental degradation which already jeopardizes the possibility of meeting even present needs" (DesJardins, 1998, p. 826). In other words, "Business leaders can no longer afford the ethical missteps that led to the epidemic of scandals in the last decade. To leave a livable world for future generations, leaders also must pay attention to environmental matters." (Freeman et al., 2008, p. 3).

The environment-related responsibility of corporations and businesses has become one of the most important issues of late modernity. From the proponents of post-Marxist and anti-growth de-modernizing social-economic theories to believers in the preservation of beautiful and untouched nature, from supporters of conscious consumption and green capitalism to followers of the theories of sustainable development, the need for the protection of the environment is an everyday general conviction at the beginning of the twenty-first century. This list also shows that while the practice of ecological thinking is fully acceptable today, this practice rests mainly on political-aesthetic convictions and thought experiments (Sober, 1998; Sagoff, 1982). This in itself is not a criticism of ecological thinking, much rather it is an indication that the practice of commitment to the environment – mainly due to the dangers and challenges felt by everybody – is further developed than its theoretical foundation. This is significant because, for the social-economic shift in progress, a theoretical foundation that fits in with the practice of ecological responsibility is also needed.

The theory of environment protection

The ethical approach to ecological responsibility emerged in the middle and second half of the previous century. Earlier, environment-related views were not of an ethical nature: philosophers of the Enlightenment searched for order and causal relationships in the functioning of nature. The nature-related approach was anthropocentric: it was the human being that mattered in nature and ethics studied the conscious and rational decisions of people (Baker-Richardson, 1999). Representatives of environmental ethics in the last century took as their point of departure that nature is an independent organism, a closed system which is not merely beautiful, but ethical interests are also attached to its undisturbed and interference-free functioning. Some authors differentiate between human ethics – which rests on mutually felt responsibility towards each other – and bio-ethics, the basis of which is the order of undisturbed nature with its never-ending cycles (Rolston, 1991; Leopold, 1949). They maintain that nature is original, ancient and undisturbed, as opposed to the built environment, which is artificial and man-made, serving human interests and profit. In these ethical approaches, originality is confronted with artificiality, which being a 'reproduction' and 'forgery' cannot be perfect and it is even horrifying and dangerous in its artificiality as opposed to the harmony and peace of nature (Krieger, 1973).

Beyond the protection of the natural order of limited resources and of plants, a priority area of environment protection is the protection of the rights of animals. Animal rights protection, in the context of the ethical approach to the environment, pinpoints an area that is broader than protecting the interests of animals: does human dignity, the nature and distinctiveness of human existence and its uniqueness, in itself justify the differentiation between human and animal (natural) rights? Animal rights protectors claim that that the human species character of man does not justify the ethical uniqueness of human existence. According to them, an ethical foundation is needed of which – as was proposed by the famous utilitarian philosopher Bentham – the animal world capable of suffering is also part and the term equality must also be extended to the animal world (Singer, 1989). Bio-ethical theories go even further: according to them the basis for an ethical existence is not suffering but life. Everything that lives – whether it has a life program or not and therefore only exists as a result of natural processes – must be respected. In spite of some living beings not 'thinking' or 'suffering', their life is part of the natural order of the world and interfering with it is an ethical offence. Yet other theories postulate that in the course of 'using' nature there is a conflict between rationally acting individuals driven by self-interest and the community as a whole because individuals driven by self-interest take a larger share of the common resources and this leads to inequality, on the one hand, and the depletion of the limited resources (energy, water and food) which could otherwise support the whole community, on the other hand (Hardin, 1968). This, according to so-called land ethics, could create hardly resolvable dilemmas, starting from the issue of the necessity for helping those starving right through to the question of limiting human reproduction (Hardin, 1974). Representatives of deep ecology consider human existence and identity not simply something that fits in with the order of human culture but something that exists in deep symbiosis with the natural environment. They maintain that the 'natural health' of man is at least as important as her 'physical health' (Baker-Richardson, 1999). The various post-modern approaches to natural ethics politicize the relationship of human beings to nature: feminist environment ethics considers sensitivity towards nature – which can be described with metaphors of caring, nursing and protection – to be a traditionally female attribute, as opposed to the manly dominance- and oppression-based approaches. According to them, nature-related ethical offences stem from the female values being forced into the background, whereby masculine attributes get the upper hand. Building on this train of thought, the post-modern environmental ethics' discourse on power, oppression, equality and pluralism views the western way of thinking about nature that is based on sustainable development and the oppression-free relationship of aboriginal tribes to nature as having the same value.

The economic approach to the theoretical foundations of environment-related responsibility, which has by now become part of the mainstream, takes market failures, negative externalities and the limitations on the use of public goods as its point of departure. Markets – if they function ideally – are self-regulating mechanisms that aim at the Pareto optimum: in a free market goods and services are distributed in such a way that it is impossible to improve anybody's position – in other words the utility of the goods owned by them – without at the same time causing damage to others. Ideally, the market corrects a possible drop in efficiency through information-based price differentiation or through meeting changing demand. The market fails when either due to an extreme information asymmetry or because of an unusual market situation (monopoly or oligopoly) such correction does not occur. Lack of environment-related information and deviations in the allocation of the limited resources may also lead to market failures. As a result markets lose the ability to reach the Pareto optimum, since the reallocation of resources in such a way that through it the utility for some can be increased without putting others in a disadvantageous position is imaginable – even necessary. The Pareto optimum refers to market efficiency only and does not mean the realization of justice, social equality or other freedom-related principles (Sen, 1970).

A further failure of the operation of the market is when negative externalities are ignored. An externality emerges when the market price does not take into account the cost arising to third parties when goods and services are acquired. Externalities can be positive or negative. Environment-related theories study negative externalities, since environmental damages are typically such: costs of restoration and the value loss caused by pollution are not built into the price of goods and services. One possible way for managing negative externalities – suggested by Pigou in the 1920s (Pigou, 2013) – is cost-internalization: e.g. enforcing the principle of 'the polluter pays' or any other taxes and dues levied that can counteract negative externalities. This does not primarily mean the costs of restoration of the damage caused but paying for the external costs which are embodied in taxes payable and in opportunity costs due to lost subsidies. In this way producers and service providers can be motivated to reduce their costs and to operate in an environmentally conscious way. (At the same time, there are difficulties with the internalization of negative externalities through the polluter pays principle and taxes: the non-optimal functioning of the market and the uncertainty in estimating the costs of negative externality.) Another theoretical mode of managing negative externalities is the application of the Coase theorem: if the transaction costs are negligible, negative externalities can be managed by negotiation, obviating the need for (e.g. state or regulatory) intervention. Because marginal costs and marginal profit are in balance, the parties – independent of ownership or liability to carry the costs – are themselves capable of distributing the costs of negative externalities (Coase, 1960). While both the taxes proposed by Pigou and the negotiation principle of Coase are theoretical constructs, they had a significant impact on the rules, principles and recommendations which appeared in the politics regarding environmental externalities in the second half of the 1970s. Besides the negative externalities, the irresponsible handling of public goods also led to the conflict of ecological responsibility where neither rivalrous nor excludable utilisation by consumption (the optimal utility or correction achievable by competition) is typical – this is the "tragedy of the commons" (Hardin, 1968). One only needs to think of the unrestricted fishing which has led to a radical drop in the number of certain types of fish and to the collapse of local ecosystems. The challenge to ecological responsibility is the same here: regulatory restriction of utilisation which does not make the utility of public goods – embedded in non-rivalrous and non-excludable consumption –

impossible. Examples for the above could be the introduction of fair-trade rules or the rules for community utilisation.

As shown earlier, one of the biggest difficulties concerning regulatory or governmental intervention in the context of negative externalities is the precise estimation of the costs of the given externality. This makes the application of the cost-benefit-analysis (CBA) of traditional economics difficult to use in regulating ecological issues. The most important environmental question is the valuation of environmental worth: what tools are available for estimating the price of environmental values? In addition to traditional methodologies (utility and opportunity), economists use valuation methodologies underlying customer decision-making (willingness to pay [WTP] and willingness to accept [WTA]) for the estimation of ecological values – thereby determining governmental and regulatory intervention in terms of cost/benefit.

However, in the past decades approaches applying traditional economic principles to ecological responsibility have come under criticism. The challenges of responsible behaviour pinpoint more strongly than ever the problems of traditional economics and its rationally acting subjects: besides liberal criticism of optimal distribution, approaches adapting the insights of behavioural economics have also appeared which – paradoxically – have attacked the mathematical models and their predictably behaving market players from the angle of calculability and the applicability of algorithms (Kőszegi-Rabin, 2006). Critics of the traditional approaches keep ever more intensively attacking economic thinking because of so-called value-monism, calling for traditional economic thinking to accept the pluralism of values and valuations, and practical applicability, as well as to take into account the cultural-social-environmental context (Gowdy-Erickson, 2005; Krugman, 2012). Similarly, it is the insights of behavioural economics that point out that including consumer decisions in valuation methodologies will not improve the precision of valuations by determining the cost-benefit ratio, but will rather increase its uncertainty (Kahneman, 2011).

Ecological strategies

Neither the environmental ethics approach, nor the environmental economics approach could condense environmental responsibility into one single general theory. There is no consensus regarding the values underlying commitment to the environment in ethical approaches based on these values, nor in the social science – especially the economic – approaches to the environment. This also means that mindset and theoretical barriers have been constructed before possible agreements and behaviours. Freeman (2008) discusses five such barriers. One of the barriers to free arguments and agreement is the "*regulatory mindset*": the guarantee for sustainability is regulatory intervention. This means that environment- and sustainability-related market operations must be corrected through legislation and control. According to Freeman, however, regulatory intervention impedes innovation and hinders the culture of voluntary initiative and participation, which can have unexpected and often incalculable consequences. Another barrier is the *"cost-benefit mindset*". This is not only dangerous because of the challenges posed by the traditional economic view but also because it does not take into account a number of factors which increase the value of human capital or reduce associated costs. Similarly, it does not integrate into the operation the full product life-cycle concept, according to which the cost-benefit analysis must be kept in mind during the whole life-cycle of the product or service. Furthermore integrating the findings of behavioural economics into the operation makes it possible to approach costs and benefits from angles other than the purely monetary: just as there are more complex tools for measuring social development than GDP (Stiglitz, 2008; Kahneman, 2011) the traditional economic approach is no longer suitable for measuring the triple bottom line (TBL), or the well-being economics based value increase and performance. Freeman calls this the "*constraint mindset*". Going further, the "*sustainable development mindset*" also poses numerous problems. Leaving aside the question of whether a report twenty years ago can still be the basis for meeting the challenges of today and tomorrow, the criticism of the initiative focusing on sustainability based on the Brundtland Report rests on the fact that sustainability is approached from the viewpoint of counteracting negative consequences and sustaining the still-existing values of the present. Freeman asks the question whether it is the values of today that are to be bequeathed to the next generation? Do we know today what will be adequate in twenty, fifty or a hundred years' time? Freeman claims that 'sustainability' is not a vision, but a barrier. By trying to slow down growth, it hinders innovation and the spreading of disruptive thinking and therefore contradicts the logic of commerce and competition, while at the same time – by giving the illusion of acting correctly – it is more of a problem than a solution. The last barrier is the "*greenwashing mindset*" which focuses on the environment and calls upon the actors of business and society to think in "big schemes": to initiate huge actions which are too big and too general – and too spectacular – to achieve true results (Freeman et al., 2008).

Taking the stakeholder approach as his point of departure, Freeman's conclusion is that there are four directions that environmentally conscious corporate behaviour can take. These are not necessarily phases of development but rather chosen attitudes and practices which are valid on their own and avoid some of the above barriers. The aim of the strategies is to meet the challenges of competition in the economy and in business while at the same time offering the opportunity of integrating environment consciousness into business operations. The "*light green strategy"* aims at complying with environmental rules, regulations and treaties and focuses on the regulator(s) as stakeholder(s). While this seems to be the least effective, according to Freeman this is not necessarily so. Keeping the rules provides opportunities for innovation – in both technology and operation – and thereby for creating and utilizing competitive advantages. Furthermore, this principle makes political participation possible: leaders with environmental efficiency and innovation in mind may utilize corporate political action and trade agreements as well as multi-stakeholder initiatives for development advantage, thereby forcing competitors to make developments, and thus creating a competitive advantage for themselves. The "*market green principle*" puts the environmentally conscious customer at the centre of corporate behaviour. Innovation and development primarily focus on the customer as well: the integration of commitment to the environment into the business operation is realized through getting to know, motivating and 'developing' the customer. This principle also motivates development and innovation, and provides the opportunity to create a competitive advantage. On the other hand, green preferences also offer reputational advantages which address other stakeholders, thereby becoming capable of turning the direct product/service advantage into reputational advantage and values that manifest themselves in goodwill. The *"stakeholder green principle"* extends environmentally conscious operation to all the stakeholders: besides the customers and regulators, the supply chain is also ‘made green’. Likewise, it gives due consideration to the commitment of other stakeholders to the environment. This principle requires complex solutions, forms of cooperation and democratic discursive practice, since differences in ethical considerations, theoretical foundations and approaches – often even contradictory – make environmental preferences acceptable to many stakeholders difficult to establish and sustain. This is where political institutions and equality-based democratic processes appear in an attempt to resolve stakeholder conflicts. The “*dark green principle*” puts environmentally conscious operation in the focal point. This is based on the ‘cradle to grave’ approach, taking the whole life-cycle into account and complying with the necessity of maximum recyclability. Both past and future generations are included; environmentally conscious operation is not looking for innovative modes and possibilities of gaining competitive advantage but is itself the basis of competitive advantage. In this strategy, environmentally conscious operation is what determines the identity of the corporation – in the language of marketing, it is the basis underlying the brand and the cohesive power of the brand community (Freeman et al., 2008).

Environmental stakeholder democracy

Many authors claim that in order for environmental values and an environmentally conscious way of thinking to become part of business-society relationships, a re-think of the definition of democracy is also needed. The basis for such a re-consideration must be the recognition that the social conditions of late modernity can best be described as a “risk society” (Beck, 1986). The risk-society rests on “non-knowledge” and on the irony stemming from it: the late modern human condition building on rationality, i.e. on the bad experiences of the past, facilitates the wrong kind of risk – the kind that believes that danger is calculable and controllable – while the reason for risk is exactly the incalculability of “non-knowledge”. The cruel manifestations of this irony are endless: when states terrified of terrorism and cultural conflicts limit people’s freedom rights in order to protect them, as a result of which the free society itself is eliminated while neither the threat of terrorism nor cultural conflicts diminish. Numerous environmental phenomena are similar: regulation helps to enforce the efficient use of energy resources – e.g. nuclear energy – without having exact knowledge of the risks and consequences. Beck claims that the resolution of the irony could be a “new beginning”: something else has to be done and in another way than until now.

The existential fear of risk and danger, i.e. the new beginning – according to Hannah Arendt – prompts action, which is of necessity free and pluralistic. “It is in the nature of beginning that something new is started which cannot be expected from whatever may have happened before. This character of startling unexpectedness is inherent in all beginnings and in all origins. […] The fact that man is capable of action means that the unexpected can be expected from him, that he is able to perform what is infinitely improbable.” (Arendt, 1958., p. 177-178). Arendt sees action as political action: the creation of something new with the goal of a new cooperation and laying the foundations for “common action”. The constitutive foundation of the United States – as referred to earlier – is a good example for this (Arendt, 1963).

Beck mentions three reasons for risks triggering a new beginning: *delocalization* – the risks and their consequences are not limited to one single location but they affect everybody; *incalculability* – stemming from mathematically inexpressible non-knowledge; and *non-compensability* – the consequences of dangers and accidents cannot be compensated (Beck, 2006). ‘Incalculable delocalized interdependence’ manifests itself on three levels: in space (since it has no consideration for borders in space therefore it can have any effect anywhere); in time (since it stretches far beyond the known life-spans, e.g. the decomposition time of nuclear heating elements); and on the social (due to the complexity of the relationships, possible consequences cannot be predicted). Its political consequence is that the focus of political action must be shifted from the decision to its consequences: political actors must agree on the possible consequences of political action rather than on the decision itself (Dewey, 1927).

This offers a new approach to democracy. Environmental democracy puts forward a notion of deliberative participatory democracy which – going beyond direct and representative engagement – views as its goal the acceptance of the consequences of deliberative consensus through institutionalizing spaces of deliberation and discourse as well as the processes of societal will-forming, rather than the decisions based on deliberative rationality. Environmental democracy, much as political CSR offers a post-national institutional setup beyond the Westphalian order (Scherer &

Palazzo, 2007), surpasses the framework of nation states, creating a new kind of "enlightened cosmopolitanism" (Beck, 2006). It transgresses the paradigm of the division of spheres of economy, society and environment: the complexity of the processes and their consequences does not make it possible for dialogues, arguments and consensus to come about in only one segment of the political space. It assumes complex cooperative and communicative processes and their institutionalized guarantees to arrive at temporary consensus between the often contradictory opinions in the interests of common action. In stakeholder democracy, stemming from environmental democracy, it is the understanding of the consequences (within the limits of "non-knowledge"), their acceptance and the possibility of the continuous re-evaluation of the consensus that becomes important, rather than rationally verifying political decisions.

All this requires a new corporate attitude. It requires the politicization of corporate operations in the provision of environmental public goods, respecting environmental values and making the equality-based engagement of stakeholders possible. The politicized corporation must accept that the corporation is one actor of the spaces of deliberation, providing resources and management processes so that these spaces can function. There is a reciprocal relationship here: corporations become participants and shapers of the institutions and processes of stakeholder democracy at the same time. The new context also presents new challenges for corporations to retain their legitimacy; there is a need for the creation of a new legitimacy. This legitimacy cannot rest on the earlier political practices only: political manipulation (power-based communication and influence moving significant resources and direct governance), political adaptation (coming to a consensus with significant actors and common governance) or ethical argument (adhering to norms represented and accepted by stakeholders, which are therefore legitimate, and surrendering governance) are in themselves no longer sufficient to retain legitimacy in the complex political institutional space. Therefore, a 'paradox approach' is needed which applies the three political practices parallel. This approach defines the strategy in relation to the different stakeholder positions, issues, processes and challenges – such as, for example, the issue of environment/sustainability – and uses all tools of political governance at the same time, from direct control to deliberative rationality. All this requires a new political management practice: corporations are traditionally not prepared for using various parallel strategies and for coordinating the complex processes, demands and interests which often contradict each other. Here the parallel application of three different organizational processes is required: structural solutions – different problems are dealt with by different organizational units therefore there is no or only limited centralized (political) direction; contextual solutions – where management delegates a responsible person to give answers to the different challenges if such answers bring the desired results for the corporation thereby reducing centralized political responsibility; and capacity building based on internal feedback and development – which builds on the common effort and mutually supportive cooperation between the different organizational units and decision-making levels thus increasing the necessity for political cooperation and internal consultation, for breaking with traditional hierarchies and creating new organizational-political dynamics. None of these strategies on its own is suitable for dealing with the complexity of ecological and social issues, therefore here too the parallel application of different strategies is needed, however ambiguous their outcomes may be. (Scherer et al., 2013).

Ecological problems and the management of social risks necessitate a new political attitude, new organizational strategies and new management decision-making of the corporation. The new politicized approach, besides forcing corporations to participate with stakeholders in non-violent deliberative processes based on equality, are closer to the institutional and organizational order of public policy decision-making processes than to traditional, top-down corporate decision-making and operation (Scherer-Palazzo, 2007). The need for and challenges of managing ecological issues and social risks – negative externalities, the over-utilization of the commons, the participation and involvement of stakeholders and the environmental and social risks of non-knowledge – indicate that corporations of the twenty-first century also have to become institutions of pluralistic liberty which accept the standpoint of Isaiah Berlin (1958) that "'[t]o realize the relative validity of one's convictions', said an admirable writer of our time, 'and yet stand for them unflinchingly is what distinguishes a civilized man from a barbarian.' To demand more than this is perhaps a deep and incurable metaphysical need; but to allow it to determine one's practice is a symptom of an equally deep, and more dangerous, moral and political immaturity" (p. 172). The politics of uncertainty, and the possibility of living with its fears and hopes, is reflected in philosophy as Russell (2004) remarked in his introduction to The History of Western Philosophy: "Uncertainty, in the presence of vivid hopes and fears, is painful, but must be endured if we wish to live without the comforting fairy tales. It is not good either to forget the questions philosophy asks, or to persuade ourselves that we have found indubitable answers to them. To teach how to live without certainty, and yet without being paralysed by hesitation, is perhaps the chief thing that philosophy, in our age, can still do for those who study it" (p. 2).

Responsible supply chain management

The theory of the supply chain

In the past few decades one of the most important tools of operational efficiency has been the successful organization of the supply chain. As discussed above, corporations are becoming ever more complex systems, in which products, services, financial tools, knowledge and information – both upstream and downstream – continually flow between the source and the consumer (Cooper et al., 1997). All corporations take part in supply chains which, because of the competition enforced need for excellence in performance and value creation, are becoming ever more complex systems and governance processes. According to its definition, supply chain management (SCM) is "the integration of key business processes from end user through original suppliers that provides products, services, and information that add value for customers and other stakeholders" (Lambert, 2001, p. 2). When describing corporate operation the management of the supply chain means both the planning of internal and external material and information flow, and the setting up of forms of cooperation beyond vertical integration in the various areas of operation. It means the form, mode and management of the relationship with the suppliers just as it does the procurement process, logistics and delivery chain, the management of the information systems and the corporate marketing processes. Supply chain management is increasingly becoming the most important tool of corporate strategic management (Chen & Paulraj, 2004). On the other hand, while SCM is one of the most important tools of corporate efficiency and performance, supply chain management is an inter-corporation integrative activity – which turns the competition between various corporations into a competition between integrated supply chains through the effective use of internal and external resources. In other words, from the point of view of the supply chains it is no longer the economic performance of one corporation that determines competitive performance but the performance of the whole supply chain – both that of the buyers and of the sellers since these roles keep changing in the supply chain as a whole.

The management of the supply chain affects the whole economy and in a globalized economy the integration of the supply chains is embodied in cooperative processes reaching beyond the borders of nation states. This is a management theory shift that recognizes that in the twenty-first century the different business entities no longer simply compete with each other but are interconnected, as actors of the supply chains, through complex relationships, interests and abilities (Lambert & Cooper, 2008). Thus, institutions participating in the operation of the economy are economic actors interlinked by many threads, who are mutually each other's partners, competitors, suppliers and buyers in addition to the fact that from time-to-time these roles change inside and outside the corporation since it can happen that a supplier is both the partner and the competitor of another corporation.

Management of the supply chain theories usually attempt to define SCM from three different viewpoints. (For a long time, the literature on supply management used to consider management concepts more important than theoretical foundations to base supply chain management on. The theory of supply chain management is a relatively new field. Besides the three most important theories discussed below, a number of authors argue for the application of other theories to the field. Some authors apply the resource- or knowledge-based approach to organization theory, while others use the strategic decision theory or systems theory (Giannakis & Croom, 2004; Halldorsson et al., 2007; Chicksand, 2012)). As shown earlier, the basic focus area of business ethics is the principal-agent relationship and this offers one possible approach to supply chain management. The other theory takes transaction cost economy as its point of departure, while the stakeholder approach also gets a role to play in the theoretical foundation of SCM. The application of the principal-agent theory to supply management starts out from the assumption that the relationship between buyers and sellers participating in the chain is contract-based and that in this contractual relationship the basis for cooperation is the delegation of authority in the interests of performing a given task. As shown earlier, in this relationship, the principal endeavours to reduce the controlling, remuneration and other costs of the agent, while the agent seeks income maximization and reduction of the principal's influence. The conflict of effective governance stems from the differences in acquiring information, conflict of interests, moral hazards and adverse selection (Fleischer, 1991). In supply chains these problems may be due to the false demonstration of abilities (adverse selection) and the shortcomings of task performance (moral hazard). Regarding supply chain management, it is therefore necessary that the principal define precisely in advance the nature of the task to be performed and the abilities necessary for its performance. The mode of managing moral hazard is to include feedback expectations, and feedback and training practices in the relationship, thereby making it possible to effectively prevent the discovery of faulty or negligent task performance only at the end of the process (Fayezi et al., 2012). Research shows that applying risk minimizing and conflict management strategies represented by the agent theory – supplier development, certification and joint determination of the target price – have made supply chain management more effective than other traditional tools, like buffers, over-ordering or supplier pools. Similarly, research has shown that applying the tools of principal-agent theory to managing risks and establishing trust proved more effective: it brought trust (creating proportionality between agent costs and agent remuneration) and joint goal determination. Likewise, that assertion of self-interest by both the principal and the agent was more limited when the common financial and social goals were precisely determined and optimized (Clemens-O'Loughlin, 2007).

The other approach to supply chain management is transaction cost economics (TCE). It is based on research by Nobel laureate Oliver Williamson. According to this, in non-traditional transactions – requiring regular, sporadic investments with inherent uncertainty regarding their execution, such as complex, non-vertical business cooperation within an organization that has an effect on the supply chain – it is the bilateral adaptive management structure that is most efficiently able to reduce costs associated with business transactions. Transactional costs are considered to be costs required for establishing, utilizing, changing and managing the organization necessary for bringing about the operation of the business. Such costs are, for example, legal costs, organizational, information or political costs (e.g. legal and management costs incurred in concluding a contract), expenditure on controlling and measuring performance, and costs associated with gathering and organizing information. The efficiency of business processes does not aim at eliminating or necessarily reducing these costs but making them proportionate to the risks and expected results. As Williamson (1979) puts it: " [I]f transaction costs are negligible, the organization of economic activity is irrelevant, since any advantages one mode of organization appears to hold over another will simply be eliminated by costless contracting" (p. 233). The extent of transaction costs is primarily determined by the pricing conflict of transaction specific in kind investments and by the behaviour guided by opportunism and self-interest and the reduction of risk arising from it. According to Williamson (1985), these costs can be reduced by setting up management structures which rest on the cooperation of the parties rather than on the governance of one party. Applying specific, adaptive management techniques makes it possible, for example, to settle price modifying suggestions through quantity increasing agreements offering mutual benefit, instead of excluding the possibility of unilateral price modification by increasing transaction costs.

As regards supply chain management, the frequency of transactions, the social, political and economic risks, and the exchangeability of transaction specific tools are the barriers to reducing costs, while the opportunistic and self-interest-driven attitude (fraud, lies or the circumvention of contracts by more refined, self-interest driven means), the lack of, or limited alternative sources of procurement and the asymmetric access to information or the lack of it may be cost-increasing factors (Williamson, 1985). In supply chain management, the reduction of transaction cost is an important aspect since it helps corporate management to choose the most appropriate form of management – vertical integration, uniform supply chain and one-off transactions – in the course of organizing the business process, taking into account transaction costs and related phenomena (recurrence, uncertainty and investment specificity). The more transaction specific an investment, the more interested is the partner in a cooperative adaptation during the modification of the agreements, rather than terminating the relationship. Similarly, uncertainty in supply and demand makes it desirable for the buyer to establish a tighter cooperation in the interest of not having to develop its own products or invest in strict quality control (Garfamy, 2012).

The third theoretical approach to be found in the literature is based on the application of the stakeholder theory to supply chain management. The supply chain is an organizational form in which value creation rests on vertical and horizontal expansion and management of stakeholder relationships, thus offering the management of the supply chain a 'natural' framework for interpretation. According to stakeholder theory: "[T]he corporation itself can be defined as a system of primary stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations, and responsibilities. The corporation's survival and continuing success depend upon the ability of its managers to create sufficient wealth, value, or satisfaction for those who belong to each stakeholder group, so that each group continues as a part of the corporation's stakeholder system" (Clarkson, 1995, p. 1995). Accordingly, in the course of the identification of stakeholders and common value creation, the application of the principle of value and interest proportionality becomes a critical factor in the success of the supply chain. Stakeholder theory differs from previous theories in as much as it takes as its point of departure that contractual relationships do not only come about between, and have impact on, individual sellers and buyers but on the whole of the supply chain, since competition no longer takes place between individual companies but between complex web supply chains (Drucker, 1998). Applying the stakeholder theory to supply chain management, one can differentiate between upstream and downstream stakeholders in the course of identifying potential stakeholders. Upstream stakeholders are those groups of stakeholders who are buyers of the products or services, whereas downstream stakeholders are the suppliers and subcontractors. On the other hand, according to this definition, other stakeholder groups affected by the supply chain may also belong to the supply chain, just like other 'invisible' stakeholders who are inevitably required for the successful management of the process (Walker et al., 2008). In order for supply chain management to be successful, it is not sufficient to manage risks stemming from individual contractual relationships but it is also necessary to survey and take into account the interests of stakeholders participating in the whole of the supply chain and to build trust such that possible business risks created by stakeholders can be managed. Therefore, the key to stakeholder approach guided supply chain management is the creation, maintenance and management of trust between stakeholders (Walker et al., 2008). As such, supply chain management follows the traditional, complex strategic approach to stakeholder processes as described above.

All the theories described here start out from the premise that for the success of the modern corporation, cooperation beyond vertical organizations is required. These actors/stakeholders pose various risks and the management of such risks and the efficient management of the complex supply chains is a critical success factor in corporate operations. While principal-agent theory and transaction cost economics view the issue of 'make-or-buy' their focal point, the stakeholder approach focuses on the stakeholder impact of corporate operation. Here supply chain management does not narrow in on just the issue and consequences of 'make-or-buy' decisions but actually arranges the complex politics of the supply chain in a uniform framework.

Sustainable supply chain management

As discussed in the introduction, one of the reasons for the emergence of corporate social responsibility was the corporate scandals, the tragedies and ecological damage caused by corporations in the seventies and eighties. By the end of the nineties, more and more people realized the key importance of the sustainable operation of the supply chain in the course of managing the risks of corporate operation. The literature on sustainable supply chain management (SSCM) mainly focuses on areas where issues of responsibility and supply chain management could be interlinked. SSCM is 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. In sustainable supply chains, environmental and social criteria need to be fulfilled by the members to remain within the supply chain, while it is expected that competitiveness would be maintained through meeting customer needs and related economic criteria" (Seuring & Müller, 2008, p. 1700). Thus the management of the sustainable supply chain takes as its point of departure the application of the triple bottom line (TBL) principle, while at the same time taking into account that the basic purpose of supply chain management is to maintain competitiveness and to meet the challenges posed by competition between different supply chains.

As a result of managing the risks that arose following the corporate scandals, sustainable supply chain management and theoretical works discussing good practices focused primarily on working conditions, violation of human rights at suppliers, the use of child labour, low wages, and on general environmental issues. As the authors of one of the most cited studies put it, “there has been, respectively, little theory-building research appearing within the broad field of supply chain management to date” (Carter & Rogers, 2008, p. 362). Consequently, the research into sustainable supply chain management also suffers from theoretical hiatuses. On the other hand, all previously discussed theories offer points of departure for the basis of sustainable supply chain management in the light of the above definition. First I will show how the theories of sustainable supply chain management discussed above can be applied to sustainable supply chain management. This will be followed by an overview of the various areas in an attempt to show how all this works in the practice.

As shown earlier, the principal-agent approach reduces the moral hazards of agent self-interest through better task definition and feedback, process-flow prescription, and training practices in the operation. The agents, wanting to exert their own self-interest, are not interested in reducing negative externalities just as they will also not benefit from the long-term effects of positive externalities. In sustainable supply chain management it is therefore necessary for the principal to introduce practices that limit the moral hazards of unsustainable operation as well as reduce the effects of negative externalities. Such practices include certification, clearly defined processes for sustainable procurement and cooperation set up by third parties, the prior establishment of the costs of managing negative externalities (minimizing ecological and social damage), and have built-in incentives and motivations, enforcement of information dissemination and transparency (disclosure and sustainability reports), as well as effective control structures involving stakeholders. The transaction cost economy-based interpretation of supply chain management approaches the issue via adaptive management techniques used for reducing transaction costs. In this case, supply chain competitiveness is determined by the frequency of the transactions, reduction of social, political and economic risks, and of risks stemming from transaction-specific investments. The sustainable supply chain – which creates long-term relationships between the players in the supply chain using management structures that clearly define the stakes of every participant and integrates mechanisms of continuous consultation between the participants (dialogue flows), establishes modes of equal and mutual information flow (disclosures, reports and standards), regulates the structure of procurement sources, and eliminates multiple supply intermediaries (fair trade) – may be capable of increasing the competitiveness of the whole supply chain by reducing transaction costs while taking the principles of TBL into account during the process as well. The stakeholder theory represents the viewpoints of sustainability in the supply chain the most unambiguously. Besides upstream and downstream stakeholders, stakeholder groups which do not directly participate in the supply chain but have an effect on it, as well as invisible stakeholders influencing the competitiveness of the supply chain, are also considered to be part of the supply chain. The most important aspect of sustainable supply chain management is to create trust between the participants of the supply chain. This makes them interested in staying in the supply chain, thereby jointly protecting the competitiveness of the chain. In order for the participants – based on their prior agreement – to be able to continuously comply with the standards, regulations and recommendations that secure the sustainability of the supply chain (ISO 26000, SA 8000 and OECD recommendations), continuous coordination and a mutually supportive learning environment is required in the whole supply chain. In the same way, after having complied with standards, opportunities which could be suitable for creating sustainable competitiveness beyond regulations must be jointly sought. (Walker et al., 2008).

The practice of sustainable supply chain management

Management of the sustainable supply chain can be derived from all supply chain theories. The background to SSCM are those societal challenges which emerged in the eighties and which forced large international corporations to pay more attention to the corporation as the sum total of the stakeholders. The supply chain complying with the requirements of sustainability must at the same time be competitive and sustainable, in accordance with the interests of all the stakeholders. This, however, demands new forms of cooperation. As discussed in the third chapter, for corporations to be able to meet the social, economic and environmental challenges of the twenty-first century, the corporation must adopt a new, political approach. This approach accepts that in the post-Westphalian era, the global regulating and influencing power of nation states has become weaker while at the same time new challenges have emerged which – beside legislated hard rules – call for cooperation based on soft rules, and consultative processes and modes of exercising power (Scherer & Palazzo, 2007; Scherer, 2016; Scherer et al. 2017). Compliance with ‘social rules and norms’ as the basis for the legitimacy of corporate operation must be replaced by the active participation of the corporations in public deliberations and collective decisions. Corporate politics as the new form of responsibility requires the active participation of the corporation in institutionalized spaces of dialogue, re-creating 'rules and norms' according to different stakeholder interests and social contexts. The corporation itself is a participant in the processes of social will-forming or, to use the language of responsibility, in stakeholder interest- and value declarations. The premise of supply chain management is that for maintaining business competitiveness it is not sufficient to organize cooperation within one single, vertically structured, corporation to reduce the risks associated with external and internal stakeholders and to take advantage of the opportunities stemming from the cooperation of stakeholders, but all this has to be extended to the whole of the supply chain. Thus, in reality, competition does not take place between corporations but between supply chains interconnecting corporations. Sustainable supply chain management recognizes that for competitive advantage to be attained, the inclusion of the interests and values of some or all of the stakeholders in the whole process of the supply chain is necessary. The inclusion of interests and values of the stakeholders in the processes should lead to the *politicizing* of the whole supply chain. That is, actors in the supply chain should jointly and in a coordinated manner comply with the hard rules (laws, international regulations and standards), they should jointly take part in the creation and publicizing of soft rules (industry agreements, recommendations of associations, chambers of commerce, supra-national organizations, and NGOs), continuously learning from and training each other, and they should shape the social context they have to fit into by involving the stakeholders. As such, sustainable supply chain management has to have due regard for the effective organization of the whole of the supply chain, maintaining and increasing competitiveness and adhering to rules and regulations; to the democratic structure of corporate operation: maintaining and increasing trust within the supply chain, continuously meeting the challenges posed by the requirements of sustainability; and to politicization of corporate operation*:* participation in the shaping of 'rules and norms', public deliberations and collective decisions and the provision of public goods, inhabiting institutionalized discursive spaces and to equal participation in will-forming together with the stakeholders..

These processes can hardly be directed from one single centre. Therefore, new forms of sustainable supply chain management are needed in the interests of gaining and maintaining trust; forms which are capable of handling the complex social matrix as well as new skills, since neither the earlier modes of legitimacy nor the earlier forms of exercising power are suitable for creating and maintaining long-term trust (Scherer & Palazzo, 2007; Walker et al., 2008). The substantial challenges that the present and future recommendations, standards and guidelines formulate are the first steps towards the politicization of the supply chain. The expectation that the manager should comply with the requirements of human rights, labour law, fair employment, environmental, social and product liability is the foundation of sustainable supply chain management. These requirements are manifested in and prescribed by international recommendations, standards, industry agreements and supra-national organizations. The role these recommendations, standards and processes play in the process of politicization will be discussed below.

In order that corporations and supply chains be able to satisfy the requirements of sustainability they have to manage their performance in six basic areas. These are the assessment of the participants in the supply chain; definition and communication of expectations; measurement of base-line performance; joint learning and capacity building; creation of forums of cooperation, common development, determination of performance indicators and measurement of progress; and industry and institutional participation in international cooperation. As a first step, the supply chain, stakeholders making up the supply chain, and those values and interests with which the supply chain as a whole must comply must be mapped and assessed. The assessment must extend to getting to know and to summarizing the social, environmental and economic challenges of those making up the supply chain, and to the prioritization of such challenges. The prioritization must consider competitiveness, principles of TBL and 'invisible' and external stakeholder expectations. As the next step the expectations must be clearly defined for the whole of the supply chain and communicated to all participants in the supply chain. Such expectations may be compliance with external requirements (standards, industry agreements and recommendations) but also the laying down of specific rules in the interests of increasing the competitiveness and sustainability of the supply chain, and which are binding on the whole supply chain. As the third step, the base-line performance of the actors in the supply chain must be monitored using different screening tools: with the help of positive or negative screening tools it must be determined whether they are suitable for participation in the supply chain as far as their sustainable performance is concerned. For this it is necessary that their sustainable performance related data and information be made publicly, and comparably, accessible. These allow for more efficient sustainability related processes of supply chain management. The next steps serve the politicization of supply chain management. For the establishment and utilization of discursive spaces for public deliberation, the development of such spaces and institutions of common understanding is needed: fora for common learning, capacity building and cooperation must be created together with the common institutions and tools necessary for reaching the clearly-defined goals, the forms and processes of complaints and legal remedies, and the modes of mediation and resolution together with the stakeholders. To achieve this, 'checks and balances', stakeholder rights and equality, the protection of minority opinions, and independent and transparent conflict management processes and institutions are necessary. The fifth step is common development, determination of performance indicators, measurement and disclosure of impact-related data, measurement of performance, inclusion of stakeholder expectations, third party certification of performance indicators, and publication of progress achieved, as well as solicitation of feedback from stakeholders and inclusion of it in the common process of development. The above-listed are the new modes of gaining and maintaining stakeholder trust and creating the institutional system of legitimacy. Finally, participation in industry and institutional cooperation, in the development of standards, norms and of common knowledge and in the common shaping of the application of processes through the engagement of stakeholders outside the supply chain creates forms of multi-stakeholder cooperation and institutions which bring about the new institutional context of corporate politicization and the provision of public goods by corporations (Scherer & Palazzo, 2011; Scherer et al, 2016).

Sustainable human resources management

Strategic human resources management

In the same way as other areas of strategic management discussed in this book, human resources management also went through significant transformation in the second half of the last century. Up until the 1970s economists and corporate leaders viewed the labour force as a cost of operation, the reduction of which was seen as the prime task of strategic management. The task of those dealing with human resources was to keep records of the labour force and to secure the necessary legal/accounting background. The strategic approach was only traceable in so-called ‘productivity bargaining’ – in the form of wage bargains as part of the rights and duties as these were laid down in the collective agreement (Salaman et al., 2005). Since the seventies, however, corporations have increasingly come to realize that appropriately managed employee relationships are extremely important for maintaining competitiveness. Traditionally, human resources management (HRM) deals with basically four areas: *selection, appraisal and performance management, rewards and development* (Armstrong, 2006). Its goal is to increase organizational efficiency, to develop human capital, to manage organizational and individual learning and to fulfill the changing needs arising from competition. In the last decades of the past century a dual process could be observed in the area of strategic management of human resources: on the one hand, collective bargaining relationships were loosened so that non-strategic human resources were tied to the corporation as loosely as possible (outsourcing and supply chain management), on the other hand, strategic human resources increasingly appeared as a competitive advantage in corporate strategy and required a complex strategic approach. As a result, human resources management became more and more a strategic area, “[a] distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personnel techniques” (Storey, 2001, p. 6.). This, however, only had an effect on the internal relationships of the corporation, reflecting the approach in which strategic human resources management (SHRM) was primarily an organizational and efficiency issue. Extending this way of thinking beyond the employees of the corporation, strategic human resources management started increasingly to be seen as a set of significant ideas of institutional change: “[t]hey affect how organizations are changed, and how they perform; they affect how employees are treated, they affect security of employment and they affect the nature of employment. They also affect us as individuals, influencing how we see ourselves and our relationships. SHRM prescriptions, theories and practices mediate between the public and the private, defining the relationship between biography and history. Although SHRM initiatives are frequently presented by their proponents as simply technical matters – means of improving organizational performance – they frequently owe their appeal and influence to their affinities with larger political ideological forces" (Salaman et al., 2005, p. 5). Strategic human resources management offers the organization 'as a system of primary stakeholder groups' a toolkit for measuring up to the requirements of continuous change due to competition. While traditional human resources management concerned itself with retaining the performance and competitiveness of the organization, strategic human resources management deals with planning, organizational change and design, as well as laying of the foundations for, and sustaining, competitiveness. SHRM focuses primarily on areas that involve critical success criteria and strategic decisions in connection with managers and employees, and which could have a long-term effect on corporate behaviour and business success (Armstrong, 2006).

Looking at it from another angle, human resources management has two main areas or approaches: 'hard' and 'soft' HRM. In hard HRM management views employees as assets and resources that can be used, where the only goal of HRM is to create and improve the conditions for efficiency and profitability and where the barter relationship is to be terminated when the usefulness of the 'asset' can no longer be sustained. Contrary to this approach, soft HRM sees the employee as a tool rather than an object and its goal is employee commitment and the improvement of organizational efficiency by winning the employees' 'hearts and minds' (Storey, 1989). Naturally, these are theoretical constructs and in real life corporate human resources management is some mixture of the hard and soft approaches (Greenwood, 2004). According to strategic human resources management experts, soft HRM, which takes the interests and opinion of employees into account and endeavours to realize organizational goals by increasing their commitment, is more effective than hard HRM (Legge, 1995). Others, however, claim that the soft approach only serves to veil the use of hard tools. Lately, strategic human resources management has been using a mixture of individual soft tools and system-entrenched hard tools to an ever-increasing degree (Greenwood, 2004).

The theory of sustainable human resources management

Towards the end of the last century, corporate scandals, bankruptcies and ecological catastrophes directed special attention to ethical issues in relation to human resources management. In response to issues like child labour, violation of employee rights, corruption, environmental damage and other corporate scandals, ever-stronger calls emerged for human resources management to concern itself with ethical questions with much greater determination.

Ethical issues used to be part of the practice of soft HRM, since human resources management deals with the relations of human working conditions and as such, ultimately, with the lives of people. It is often the ethical dimensions of work having turned into a commodity that stood in the focal point. As this is all about the shaping of human relationships, the factors hindering quality of life and organizational operation surfacing in these relationships and their social impact, sustainable human resources management must primarily be studied from the point of view of ethics. It is not only the radical ethical challenges mentioned above that pose potential dangers for human rights and personal freedom, but also everyday work situations. Workers are often defenseless in their contractual relationships or their rights are limited by extra-contractual stipulations which the majority have no choice but to accept. Not only 'average' employees but managers can come under moral pressure because of their assumed or real contractual or extra-contractual fiduciary or utilitarian responsibility, or because their moral autonomy is oppressed by the processes and flows of the system due to its operation (Jack et al., 2012). While researchers of the topic have drawn attention to the fact that the theory of ethical human resources management and its scholars on the one hand, and its practice and challenges on the other hand, are significantly distant from each other, the question of ethics in sustainable human resources management has in the past years become its central issue. Corporations have, one after the other, prepared and introduced ethical codices regulating behaviour, cooperation and adaptation within the organization, developing on all levels of the organization mechanisms, groups and functions of internal control and ethical compliance, and they have participated in industry cooperation which aims at clarifying ethical questions and the realization of ethical operation.

We may differentiate between four approaches to the issues of ethical human resources management. The ethical-declarative approach – which in today's corporate practice is the most widely accepted one – starts from the systems, policies, guidelines and processes applied. Its concern with questions of ethics stems from the perspective of HR managers, corporate leaders and co-workers and looks to answer questions about which behaviour and mode of operation is ethical and which one is not. Using an ethical vantage point what is considered proper, acceptable and good behaviour is then prescribed for the employees and/or the managers of the corporation. Often Kohlberg's moral development theory is the background for these approaches. Kohlberg (1971) claims that organizations, just like people, go through hierarchically organized steps of development in their attitude towards ethics. Moral argumentation becomes ever more complex in the course of development from childhood to adulthood, therefore both human beings and organizations get 'ever better' at being able to apply ethical, legal and philosophical theories to challenges arising. On the lower, pre-conventional level, the moral decision is motivated by wanting to avoid punishment, followed by trying to live up to one's own perception of fair process in relationships based on mutuality. On the middle, conventional levels, the individual first tries to comply with the expectations of important others, while later this compliance is determined by societal rules and laws. On the highest, post-conventional or autonomous level, the moral decisions are determined by individual principles of justice and lawfulness. Yet only twenty percent of people reach the highest level of development. The majority has conventional moral sensitivity, i.e. they are guided by close relationships and expectations verbalized by society as a whole (Kohlberg, 1971). Thus proper ethical behavior prescribed offers primary stakeholders guidance to moral decisions in corporate operations on the individual and group levels.

Rather than being a statement, the ethical-conditional approach reflects uncertainty, questions and a critical attitude: a shift from the classical – Kantian and utilitarian – moral-philosophical justification in the direction of post-colonialist, post-structuralist and feminist ethics, and the questioning of declarative modes of the mainstream of business ethics, as well as the search for alternative ways and ethical explanations. The ethical-ethnographic approach is of a descriptive nature with a detailed demonstration of the moral challenges facing people operating in organizations and the possible – practice oriented – ethical solutions. The ethical-system thinking approach studies moral questions in a broader cultural, political and social context, focusing on the cooperation between organizations, the integration of organizations into society and their compliance with expectations, social processes, effects and challenges rather than on the individual and individual organizations (Jack, 2012).

While researchers have noted that there is a substantial gap between theoretical-academic research and the practical questions of corporate ethics, the practical application of ethical issues is surrounded by a number of simplifying myths (Trevino & Brown, 2004). One of these myths is that ethical questions are simple since it is enough to 'know' which behaviour is right and which one is wrong. However, ethical questions are often complicated, right or wrong behaviour is not trivial and, on top of it, the right organizational interest and the individual sense of justice often get into conflict. Frequently, ethical questions do not present themselves as moral dilemma but rather as a task to be solved or as an everyday practice. Downloading contents from the internet is not considered a violation of intellectual property rights, approving a credit application of a person with low income is not considered as putting someone at risk and authorizing as witness an official document is not considered to be a personal action devoid of responsibility. In addition, the effects of the working environment often suppress ethical considerations. Referring back to the development theory of Kohlberg, on the conventional level, the majority of people would comply with the expectations of their peers and of the working environment rather than wanting to meet moral challenges according to their own moral awareness. What is worse, those who approach their working environment along ethical considerations draw the attention of their co-workers and the management and are often accused of behaving 'too ethically' instead of solving the problem at hand. The ethical arguments against this myth are intricate, often requiring complex and long-term personal approaches and a supportive environment. Based on the contradictory approaches, moral challenges posed by the organizational-workplace can be resolved in various ways. The 'level of development' of moral awareness and behaviour does not depend on the moral position but on its application – avoidance of retaliation, compliance and inner conviction.

The other myth is that unethical organizational behaviour is caused by ‘a few bad apples’. In other words, the organization as whole would behave ethically if there were not some unethical people in the organization who corrupt the entire institution. This may occasionally be the case, but generally it is not so. Milgram’s experiments on human behaviour proved that people easily adapt to the assumed ethical position created by the situation. The jailers easily ‘believed’ that their prisoner mates were ‘guilty’ and that they deserved their punishment (Milgram, 1974). This is frequently true in simpler situations also: the boss-subordinate relationship often does not make it possible to see the solution to the problem as a question of ethics, just as pressure exerted by the boss is often justified by the expectations of the stockholders which cannot be met by normal operation. In these cases it is hardly possible to identify the ‘bad apples’, and removing those who are thought to be guilty from the organization will not result in more ethical operation.

The third myth is that the solution to ethical problems are formalized rules, recommendations and processes. While research proves that in corporations where formalized ethical processes (recommendations and codices, training, advice and reporting) exist reporting of behaviours felt to be unethical by far exceeds (by 78%) the reported cases where there are no such processes, the processes on their own are not sufficient for ethical corporate behaviour to come about (Ethics Research Center, 2003 quoted by Trevino & Brown, 2004). Each of the corporations that caused the most significant ethical scandals of the last decade (Enron, Arthur Andersen, WorldCom, Exxon, Volkswagen) had a detailed and well worked out ethical codex and internal control mechanism. The reasons for unethical behaviour are complex, as we have seen. In order for a corporation to be concerned about ethical issues, ethical values must be entrenched in the corporate culture. What is needed is the easing of hierarchical relationships, a culture of autonomy supporting autonomous decision-making, an evaluation system for rewarding ethical behaviour, corporate operation where positive examples are demonstrated and discussed, and internal relationships based on equality and dialogue. All in all, what is needed is a corporate culture based on equality and openness.

The fourth myth is that ethical corporate behaviour depends solely on the managers. There is an element of truth in this: managers are important players in shaping and representing corporate culture. However organizational culture is a complex system in which individual behaviour – whether in a positive or a negative sense – has limited effect. Furthermore, one must distinguish between the moral human being and the ethical manager. It often happens that an otherwise moral person is motivated by a conventional desire to comply within the organization. Conversely, it also happens that a person with a less developed moral awareness is forced into a strict behavioural framework by corporate culture and the system of social norms. In other words, the question of managerial ethics can be represented as a matrix where the two axes are strong/weak personal conviction and strong/weak managerial ethical approach. The manager with a weak personal conviction but strong ethical management approach is the 'hypocritical leader'; the manager with a strong personal and weak management ethical approach is an 'ethically mute leader'; the boss who is weak in both senses is the 'unethical leader'; while the leader strong in both senses is an 'ethical manager'.

[Trevino-Brown diagram]

The fifth myth is that the ethical behaviour of both individuals and organizations keeps deteriorating. To refute this myth be it sufficient to refer to a classic text: more than one hundred of the 613 rules regulating life and ethical behaviour in the Talmud are about ethics in economic-business activities (Kahaner, 2003). As Alan Greenspan, former Chairman of the FED put it: "It is not that humans have become any more greedy than in generations past. It is the avenues to express greed [have] grown so enormously" (Greenspan, 2002, p. 4). In other words, it is not people who have become less ethical during the years but the complexity of challenges has increased significantly, as have the opportunities to conduct self-interest centered behaviour. (Trevino & Brown, 2004).

All things considered, the ethical foundation of responsible corporate management requires complex modes of management and operation which cut through traditional corporate hierarchies of power, processes and institutions. The answer to ethical challenges (also) presumes relationships based on equality and dialogue, and the creation and operation of a corporate culture – setting up the institutions for managing stakeholder conflicts on an ethical basis – building on openness and equality.

The most significant challenge to the traditional approach to HRM was formulated by the application of the social criticism of Michel Foucault, the French social philosopher, to human resources management. Power, or rather the relationship of power and knowledge, as well as institutions, the control mechanisms and supervision created by them, and their effects are at the centre of Foucault's research (Foucault, 1988; 1990a; 1990b; 2011). He derives his criticism of the traditional approaches, and especially practices, of human resources management from an analysis of the connection between power and knowledge in labour and the relationship of employees and the workplace. Applying Foucauldian criticism to HRM (taking Williamson's transaction cost theory as point of departure), Townley (1993) claims that the aim of HRM is to fill in the unknowns – which are typically due to the modes of work and the individuality of the worker – in imperfect contractual relations. In other words, HRM aims to create knowledge, thereby reducing contractual uncertainty, and through this knowledge it creates power relationships which uniformalize employees through oppression and deprivation of civil liberties. Put another way, it creates order and discourse which organizes the physical and discursive space in a way that, due to the calculability of this space, the uncertainty between promises and performance can be reduced: so that individuals become transparent and manageable. The tools for this – in Foucauldian language – are enclosure (discursive designation of the workplace and demarcation of it from other workplaces), partitioning (fixing the workplace of individual workers) and ranking (organizing the workers into a hierarchical order). By structuring work spaces and by creating demarcations and separations between the work processes and their executors, and by creating a hierarchy between them, HRM establishes the discursive institutions of control and supervision, and of compliance and 'normalization'; by determining working hours, by dividing up the work area, by surveillance and by the exact prescription of work processes it puts the individual and their bodies under control (it regulates their operation through the use of specific language); through the system of evaluation and self-development and through 'admission' of weaknesses and mistakes, it forces employees into a humiliating and deprived situation (in other words, it deprives them of freedom and independence with the help of the discourse setup). The individual becomes predictable, calculable and manageable through the creation of the specific language, the institutions and processes of HRM (Townley, 1993). Therefore, in this approach human resources management is not a tool for developing organizational efficiency, competitiveness and human capital but an area for political power and victimization for employers. From an ethical point of view, in this approach the aim of HRM is to deprive employees of their independence, and from a political viewpoint, its aim is to force the employer's moral leadership onto employees, creating their oppression and subordination.

The other criticism of traditional HRM is based on the stakeholder approach. This claims that deficiencies and inadequacies of traditional HRM indicate that soft HRM is in reality not an ethical approach; since cooperation with employees does not necessarily mean that their interests and values get built into the business operation. It is conceivable that the engagement of employees means representation and execution of organizational interests and/or economic goals without a responsible and ethical approach towards the employees. While 'employees' may be the most important stakeholder group, their involvement in decision-making does not in itself mean the implementation of ethical and responsible aspects. Stakeholder involvement is based on an analysis of stakeholder interests and values, the aim of which is not one of ethics since it basically serves organizational-strategic purposes. The stakeholder approach is ethically neutral because getting to know and assessing the interests and values of stakeholders is done in the interests of organizational goals and they basically serve to manage stakeholder risks (Greenwood, 2004).

In view of the above, therefore, for the interpretation of sustainable human resources management an approach is need which is based on the stakeholder theory, yet which also takes ethical aspects into account and which organizes the possible management practices into a matrix according to whether the extent of employee involvement is strong or weak and whether the implementation of ethical aspects regarding employees is strong or weak. If responsible or ethical aspects related to employees are not taken into account and there is no involvement, one speaks of 'hard' human resources management, where the discourse is completely ruled by efficiency, cost reduction and goal-oriented employer attitude. If employees' interests are considered but there is no involvement (i.e. there is an acceptance of and support for employees' interests by the employer yet these do not get built into the operation) a 'paternalistic' approach is applied. A low grade responsibility or ethical view which, however, allows for consultations with employees in line with the strategic interests of the company indicates 'soft' HRM. The involvement of employees coupled with a high degree of ethical commitment and consideration for the interests of employees indicates 'ethical' human management practice. The theory of stakeholder approach HRM shows that the practice of human research management building on employee stakeholder involvement and the ethical approach from the employees' viewpoint must be applied simultaneously: this can lead to sustainable human resources management (Simmons, 2008).

[Simmons diagram]

For the implementation of the responsible stakeholder approach therefore, the inclusion of ethical aspects into the processes of HRM is needed. For the ethical aspects to exert their effect horizontal (management, middle management, employee representatives, stockholders and regulators) and vertical (management, functional units and teams) cooperation and involvement is also necessary. In this approach, too, institutionalized – political – discursive processes and channels are required for the ethical aspects, i.e. for aspects of justice regarding employees to prevail. Managing conflicts, dialogue and concluding agreements between various stakeholders in the process of stakeholder involvement brings about conditions of 'system procedural justice' within HRM whereas acting according to the ethical approach (feedback and equality), i.e. the perception of employers' fairness by the employees creates 'system distributive justice' (Simmons, 2008).

Political human resources management

The theory and practice of human resources management in itself is no guarantee for the emergence of responsible operation. As is apparent from a Foucauldian criticism of HRM traditional institutional discourse on HRM creates a power-based and oppressive framework. Realizing stakeholder viewpoints and their ethical approach provides the opportunity for both the aspects of distributive and procedural justice to become effective through stakeholder involvement. However, for a shift through responsibility to take place it is necessary to enforce stakeholder justice. Here again Foucault's approach is called to assistance.

The basis of Foucault's (1990b) late ethics – partly as criticism of the institutional discursive ethics of Habermas – was action-ethics, based on "caring, development and fulfillment". In his definition, "[A] moral action tends toward its own accomplishment; but it also aims beyond the latter, to the establishing of a moral conduct that commits an individual, not only to other actions always in conformity with values and rules, but to a certain mode of being, a mode of being characteristic of the ethical subject […] for an action to be 'moral,' it must not be reducible to an act or a series of acts conforming to a rule, a law, or a value. Of course all moral action involves a relationship with the reality in which it is carried out, and a relationship with the self. The latter is not simply 'self-awareness' but self-formation as an 'ethical subject,' a process in which the individual delimits that part of himself that will form the object of his moral practice, defines his position relative to the precept he will follow, and decides on a certain mode of being that will serve as his moral goal. And this requires him to act upon himself, to monitor, test, improve, and transform himself. There is no specific moral action that does not refer to a unified moral conduct; no moral conduct that does not call for the forming of oneself as an ethical subject; and no forming of the ethical subject without 'modes of subjectivation' and an 'ascetics' or 'practices of the self' that support them. Moral action is indissociable from these forms of self-activity, and they do not differ any less from one morality to another than do the systems of values, rules, and interdictions" (Foucault, 1990b, p. 28). In other words, Foucault found the basis for moral conduct in the "practices of the self" occupying itself with identity and development: in conscious and voluntary actions where the individual does not only comply with the laws and adapts to rules but becomes an independent individual creation through self-transformation. As such Foucault recommends that by focusing on oneself instead of complying with rules and institutionalized processes enforcing right action, observing the practices of power also embodied by HRM, understanding it and viewing it critically, one should shape one's ethical actions through opposition to the logic of power. Thus, he looks upon institutionalized discursive spaces and processes, as proposed by Habermas, with suspicion, yet he is confident that individuals and their communities will realize that by viewing the oppressive apparatus of power critically and by becoming independent of the actions expected by it from them, individuals will be able to act according to their own moral desires (Crane et al., 2008).

In applying “practices of the self” to the stakeholder approach, the individuals acting as stakeholders must first “create themselves” as stakeholders. They must establish an identity-, value- and interest position in consultation with themselves and with others in the same stakeholder position. In Foucauldian language a stakeholder must ‘define his position relative to the precept he will follow’, he must define his interest and value positions, a certain mode of being, stemming from being a stakeholder, and based on this he must draw up the agenda that ‘will serve as his moral goal’. It follows that the corporation as stakeholder community delegates tasks to stakeholders as well: it is not enough to expect the mapping and involvement of stakeholders but active steps must be taken towards creating stakeholder positions. This is not obvious since every individual can be member of numerous stakeholder communities and can hold numerous stakeholder positions. This means that the ‘stakeholder practice of the self’ requires active responsibility on the part of the stakeholders in the course of which – to achieve an ethical decision-maker/employer attitude – first the stakeholder-self has to be defined and made public observing and unveiling the power-based discourse of HRM, followed by enforcing engagement through continuous shaping and development of the stakeholder self. The ‘stakeholder-self’ thus established must be represented in dialogue with other stakeholders parallel to continuous consultation about the own stakeholder interests and values within the own community as a result of the process of dialogue. Sustainable human resources management is a complex and multi-polar practice, in which the vertical and horizontal processes must be supported by definite ethical aspects, besides the stakeholders themselves having to continuously reflect on their own positions and develop ‘stakeholder-self practices’ in order for the stakeholder community as whole – the corporation – to be able to benefit from it. From a Foucauldian perspective “a redirection in management of business ethics away from compliance towards integrity puts greater emphasis on the moral capacities of the individual. However, Foucault’s ethics suggest a somewhat different path to achieve self-governance. Instead of encouraging employees to live up to a set of core values by training them in what the organization stands for, or even facilitating constructive criticism of these values in order to generate a more adaptive set of values, the focus would be on providing an enabling environment that facilitated active, creative and innovative processes of subjective self-formation. This shifts the focus from the company and its values to the individual. Thus, ethics would become an emotional, embodied, lived experience rather than an instrumental response to externally constructed values or rules” (Crane et al., 2008, p. 25).

Having analysed responsible corporate management, responsible attitude to the environment, sustainable supply chain and responsible human resources management, we claim that responsible corporate behaviour is essentially *political corporate responsibility*: incorporating stakeholder values and interests into business operation, reducing the impacts of corporate operation and of their harmful economic, ecological and cultural consequences, engaging in public deliberation, collective decisions, the provision of public goods, and the realization of stakeholder well-being and corporate profitability according to the principles of TBL can only be achieved through political processes of stakeholder democracy; a deliberative democratic corporate polity entrenched in a system of free and equal (corporate) citizens defended by a system of corporate checks and balances offering opportunities for developing the stakeholder self as well as for unveiling corporate power-discourse. The discourse ethics of Habermas and the political corporate responsibility based on it sees the political model of stakeholder democracy and responsibility in institutionalized and equality based discursive processes: the institutionalization of public dialogue and the modes of processes of social will-forming with corporate participation. According to Beck’s risk-society model, political social responsibility similarly presumes the emergence of institutionalized discursive processes. Its basis is, however, not the rational justification of decisions but the acceptance of the consequences and the possibility of continuous re-evaluation of the consensus. Therefore, the guarantee for the emergence of stakeholder democracy, equality and participation is provided by the creation of institutions of – as Berlin (1958) called it – ‘plural liberties’ supported by corporations and achieved with corporate participation. These institutions approach decisions from their consequences and aim at the creation of a stakeholder consensus that is temporary and can be modified by mutual intent, rather than at universally valid ethical agreements. Responsibility practices building on Foucault’s model view discursive institutions with suspicion as these are considered to be reflections of the violence of stakeholders in positions of power and therefore they put the emphasis on the individual stakeholder. Stakeholders first have to create themselves as stakeholders, i.e. they must assume a stakeholder identity based on which then they must make their stakeholder-self public; and they must force stakeholder engagement and dialogue based on equality and they must bring about temporary consensus between the stakeholders and within the stakeholder identity community by observing corporate power discourse, by unveiling it, and through the continuous shaping and developing of their stakeholder self. Both the unveiled power discourse and the temporary consensus serve the interests of the whole corporate stakeholder community – i.e. the corporation – since it may secure the engagement and involvement of all the stakeholders and an increase in efficiency and competiveness of both the processes and results through a reduction of transaction costs. We now turn our attention to the appearance of responsible corporate operation in the market, i.e. to responsible marketing.

6. Responsible marketing

Why is the Doughboy afraid?

On 29th March 1984, Ben Cohen and Jerry Greenfield were working on putting together the documentation that was necessary for launching their company on the Vermont stock exchange. The phone rang in the office and Paul Tosi, one of the biggest local distributors of Ben & Jerry's ice cream manufacturing company was at the other end of the line. Ben picked up the phone. "There is something very important I want to talk to you about, but it is nothing for the phone. Let's meet tomorrow, as soon as you are available." The next day the three of them met and this discussion changed ice cream history.

Ben & Jerry's was founded in 1978 by two chubby college friends who simply loved to eat. Neither of them finished university. They attended a five-dollar course on ice cream making and then – with an investment of 12,000 dollars of which two thirds was borrowed – they refurbished a dilapidated petrol station where they opened their first ice cream parlor in Burlington, Vermont. The ice cream parlor did well, therefore they built an ice cream manufacturing plant and started selling pre-packaged ice cream. Ben was suffering from anosmia – the impairment of sense of smelling – therefore large pieces of biscuits and other sweets were mixed into Ben & Jerry's ice cream. This later became the specialty of the brand. By the early eighties the ice cream with peculiar, fantasy names was sold in numerous supermarkets in the state of Vermont.

At the personal meeting Paul Tosi informed the owners that Häagen-Dazs, a much larger ice cream manufacturer than Ben & Jerry's, had threatened the distributors that if they carried Ben and Jerry's they would lose their Häagen-Dazs distributorship. The Danish sounding yet American brand was one of the most popular and well-known premium ice cream brands available in every shop. The company was founded in 1961, and acquired by Pillsbury, a multinational food company, in 1983. What Paul Tosi said in the meeting meant grave danger for Ben & Jerry's but it also offered a huge opportunity.

In the next few days Ben spoke with a number of their distributors who told him a similar story. Jim Richards, the sales manager of Häagen-Dazs had phoned numerous distributors and told them that Häagen-Dazs would terminate their cooperation with them if they carried on distributing Ben & Jerry's products. Cohen and Greenfield initiated legal procedures at once but were only too aware that they would not be able to finance the long legal procedure and that the large corporation owning Häagen-Dazs would probably win in court. Therefore they decided to call on the consumers and other stakeholders supporting Ben & Jerry's to help.

The most important decision was to attack Pillsbury instead of Häagen-Dazs. An argument between Ben & Jerry's and Häagen-Dazs would have been nothing more than a fight between two ice cream manufacturers, whereas an action against Pillsbury made the story look like a struggle between David and Goliath. The advertising icon and brand mascot of Pillsbury was Poppin' Fresh, the Doughboy, a caricature of a baker' apprentice because the leading products of the company were frozen bakery products. The doughboy – resembling a popular mass-produced sculpture and memento sold America-wide in the twenties and thirties – emblematized the World War I. America soldier in US mass-culture. The muscular apprentice with his huge hands symbolized the school-dropout who signed up in the army in the Great War. The slogan of Ben & Jerry's campaign was "What is the doughboy afraid of?" referring simultaneously to Pillsbury's nationally recognized brand mascot and to the American hero who is not afraid of anyone. Ben sensed the opportunity that this could make him and his company heroes if he forced the 'heartless' corporation to withdraw. He asked Jerry to fly to Arizona to start a personal demonstration in front of Pillsbury's head office. Jerry stood in front of the entrance with a picket sign with the slogan on it. He distributed flyers with the whole story and a call to join the campaign. The flyer – with the title: 'American dream' – described the difficult early years of Ben & Jerry's, contrasting it with the story of Pillsbury that had a turnover of four billion dollars. The question was posed: "Now that you know the whole story, what do you think? Do you think the Doughboy is afraid of two guys working with 23 people in 4,000 square feet of rented space?" one of their flyers read. "Do you think the Doughboy is afraid he's only going to make $185.3 million in profits this year instead of $185.4 million? Do you think the Doughboy is afraid of the American Dream?" (Lager, 1995, p. 115). The other side of the flyer was an order for the Doughboy Box containing a pre-printed letter of protest and a T-shirt which made its wearer part of the campaign. At the bottom of the flyer there was a toll-free number which could be called to register, to protest and to ask questions. Ben & Jerry's did everything so that local and national newspapers would pick up the story. Within days the phone did not stop ringing, hundreds registered and ordered protest letters and T-shirts. Articles appeared in the New York Times and in the Washington Post: the photo of Jerry's flyer distributing campaign became the cover story. However, Ben & Jerry's did not stop here, just as Häagen-Dazs also increased the pressure on their distributors. Jim Richardson announced that distributors selling Ben & Jerry's after July 9 would not be supplied with Häagen-Dazs. As a reply, Cohen and Greenwood likewise intensified their national presence: they bought an advertisement in the *Rolling Stone* magazine for 250 dollars. "What is the Doughboy afraid of? Help two hippies from Vermont in their fight against the huge Pillsbury corporation. Send one dollar and we will send you the full story together with a bumper sticker!" In August they bought a billboard next to the busy Route 128 leading into Boston with the text: "Don't let Pillsbury squash Ben & Jerry's!" Posters with the same text could be found on many buses in Boston. At the peak of the campaign an aeroplane pulled a banner with this text as it flew over the packed football stadium of Foxboro. By now four hundred protest boxes were being sent out weekly, volunteers organized local supporters and Charles Pillsbury, great grandson of the founder, a renowned human rights lawyer, wrote a letter to the CEO of Pillsbury criticizing the behaviour of the corporation. The reputation of Pillsbury lay in ruins and the company was on the losing end in the eyes of the public. The agreement prohibiting Häagen-Dazs from forcing distributors to choose between two competing products was signed on the 6th of March, 1985. The 'two hippies' who turned to the stakeholders for help came out winners (Lager, 1995).

By the end of the nineties Ben & Jerry's was the best known US social brand. Sustainability, social commitment and responsibility became part of their business operations and they spend a portion of their profits on societal goals. But the story does not end here. In 1993 traders accused the company of illegally limiting the distribution of competing ice cream manufacturer – just like Pillsbury had done earlier. It was also said that some of the products of the company supposedly so proud of the local values of Vermont were not manufactured in Vermont, and that the fat content in some of the products was higher than permitted. As human beings they are very kind and responsible – said a trader, Chuck Schiffer – but "[c]orporately, they're absolutely vicious" (Newsweek, 1993). Business life is complex. In 2000 the founders sold the company to the global corporation Unilever, which consented to keeping the model of responsible operation –, as did L'Oréal when it bought Body Shop – similarly to L'Oreal who bought Body Shop.

The theory of responsible marketing

Ben & Jerry's "Doughboy" campaign pinpoints important issues of responsible marketing. Almost every element of it can be studied from the viewpoint of ethics as well as of responsibility. The market limiting behaviour of Häagen-Dazs/Pillsbury underlying the Ben & Jerry's campaign can be approached from an ethical viewpoint. So too can the campaign activity of Ben & Jerry's using political tools and making social phenomena outside of what is strictly business (such as myths and values – 'hippy', 'American dream' and the fight of 'David and Goliath') part of marketing communication. The campaign shows that marketing – sales, addressing consumers and the interpretation by potential consumers – cannot be void of scrutinizing social values and impacts.

Marketing is more than the public communication of the brand in the interest of influencing product-related consumer decisions. In the widest sense, marketing is "a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others" (Kotler & Armstrong, 1997, p.7). This means that marketing is a social activity based on continuous exchange, in which the primary stakeholders are the participating parties in the transaction, while at the same time the process of the transactions impacts other stakeholders and society as a whole. The transaction is often a product or service but it can also be knowledge, connections or other value-carrying goods which can have social effects outside the transaction (Bauer et al., 2014). As participants in the transaction always have an effect on other stakeholders and on the whole of society, ethical questions always arise in connection with marketing activities (Reidenbach & Robin, 1990; Smith & Quelch, 1993). Exchange, as the central element of marketing, always involves responsible behaviour, since "trust, equity, responsibility and commitment are important for the development of relational marketing exchanges" (Gundlach & Murphy, 1993, p. 42).

Consequently, ethical issues were discussed in marketing literature early on; just as the field of marketing management was an important area of research into business ethics (Smith & Murphy, 2012). It is only natural that the opposite view also appeared, stating that marketing was per se unethical, and going so far as to state that the lack of ethics was a necessary element of marketing. As Farmer (1967) put it in his, by now classic, marketing critical study: “For the past 6,000 years the field of marketing has been thought of as made up of fast-buck artists, con-men, wheeler-dealers, and shoddy-goods distributors. Too many of us have been ‘taken’ by the tout or con-man; and all of us at times have been prodded into buying all sorts of ‘things’ we really did not need, and which we found later on we did not even want ” (Farmer, 1967, p. 1).

On the other hand, when studying marketing it is not enough to look at whether decisions made in the course of exchange aimed at satisfying the different desires, expectations and needs are morally right or wrong, but the intended impact of the processes on different stakeholders must also be considered. Thus, responsible marketing can be approached from two different angles: marketing ethics and societal marketing. Every marketing activity has a social impact. The difference is that the ethical dimension of societal impacts studies the non-intended consequences and/or how decision-makers are aligned to normative principles, while societal marketing looks at the intentional, benefit-oriented social impact of the exchange process.

Marketing ethics

The ethical dimension of marketing has for long occupied the minds of theorists therefore there is a rich literature on the theoretical and also the management-focused approaches to marketing ethics (Tsalikis & Frietzsche, 1989; Smith & Murphy, 2012). Ethical approaches study the ethical dimension of the marketing processes: what the key aspects for ethical consideration are and how the process of ethical decision-making works. This approach focuses primarily on the ethical problems facing marketing decision makers and marketing managers, as well as on ethical decision-making itself, its frameworks and application of traditional moral philosophy principles. This is the positive approach to marketing ethics. On the other hand, the normative approach to marketing ethics studies how marketing decision-makers should decide, what the right and the wrong decisions are, and what is or could form the basis for ethical decisions.

Even early on, the extensive literature on marketing ethics used empirical means to study how marketing experts make their decisions and which aspects they consider when evaluating the ethics of their decisions. Some researchers, having conducted in-depth interviews with marketing experts, found that while some of them used ‘moral imagination’ when making their decisions thought to be right, the majority suffered from ‘moral myopia’, i.e. they thought that what complied with the letter of the law was also ethical. Others again demonstrated ‘moral muteness’ professing to the “[t]he client-is-always-right syndrome [not wanting] to tell clients ‘no’ regarding ethics” (Drumwright & Murphy, 2004, p. 14). Yet other authors studied the use of ‘Machiavellian marketing”, i.e. how widely spread forceful, manipulative and influence asserting behaviour in marketing was. As they see it, while in certain areas of marketing and in certain age groups the Machiavellian tendencies are stronger and here more people can be found with ‘high Mach’ (i.e. highly manipulative and forceful) attitudes as measured on a predetermined scale, it cannot be stated that the majority of people working in marketing would have Machiavellian character traits. According to them – having done research on one thousand members of the US Marketing Association – there are no more Machiavellian people working in marketing than in society generally (Hunt & Chonko, 1984).

One of the best known and most cited studies on positive marketing ethics is the ethical decision making model of Hunt and Vitell (H–V model), published in 1986. The model scrutinizes the question of how marketing people make decisions when they realize that these decisions have an ethical dimension as well. Their point of departure is that when marketing experts realize that there is an ethical dimension to a decision, they look at possible alternatives. The choice between alternatives will in the first instance be one of deontology: checking for the right or wrong position relative to a pre-determined norm. According to the authors, the starting point for this could be some general ethical conviction regarding fair behaviour, fraud and stealing, or a situation-specific opinion, such as misleading advertisement, product safety, re-channeling of monies or data safety. According to the H–V model, the form of applying the norm will either be ‘it is always right that…’ or ‘it is generally right that…’. In other cases, marketing people use a teleological approach, which means that they will look for the possible consequences of the decision. The H–V model studies four theoretical points of departure: the impact of perceived consequences on different stakeholder groups; the probability of the consequences actually ensuing in different stakeholder groups; the desirability of each consequence, and the importance of each stakeholder group. Thus, the model does not study which ethical decisions are desirable, nor the 'right' or general ratio between the deontological/normative and teleological/consequential approaches. The purpose of the model is to analyze which ethical positions, institutions and processes inform deontological and teleological approaches, and what kind of influencing factors there are or could be — group effects, personal opportunities supported by the alternatives, personal convictions and character traits — which could bring further ethical variations into the decision making process (Hunt & Vitell, 1986; Hunt & Vitell, 1993; Hunt & Vitell, 2006). The model, the variations in the decision making process and the different ethical approaches were tested in numerous empirical experiments and were verified partially or to the full (Mayo & Marks, 1990).

Beside Hunt and Vitell a number of other authors have dealt with corporate marketing ethical decision-making processes. They studied to what extent various corporate institutions (processes, regulations and codices) strengthen ethical decisions; research showed that bureaucratic ethical processes enhanced the perceived significance of ethical questions in the same way as they did the probability of ethical decision making (Ferrel & Skinner, 1988; Singapakdi & Vitell, 2007).

[Laczniak-Murhy diagram here]

The normative approach to marketing ethics – based on the classic work of Clarence Walton – searches for an answer to the question: 'what is the right or wrong decision on the market?' (Eells & Walton, 1961). Taking this question as point of departure, many an author has tried to find the theoretical basis of marketing decisions, primarily along traditional normative ethical considerations. The best known work of this school of thought is the one by Laczniak and Murphy (2006) which presents an ethical marketing decision making system based on seven ethical principles "anchored in moral philosophy, business ethics research, corporate social responsibility frameworks, public policy thinking, religious values, legal guidelines, and a modicum of utopian idealism about how marketing practices might be ethically improved from both an organizational and societal standpoint" (Laczniak & Murphy, 2006, p. 157). In this system the ethical foundation rests on the following essential basic perspectives (BPs):

- Ethical marketing puts people first;
- Ethical marketers must achieve a behavioural standard in excess of the law
- Marketers are responsible for whatever they intend as a means or ends with a marketing action
- Marketing organizations should cultivate better (i.e., higher) moral imagination in their managers and employees
- Marketers should articulate and embrace a core set of ethical principles
- Adoption of a stakeholder orientation is essential to ethical marketing decisions
- Marketing organizations ought to delineate an ethical decision making protocol

According to Laczniak & Murphy (2006) these principles make up a decision-making system which, if adhered to, sufficiently assists marketers to make right decisions. Other theoreticians turn to traditional authors of moral philosophy for defining a normative marketing ethics. Aristotle's virtue ethics, the discursive ethics of Habermas, the moral development theory of Kohlberg, as well as Rawls' social justice theory, have all served as the basis for the ethical approaches of authors concerning themselves with marketing ethics (Ferrel et al., 1989; Nill, 2003; Laczniak & Murphy, 2008). On the other hand, there are authors who view the 'great ethical narratives' with scepticism and suggest that the normative approach should be replaced by marketing ethics' own situational ethics, following three basic principles: it accepts certain forms of moral relativism; it has restricted validity in time and space, and it is primarily of a descriptive nature (Reidenbach & Robin, 1993). Others have formulated their criticism of the whole marketing ethics 'project' claiming the “total redundancy and superfluity of marketing ethics”, asserting ”[w]hat are almost universally positioned as ethical issues in marketing are, in reality, nothing more than legal or economic issues” and should “concede that it has nothing to say beyond ‘obey the law’ and ‘act in your own commercial interest’” as well as “the subject of marketing ethics appears to be completely undistinguished, feckless, jejune, and vacant operationally, offering not an iota of content distinct from other established normative concepts” (Gaski, 1999, pp. 328-330).

Issues of marketing ethics are not only present in “great narratives” or ethical decision-making processes in general, but also in numerous sub-areas. Marketers and decision makers in business continually have to face challenges of self-interest driven behaviour and ethically proper decisions. One of the challenges in the sub-areas of marketing is to achieve the ‘result’ that best serves the interests of the principal – which may often come into conflict with the representation of the interests of other stakeholders. Similar ethical conflicts are, among others, questions of information inequality, data safety and the interest collision between different entities’ rights to the protection of their personal data and the enforcement of business interests. The issue of marketing ethics clearly demonstrates conflicts stemming from the diverging interests of different corporate stakeholder groups. These conflicts may be resolved by political institutional means based on moral foundations.

Market research

Ethical dilemmas surface when the individual realizes that – in executing a task – there is a conflict between the obligation or expectation towards one group of stakeholders and a similar obligation or expectation towards another group (including the individual’s own point of view). The most important ethical dilemmas in market research arise in connection with the obligations and expectations between principal and researcher, and between researcher and respondent (Malhotra & Simon, 2009). They relate to the security of the research subjects’ information (open access of data, informed consent and sampling methods) and to the relevance of the decisions of participants in the research (students, ‘experts’). Ethical case studies in business schools often discuss the question of data manipulation when research results do not fully serve the interests of the client, the criteria of the initial hypothesis or the marketing sub-contractor. The most important ethical objective is to safeguard research integrity (complying with professional, efficiency and sampling principles). The recurring ethical dilemmas of research are financial in nature: they stem from the conflict between the self-interest of the individual/sub-contractor (the dilemma of the effectiveness of the fees payable for regular or ad-hoc research), and the interests of the client; and between the assumed or really expected results and the professional aspects of the research (Hunt et al., 1984).

Ethical advertising

The most significant ethical dilemma in advertising stems from the presumed stakeholder conflict of interest between the principal and the target groups of the advertisement. Research has pointed out the various possible ethical aspects of distortion, misleading, unfair influence and communicative assault in advertising (Becker, 1970). Others have questioned the applicability of the term 'truth' to advertising: the goal of advertising is to convince and to make the product or service attractive, therefore – they claim – being 'truthful' can hardly be viewed as an ethical criterion for advertising. As such, various authors examined the ethical aspects from the viewpoint of advertising professionals, focusing on aspects which determine, or may determine, the basic attitude of those working in the advertising industry. As a result, the emphasis of the questions posed regarding ethics shifted from the content of advertisements to the ethical judgment of the makers of advertisements and the decision-making processes. As discussed above makers of advertisements often suffer from moral myopia, i.e. they do not realize the moral aspects of their activity on the one hand, while on the other hand, they use distorted moral foundations in the interests of being able to rationalize potential dilemmas according to aspects of effectiveness and compliance. Ad makers often refer to the misguided ethical principle of 'what is legal is also ethical', just as they protest against taking ethical aspects into account, saying that it would mean the ethical censorship of advertisements. They claim that addressees of advertisements are, as they see it, clever and broad-minded enough to be able to defend themselves against possible harmful effects. Others again suffer from 'moral muteness'*:* while they realize the moral challenges, they separate their own moral convictions from the interests of the corporation and keep quiet about practices considered unethical by them. Their excuses stretch from ‘the interests of the corporation must be kept in mind’ to ‘the client is always right’ principle. Naturally, as researchers have pointed out, these modes of moral operation do not only appear in the world of advertising (Drumwright & Murphy, 2004).

Some authors go beyond the possible advertiser-addressee-principal stakeholder conflicts of interest and study the cultural impact of advertising (Törőcsik, 2009). Many critics of advertising speak of advertising’s ‘false’ power of conviction, or in a broader sense, the negative cultural effects of commercialism: the declaration of the primacy of material values, the destruction of the traditional family and religious communities, the ‘distortion’ of reality, idealized ‘happiness’ and the heralding a ‘good life’ by transmitting imperfect and partial information. Following the publication of Pollay’s “The Distorted Mirror: Reflections on the Unintended Consequences of Advertising” – in which he studies the cultural effects of advertising based on analyses of anthropologists, sociologists and philosophers – a major debate emerged about the undesired effects of advertising and about the necessity of well-founded research into this issue (Holbrook, 1987; Pollay & Mittal, 1993).

With the emergence of digitization and the internet new marketing ethical problems surfaced. Besides the appearance of traditional questions of copyright and intellectual property in the world of the internet – what protection is assigned to an original intellectual work, what rights does the author of the intellectual work possess regarding the use of their name, the content and modification of their content – numerous ethical issues have emerged with regard to personality, safety of personal data and generally the safety of information. Recent debates concerning ‘filter bubbles’, ‘echo chambers’ and other adverse effects of social media as well as recent cases of ‘fake news’ and the negative and untrue information spread through channels of advertising on social media platforms are all cases in point (Gil de Zúñiga, 2017). Questions of marketing ethics will remain in the focus of debates: consequences of information asymmetry and power inequality between producer/seller and consumer, the increasing emphasis on human well-being, the spreading of a stakeholder approach in corporate operation, ethical consumption, increasing ecological responsibility all need increasing ethical sensitivity in marketing processes.

Societal marketing

From the 1970s on it has become increasingly accepted that the responsibility of marketing reaches beyond the practice of value-based exchange building purely on desires and needs manifested in products and services. Kotler (1972) described the social responsibility of marketing as it “should deliver value to customers in a way that maintains or improves both the consumer’s and society’s well-being. It calls for sustainable marketing, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs” (Kotler & Armstrong, 2012, p. 9). To put it another way, societal marketing means that the corporation, with the help of marketing resources and personnel, sets significant and socially important goals and facilitates the engagement of as many people as possible in socially beneficial activities (Bloom et al., 1995). The spread of societal marketing gave rise to significant debates: some see it as the greatest society-shaping power of marketing (Smith, 1994), while others claim that advertising freed of its limitations does social damage (Garfield, 1991).

Societal marketing formulates both economic and non-economic goals and provides the corporation with the necessary resources for achieving them. As an activity it in many cases reaches beyond the responsibility of the marketing practitioners and involves a number of other business units in reaching societal goals. Sometimes the ratio of economic and non-economic objectives tips the scale towards the non-economic objectives as it also happens that the goal is not to involve as many people as possible in socially important activities (donation, voluntary work, selective waste collection, etc.) but to raise awareness regarding socially useful and important values (women’s equality, domestic violence, the importance of reading, etc.). From an ethical/responsibility point of view, three types of activities can be differentiated: societal marketing actions serving economic, non-economic and mixed goals. In the case of campaigns with an economic purpose, the social consequence can be regarded as a spillover effect, since the campaign is aimed at selling goods or services. Such marketing actions could be an advertising campaign targeting specific social groups (ethnic and sexual groups, or the physically challenged) where sometimes these groups themselves are active participants in the campaign. Through campaigns with non-economic goals, traditional marketing aims can be achieved indirectly, accumulating ‘ethical capital’ which can later, in the event of damaged consumer identity, loyalty or reputation, be turned into marketing capital (Wagner-Tsumamoto, 2007).

In the case of campaigns with non-economic objectives, many have questioned the success of these campaigns where the aspects of measuring success – precisely because of the formulation of the social goal – are ambiguous. On the other hand, in the case of non-economic purpose campaigns, the results for the organization, like employee and consumer identification with the organization and inter-organizational identification and cooperation between companies participating in the marketing activity (e.g. client-agency), improve. It has been suggested that primarily in the case of mixed purpose campaigns, advertisements with social dimensions are cause-exploitative rather than cause-related campaigns, i.e. the aim is not to support a social goal/issue but to exploit the given issue in the interest of hiding or promoting economic interests. However, consumer acceptance of advertisements with a social dimension, their increasing numbers and the clear impact they have indicate that primary stakeholders, i.e. the consumers, do not see these actions as cause-exploitative (Drumwright, 1996).

Societal marketing comes in many forms and shapes. In analyzing different societal marketing activities the focus will be on whether they formulate an economic, non-economic or mixed goal, what corporate resources they require, whether the responsibility impact is planned or unplanned, from what source they are funded and whether strategic corporate impacts are realized. Traditional donation is the simplest and most widely used societal marketing activity. Donations can have non-economic or mixed purposes, depending on whether the donation appears in the public marketing activity of the corporation or not. Since this activity is often ad hoc, requiring only communication resources, it is frequently dependent on the personal preferences and commitment of the managers, the social impact is not planned by the corporation, any stakeholder can be the beneficiary (typically they are 'discretionary stakeholders' with no real power or urgency, but big social legitimacy), there is typically low employee or other key-stakeholder participation or involvement and it is funded from the corporation's own resources, such as operating cost. Consequently, strategic corporate results cannot be expected from traditional donations. Strategic donation strengthens economic goals yet this is still not the primary purpose. It tries to reduce the ad hoc factors in the process of donation, therefore there is a stronger tie between the donation activity and the strategic objectives of the corporation so that social impact can become planned and linked to corporate goals. It often moves resources beyond those of the marketing department and has a more definite connection with stakeholders having legitimacy and expectations and who are important from the perspective of the corporation. At the same time, in the majority of cases there is a low level of employee involvement, and funding is still from the budget allocated to donations. Corporate results can be achieved by strategic donation primarily through strengthening the brand and stakeholder management if objectives of stakeholders – in particular the values and objectives of consumers as stakeholders – fit the strategic goals of the corporation well. (Porter & Kramer, 2011). Sponsorship is a form of strategic donation where the value equivalent of the donation appears in public in the form of communication. Here the prime goal is economic, the utilization of corporate resources is limited to marketing and social impact is not planned. Its purpose is basically marketing-driven: to represent the sponsored activity as a psychographic segmenting viewpoint, to address the customer segment that holds the sponsored goal in high esteem and to gain reputational advantage through the wide recognition of the sponsored activity. In the case of sponsorship, the involvement of different stakeholders, including that of employees, is low (Crimmins & Horn, 1996).

Societal advertising formulates mainly economic goals, it is limited to the utilization of marketing resources but the social impact is often planned and strong, like the Benetton anti-Aids campaign, the Special Olympic Games advertisements of Coca-Cola or the advertisements of Guinness beer introducing physically challenged sportspeople in wheel-chairs. There is a low level of stakeholder involvement and funding comes exclusively from the marketing budget. The corporate strategic results are improved corporate image and reputation; brand loyalty and the brand community may generally be strengthened.

Cause-related marketing (CRM) is the best known form of societal marketing. If it is executed well, it requires the use of the most complex and most effective marketing tools, therefore its effectiveness is significant. CRM is a marketing activity where the corporation formulates some socially-relevant sponsorship promise and motivates consumers to a higher revenue-generating activity. A part of the additional income is then spent on sponsoring a pre-determined purpose. The first, by now 'classic', CRM campaign was sponsorship by American Express (Amex), the credit card company, for the renovation of the Statue of Liberty in New York in 1983. Amex donated one cent for every card transaction, and 1 dollar for each new card issued in the three months of the special offer supporting the restoration of the statue. This activity did more than result in support, it also meant advertisements advising consumers of the sponsorship and motivating them, as well as other communication activities. The result of the campaign was that card usage increased by 28% compared to the previous year and 1.7 million dollars were collected for the renovation of the Statue of Liberty (Varadarajan & Menon, 1988). Cause-related marketing formulates mixed goals; in the strategic execution neither goal (economic/non-economic) dominates. It moves a number of stakeholder groups but the engaged stakeholders do not get involved based on legitimacy/power – i.e. corporate strategic – considerations but on their issue-related interests and values. If executed well, resources other than those of marketing are involved in the activity and the source for the sponsorship is partly the increased corporate revenues and partly the increased frequency of purchases by consumers or the engagement of new consumer segments. The strategic result is increased revenue and the strengthening of brand image and reputation. CRM is often not limited to one corporation. It happens ever more often that a number of different brands take part in a common CRM action, like the RED campaign involving famous international brands. In the case of multi-brand CRM campaigns, the involvement of stakeholders is lower, on the other hand economic benefits can be more significant – primarily because of mutual reputation enhancement by participants.

In a special form of CRM the cooperation involves the use of an NGO logo or name: it is the ‘support’ of a non-profit organization that creates credibility for communicating a product/service. Here the cooperation is virtual, the communication of the product/service carries the ‘recommendation’ of the non-profit organization. The principal objective of these campaigns is economic and the social consequences stem primarily from a spillover effect: communication resources serving an economic goal may increase recognition for a non-profit organization or the cause that it stands for. These actions utilize almost exclusively marketing resources, and stakeholder involvement is negligible. The strategic result is an improved reputation and the strengthening of the legitimacy of the message. Its strategic form is ‘NGO-corporation’ strategic cooperation which builds on mutual benefits and involvement affecting both the corporation and the NGO. This presumes long-term common communication, organizational connections and multi-level cooperation, including the harmonization of visions and missions. Beyond sharing resources, multi-level cooperation also means the mutual sharing of knowledge, experience and abilities, as well as significant organizational interaction. Other terms for this strategic cooperation are mission marketing, issue-centric branding or passion branding. Such strategic cooperation presumes planned social impact in the course of which the values represented by the NGO become part of the corporate image and of the corporate brand. As regards the corporation, this can cause a positive social effect in a number of important stakeholder groups: it increases consumers' brand identity and loyalty, it strengthens employee commitment and in potential employees the 'desire to join', it enhances inter-organizational identity in supply chains, and it reduces the potential discrepancy between personal and corporate identity in the perception of employees. Effective and strategic cooperation moves many different stakeholder groups and involves them in corporate and civic operation, it brings the stakeholders of the corporation and of the NGO closer to each other, thereby creating a 'community of responsibility' (Berger et al., 2006).

The involvement of employees in attaining social goals can take place within the framework of traditional volunteering. In this case the staff of the corporation contribute their voluntary work towards some social goal. Resources are partly provided by the corporation and partly by the employees as stakeholders. In addition to organizational and management resources, the corporation may offer volunteers working hour allowances. Volunteering can be ad hoc when the voluntary activity is not regular and the social goal it attains is not closely linked to the goals of the corporation (building a playground, nursery school refurbishing, food distribution, etc.). The strategic form of volunteering aligns with the economic goals of the corporation and brings about a coordinated social impact with the help of the voluntary work of the employees. Strategic volunteering is a form of civil-corporate cooperation where the corporation specifically draws on the professional-business capacity and resources of employees in the cooperation (financial, marketing and logistic), while also supporting the volunteering by providing communication and management resources. The social impact is planned, though it is primarily aimed at achieving economic goals. It utilizes mostly corporate resources and the strategic result is the engagement of employee stakeholders in the largest possible numbers, thereby spreading corporate identity, employee branding and the culture of cooperation.

The results of societal marketing as regards stakeholder commitment, and therefore the strategic goals of the corporation, are not clear-cut. Consumers have a positive attitude towards societal marketing and even show increasing consumer need, and an ever-increasing number of consumers are open to corporate social impact (Cone Communications, 2013). At the time when the first societal marketing actions appeared, many predicted – because of the positive attitude of consumers – that beside the traditional triad of consumer decisions (price, perceived quality and serviceability) social impact would become a central aspect of consumer decisions. Today it seems rather that there are socially aware consumer groups where societal marketing activities positively influence perceptions of the product/service (Webb & Mohr, 1998), while there are also consumer segments which react negatively to similar actions, claiming that they lessen the capability of the corporation to produce good quality products/services or increase prices disproportionally (Sen-Bhattacharya, 2001). Judgment on societal marketing actions is similarly mixed in the case of a defensive corporate situation, where the purpose of societal marketing is to counteract some negative perception with regard to the corporation or a product. While in many cases such actions have proved successful there are studies showing that such actions increased 'consumer skepticism' towards the corporation (Webb & Mohr, 1998).

The success of societal marketing can clearly be demonstrated in stakeholder effects inside the corporation. Societal marketing actions increase employee engagement, organizational identity and in many instances help inter-corporation cooperation and the development and strengthening of strategic unity within the supply chain (Drumwright, 1996; Sen & Bhattachyara, 2001; Lichtenstein et al., 2004). Using societal marketing can offer corporation benefits in basically four areas: it strengthens differentiation and consumer loyalty, increasing brand value in some consumer segments; it counteracts negative perceptions of the corporation; it enhances employees' organizational identity and engagement thereby having an effect on their efficiency and productivity; and it increases organizational identity in some key-stakeholder groups, primarily in suppliers, cooperative partners and consumers (Drumwright & Murphy, 2001). Among the negative effects some – successful –

societal marketing actions excessively determine the brand perception of the corporation thereby forcing all other activities and the brand message into the background. Similarly, corporations which put societal marketing in the centre of their brand identity have created unrealizable consumer expectations which the corporation could later not fulfill, leading to the loss of a significant number of customers in certain very loyal segments. Also, certain steps exposed the brand and the corporation to serious attack – typically when small, expanding independent companies like the Body Shop or Ben & Jerry’s became members of a larger international group.

It is clear from the above that societal marketing can count on results and enhance the achievement of corporate strategic goals, when the ratio between economic and non-economic goals is appropriate, the social impact supported by the stakeholders is planned and meets the strategic goals of the corporation, stakeholder involvement is part of the action, the stakeholder groups contribute to the social impact with their own resources, and the strategic result is measurable for both the corporation and the stakeholders (Drumwright & Murphy, 2001).

Brand communities and stakeholders

Earlier research has shown that the establishment of strategic relationships, cooperation and long-term alliance between NGOs and corporations has the strongest effect on stakeholders participating in these relationships. This is where the most value creation occurs (Horváth & Bauer, 2013). One of the most important reasons for this effect, as discussed above, is the double identity expectation from stakeholders in the course of traditional corporate operation. During regular, non-strategic, non-value based relationships they have to meet both the requirements of the structures of twenty-first century social-cultural reality and the seventeenth-eighteenth century political-organizational expectations of traditional corporate operation. Stakeholders verbalize this as “I am one person at home and another at the office” or that “I must park my morals with my car” (Berger et al., 2006, p. 132). Due to the common strategic activity, *social alliances* enable various forms of intra- and inter-organizations to get stronger and be filled with stakeholder values. This not only shapes the common vision but cuts through organizational frameworks and hierarchies which stand for the oppressive ‘feudal’ political apparatus of double identity. With the help offered by cooperation, identification, engagament and dialogue, members of the organization become capable of resolving their stakeholder conflicts and perceiving their workplace organization to be more complete with a stronger social legitimacy. Members of the organization ‘assume’ various mediating, protective and conflicting roles, and the values and common interests created by the cooperation became part of their identity. The cooperation of the stakeholders results in the creation of a ‘community of responsibility’. Stakeholders participating in the cooperation, materially shaping its operation in a structure different from the usual corporate hierarchy and organizational framework, and determining and assimilating its values have brought about a new type of corporate stakeholder community, resembling the recognitions of research on brand and consumer communities uncovering the new communal conditions of post-modern consumerism (Berger et al., 2006; Lichtenstein et al., 2004; Sen & Bhattacharya, 2001).

The term ‘brand community’ was introduced into brand-related studies by research conducted by Muniz and O’Guinn (2001) at the beginning of this century. The brand community, taking as its point of departure Benedict Anderson’s concept of identity, is an *imaginary community* which is bound together by communal sovereignty, its perceived limits – i.e. that they are clear about the existence of other similar communities – and a deep comradeship of its members, as opposed to kin relationships (Anderson, 1983). Traditional characteristics of identity community can be detected in these ‘brand communities’ as well: members are bound together by a consciousness of kind, symbols and rituals which maintain communal bonding, and the moral responsibility of members of the community to mutually help and protect each other (Muniz & O’Guinn, 2001). Others have noted that post-modern consumer communities exhibit similar traits: gestures of consumption are complemented by rituals, artificially created traditions and multi-threaded relationships between members of the community that has thus emerged (McGrath et al., 1993). In other instances, consumers of sub-cultural brands – Harley Davidson, Jeep, Macintosh – create a particular community of users giving rise to events, meetings and symbols of belonging together which reach beyond the brand identity, protecting and supporting each other and becoming capable of common action (McAlexander & Schouten, 1998; Cova & Cova, 2002). Yet others write about ‘brand tribes’ or ‘tribal consumption’, about communities which are tied together by tribal relationships based on consumption and brand commitment (Kosinets, 2007).

All research indicates that the culture of consumption creates complex communities, the members of which are tied together by a strong sense of identity, where rituals, traditions and jointly organized events strengthen its cohesion, and where members of the community assume different roles and create the power of common action in the interest of the community (Muniz & O’Guinn, 2001). These ‘tribal brands’ or ‘brand communities’ – other than in post-modern consumption communities – are organized around one single brand. In certain cases they uphold the values of the brand and of the community even against the owner of the brand (Shau et al., 2009) or carry on operating the community after the owner of the brand decided to take the (sub)brand off the market, as in the case of the early tablet Apple Newton (Muniz & Schau, 2005). Members of the brand community do not only cultivate rituals and traditions keeping the community together, but they also contribute their own values to the community. The legitimacy for the sense of identity is not simply the fidelity towards the brand, but ‘using the brand for the right reason’: Muniz studied a Saab community and found that the members of the community did not accept those as members who drove a Saab simply as a status symbol and not because the car offered a great driving experience and kept its value for a long time. Similarly, ‘opposing brand loyalty’ expresses that the members of the brand community are aware of the values of their community and this is how they differentiate themselves from other brand communities. The brand community became capable of defining its own values through the rejection of the values of the opposing brand, like e.g. the rejection of traditional PCs by users of early Macintosh computers (Muniz & O’Guinn, 2001).

Corporate stakeholder communities emerging as a result of stakeholder-values-based societal marketing – especially the civil-corporate alliances and cooperation – and the ‘brand communities’ or ‘brand tribes’ based on the sense of identity, common traditions and rituals, show the same social pattern. Stakeholders form a community through their relationship with the corporation/brand. This stakeholder community rests on the strong value identification of its members, on mechanisms allocating sovereign decision-making, protective and operating roles, and on the ability to mutually act together. Both communities cut through the framework of traditional hierarchy and management: communities of responsibility transgress the hierarchy of corporate decision making through identification and value-centric common action, while members of the brand community escape from the captivity of the uni-directional and hierarchical communication of the brand owner. Society centred marketing and the emergence and operation of imaginary communities demonstrates the political possibilities of responsibility and value centered identity.

Political social marketing

Communities are political constructs and in this the imaginary communities – consumer groups, brand communities or brand tribes – are no exceptions. The purpose of a community is to take and exploit opportunities greater than those of individuals, partly because the individual feels that something that was there got lost and with the help of the community a ‘return’ to some earlier had, or as such perceived, authenticity and security is made possible, or the community offers a chance with which the member of the community can transgress their own personal limitations thereby becoming less vulnerable and more capable of taking opportunities. The emergence and maintenance of the community requires substantial resources: the various members of the community take on different roles for the benefit of the whole; with the help of rituals they strengthen and maintain its cohesion and mobilizing ability; myths and stories legitimize and support the community; emotional identity manifests itself and is enhanced by symbols; gatekeepers protect the integrity of the community and demarcate its boundaries; and teachers and supporters help the newly joined in order that they become strong and equal members, thereby further strengthening the community as a whole (Anderson, 1983). Thus the community is a power-political phenomenon: internally it offers members the supersession of personal limitations and the reduction of personal insecurity and vulnerability, whereas externally it offers the power and support of the whole community if, in the interest of protecting the values of the community or validating the supremacy of values, other powers have to be gone against. Early socio-theoreticians of modernity saw the loss of traditional communities, the atomization and individualization of human existence in the strengthening of rationality and individuality, which – as opposed to the above – increased the vulnerability, insecurity and hopelessness of the individual (Tönnies, 2002). Modern communication tools and the ubiquity of values, people and meanings made the emergence of new forms of communities possible: this process was supported and reinforced with special vigor by consumerism. While retaining continuity with earlier goals, these post-modern, imaginary communities aimed at transformed goals with renewed political power: internally they offered their members the opportunity for emancipation, while externally the possibility of going against the greater power and might. In consumer communities, emancipation offered the opportunity of liberation from mass culture, mass production and consumerism and the return to some imagined authenticity, while in some brand communities it made possible an escape from the terror of the brand owner, who influenced brand life-cycle in a direction that did not meet with the desire of the community, and freed the brand and the community (Cova & Dalli, 2008; Muniz & Schau, 2005).

Stakeholder corporate communities creating 'communities of responsibility', 'modeled' on brand communities, by cutting through internal corporate hierarchies of power, may create the internal channels of will-forming of corporate deliberative democracy and the processes and channels of validating such will-forming through equality based, value oriented relationships, influenced yet not determined by corporate hierarchy. In order for corporations to be able to exchange "implicit compliance with consensual social norms and expectations for explicit participation in public dialogue and justification", i.e. for the conditions of corporate politicization, as suggested by Scherer and Palazzo, to come about, first corporate communities have to become democratic (Scherer & Palazzo, 2010). This is the context in which the public dialogue of free and equal corporate citizens may emerge, in the course of which the processes of opinion- and will-forming within corporate communities become institutionalized with the legitimacy of inter-corporate (MSIs) or single company social-political spaces within stakeholder matrices linked to individual corporations (Habermas, 1996). Here the task of the corporate marketer is prominent, since it is no longer sufficient to manage the brand or consumer community of stakeholders, but the corporate stakeholder community as a whole. During the shift, the task of marketing becomes a political one. Marketing activities have to create and operate the institutions and channels of trust in such a way that the 'community of responsibility' would co-create and support strategic corporate goals and that they together would become able to create a competitive advantage according to the principles of TBL through the widest possible involvement and cooperation of the stakeholders. For responsible marketing deliberative democracy means that the tools to be used, compared to traditional marketing, will change significantly. Instead of one-way communication, networked communication based on equality and involvement have to be used, which often carry the risk that the corporate community – becoming emancipated and opposing corporate strategic decisions – will suggest and accept directions different from those of the management or other key stakeholders or stockholders of the corporation. At the same time, corporate marketing is/can be best prepared to operate processes of marketing as a political, strategic and communication activity, since the operation of modern politics also follows the principles and rules of marketing. Political marketing itself is a conglomerate of pragmatic, symbolic and institutional processes. The goal of political processes is to transform oppositions and conflicts stemming from social and stakeholder configurations into resolvable and accepted differences, and to transform hierarchies through mobilization to uphold the unity of, and support for, the community in the interests of common goals. Thus the process of corporate value creation itself also becomes transformed: the management of the corporate stakeholder community – i.e. the integration of the values and interests of stakeholders into corporate operation – means the transformation of stakeholder conflicts and oppositions into manageable hierarchies, the purpose of which is not to promote stockholder interests but the maximization of stakeholder well-being according to TBL principles. Part of this is the realisation of stockholder financial interests, while these interests must have due regard to the interests of other stakeholders, and the retention of the possibility of mobilizing the stakeholder community in the interests of its unity, long-term well-being and common goals.

Societal marketing also points to the limits of the definition of the use of the ‘political’ by Scherer (2017) in defining political CSR as “(1) deliberations about collective issues, decisions and rules; (2) the production of public goods (and the avoidance of public bads); and (3) the contribution to and impact on social welfare.” Without the inclusion of stakeholders and focusing on their involvement and engagement in the democratic process, this definition limits the understanding of political CSR to corporate actions that may be associated with societal marketing. Most of the forms of societal marketing discussed above satisfy the definition of Scherer (2017) and Scherer et al. (2016). As noted in the introduction CSR has taken a ‘political turn’ meaning that firms become political actors by (a) engaging in public discourse; (b) maintaining their legitimacy by providing solutions to public issues and complying with changing societal expectations; and (c) submitting their corporate governance to democratic control (Palazzo and Scherer, 2006; Scherer et al, 2016). It is suggested therefore that a definition that makes explicit reference to the inclusion of stakeholders in democratic processes through corporate operations across all departments may better serve the purpose. Thus this book defines political CSR as corporations, realizing the democratic role they must play reinventing democracy in a transnational globalized world, engage in public deliberations, collective decisions and joint activities with stakeholders in order to (1) anticipate, respect and be responsive to values and interests of stakeholders; (2) integrate their stakes and claims into corporate operations and processes; and (3) take on the provision of public goods or the restriction of public bads in cases where public authorities or other societal actors are unable or unwilling to fulfill this role.

7. Responsible finances

Sinful pleasures

An exciting book was published in America in 2004 with the title of *Investing in Vice: The Recession-proof Portfolio of Booze, Bets, Bombs, and Butts* (Ahrens, 2004). The author, Dan Ahrens, had earlier rather successfully managed a fund attracting significant attention. Following the publication of the book, he started a media campaign promoting investments in sinful pleasure — he advocated the idea that 'sin pays' in numerous TV shows, articles and interviews. He claimed that the financial results of companies active in the sinful pleasure industry by far exceeded those of the largest US corporations active in the traditional industries measured by the Standard & Poor's index. The following year Ahrens quit his position as CEO of the Vice Fund in order to start his own business with the aim of monetizing sinful pleasures.

The story of Vice Fund started on 30th August, 2002 when the new, innovative fund was registered by the US stock exchange authority. This fund differed from the many thousands of other small funds: it wanted to forge capital from human sinful pleasure – in the strictest sense of the word. "No matter what the economy's state or how interest rates move, people keep drinking, smoking and gambling," said Ahrens in 2003 (Ahrens, 2004). The Dallas-based small fund, Mutuals.com agreed in the second half of 2001 to set up a new, unique fund. The premise was that the financial performance of industries based on sinful pleasure – alcohol, cigarettes, gambling and sex – exceeded the results of traditional industries, therefore investing exclusively in these industries carried the promise of significant success in the market. The rule for choosing the investment portfolio was that 80% of the financial resources of the fund had to be kept in the shares of large corporations operating in the four 'sinful' industries – alcoholic drinks, cigarettes and tobacco; gambling; and defense/armaments – and that 25% of the turnover of the targeted corporations had to come from these products/services. The fund was launched with a capital of 44.5 million dollars, its CEO was Dan Ahrens and the background was provided by Mutuals.

The sinful fund immediately raised media interest, especially in view of the fact that since the early years of the century financial funds and institutions that directed investors towards responsible investments had received significant attention. By 2002 the value of investments in responsible investment funds reached 2.15 trillion dollars, which meant a 7% increase compared to the previous year, while traditional portfolios managed by professional organizations yielded a 4% drop in value. In 2002 1.5 billion dollars streamed into responsible investments, on the other hand general funds lost 10.5 billion dollars in the same period. Thus the sinful fund provided an interesting – though tiny – basis for comparison in relation to traditional and responsible funds. In the first year of its operation Vice Fund performed better than the S&P 500 index by 3.4%, but due to the 2% management fee it could not offer a substantial profit for its investors. The share portfolio (Boeing, Altria/Phillip Morris, Reynolds, MGM Resorts, Galaxy Entertainment and Diageo) consisted of long-term, non-volatile and relatively low risk shares of large corporations. The detailed analysis of the fund proved that, compared to similar funds and the S&P indicative for the general performance of large corporations, it still showed a better performance at a lower risk. Research proved that sin – in certain cases – really paid well (Bernardin & Dumoussaud, 2013).

At the same time, the story of Vice Fund is not void of dramatic turns. In 2004 the US Securities and Exchange Control (SEC) started an investigation against the management of the company: CEO Richard Sapio, President Eric McDonald and the compliance officer Michelle Leftwich. The investigation proved that the management carried on insider trading, they did not keep to time limits in handling assignments which they often registered after information about targeted investments had already become publicly known, thus – by backdating assignments – realizing benefits for themselves and their clients. Their guilt was proven and they were fined hundreds of thousands of dollars besides being suspended from working and participating in any professional financial services. As a result, the founders of Mutuals left the company. Although the transactions investigated did not take place in Vice Fund, in 2004 Ahrens left the fund in order to independently carry on exploiting the benefits of sin, primarily in the casino industry. So: sin sometimes does pay, at other times – especially when it is coupled with offences – it does not. In an interview, Ahrens said that he did not simply intend to invest in companies operating casinos, but especially in those corporations which aim at preventing the even greater human sins: companies that develop and sell theft-preventing security equipment to casinos (Lubove, 2006). Vice Fund was renamed Barrier Fund in July, 2014 because the standpoint of Gerry Sullivan, who followed Ahrens as fund manager in 2011, was that their aim was to “raise assets and not raise eyebrows” (Damato, 2014).

The history of responsible investment

Ethical questions in connection with financial investments have for long occupied the minds of those working with money. Basic religious documents (the Old Testament, the New Testament and the Koran) contain rules for the ethical handling of money which were most probably rooted in the customs of the time. In the seventeenth century, the Quakers rejected making profits from the arms- and slave trade. At the Quaker meeting in Philadelphia in 1758, a resolution was passed in terms of which Quakers would not be allowed to take part in buying and selling slaves. The founder of the Methodist Church, John Wesley (1703-1791) said in his sermon titled ‘About the use of money’ that no damage must be caused to fellow human beings through business activities and no investments must be made in industries which harm health (Wesley, 1983).

The first fund in the modern sense which did not use a merely financial control mechanism was the Pioneer Fund established by Philip Carret in 1928. Here, for the first time, ethical filters were applied when evaluating a given investment. Carret, friend of the legendary investor from Omaha Warren Buffett (and one of the investors in Buffet’s company, Berkshire Hathaway), met Buffett’s father back in the forties of the previous century in connection with an investment in Omaha. He was often referred to by Buffett as “one of my heroes” from whom he learnt a lot (Whyatt, 1998). Carret – who remained an investor until his death at the age of 101 – set up the fund for Lutherans with the condition that no investments were allowed to be made in companies dealing with alcohol and tobacco products.

In the fifties and sixties, the pension funds of US trade unions used investment strategies which also took social aspects into consideration during their investments, i.e. some funds invested primarily in the health and home building industries. The truly first ethical fund was set up in the early seventies – also with a religious background, namely the participation of the Methodist Church – as a consequence of the protests against the Vietnam War. The Pax World Fund, established in 1971, used ethical filters in order to prevent any investments being made in companies that had any connection with the war or with the arms trade. It followed that in the second half of the seventies, as a result of international protest against the apartheid regime of South Africa, large international funds prohibited investments in South Africa or in companies in that country.

As a consequence of ecological tragedies and corporate ethical scandals discussed earlier, more and more funds were set up which clearly defined, whether in a negative or positive sense, exactly what type of corporations the money of investors could be invested in. By the early years of this century, the number and size of the portfolios of Socially Responsible Investment (SRI) funds grew exponentially. In 2014 in the US the amount managed by SRI funds exceeded 6.5 trillion dollars, which was 18% of the total professionally managed investment portfolio. Between 1995 and 2014 the managed amount grew tenfold, with a money volume increase of 13.1% p.a. in SRI funds. While in the most developed financial market, the US, nearly 20% of investment money is managed by SRI funds, this ratio is around 15% in Europe. This growth was significantly facilitated by the changing regulatory environment. The first government level regulation compelling pension and public purpose funds to disclose both their investment policies and the extent to which they take social, environmental and ethical goals into consideration when making investment decisions was passed in the United Kingdom. In 2000 the British Parliament sanctioned the modification of the Pension Act, which explicitly prescribed that the pension funds in their Declaration of Investment Principles had to disclose "the extent (if at all) to which social, environmental and ethical considerations are taken into account in the selection, retention and realization of investments." (Renneboog et al., 2008, p. 1727). Similar regulatory processes took place in other European countries. In 2002 Germany passed an Act in terms of which the pension funds "must inform the members in writing, whether and in what form ethical, social, or ecological aspects are taken into consideration when investing the paid-in contributions" (Renneboog et al., 2008, p. 1728). Responsible investment rules were implemented in Sweden, Italy, Belgium and Holland as well. Legislative changes and the ensuing positive expectations largely contributed to the spread of responsible investment funds in

Europe and the exponential increase of the amounts managed. Both the European and the American responsible investment forum named the growing demand on the part of institutional investors as the reason for this growth, noting that positive regulatory expectations and steps also helped the growth of responsible investment funds.

Responsible funds

Responsible funds are institutions of the financial intermediary system which endeavour to reduce the negative externalities of business operations by screening, controlling and supervising the known economic processes. Their aim is to prevent or to screen investments through which negative externalities become significant or remain unmanaged. Negative externalities can be based on principle: in certain industries negative externalities – often in excess of economic value creation – come about ‘naturally’ and as such these industries – the ‘sinful’ or ‘guilty’ industries – are by definition excluded from the circle of investments. In other industries negative externalities are measurable and manageable: the prime aim of responsible funds is to invest in industries and economic actors where negative externalities have been measured and efforts have been made to reduce them. Negative screening tries to exclude players which do not measure or do not do so properly; those who apply positive screening and other active tools support the reduction of negative externalities through tactical or strategic means. The point of departure of responsible funds is to create a – desirable, satisfactory or possible – balance between financial results and ecological, social effects. The goal of responsible funds is to achieve financial profitability while taking the value-creating potential hiding in the minimization of social impact into account or recognizing market opportunities stemming from responsible operation.

The most frequently raised issue regarding responsible funds concerns their financial performance compared to that of traditional funds. Since the emergence of responsible funds, many studies have dealt with such comparison. Analyses regarding the growth of responsible investment portfolios indicate that the prime mover of growth is not the difference in performance but the demand on the part of institutional and individual investors as well as the personal commitment of the staff of enterprises managing such portfolios. The principal reason for the growth of responsible investment portfolios is ‘grassroots market pressure’, meaning that both individual and institutional investors expect to an ever-increasing degree that their investments should comply with their personal values and – in the case of institutional investors – that these should contribute to the increase in their goodwill and reputation and fit in with assumed or real stakeholder expectations.

However, investors are only one part of the market. The other part is made up of targeted corporations, which increasingly recognize that – in the early stages – a turn towards SRI funds and compliance with their principles may offer investor benefits. Later – with the growing number of responsible investment funds and increased monetary resources managed by them – adhering to SRI principles and expectations means falling in line with the mainstream of the market. As a consequence, a mutually supportive process of growth commences in which the personal commitment of the players in the investment market, the number of funds and the growth of investments managed create the desire for compliance which, together with the change in the regulatory environment, leads to the promotion and strengthening of the SRI market (Wallis & Klein, 2014).

The performance of the responsible funds

In the past decade a great number of studies dealt with the comparison of the performance of traditional and responsible funds. As Wallis & Klein (2014) show in their extensive and structured literature review, numerous meta-analyses were utilized and various tools were used, yet research – in the course of comparing performance measuring results – has not proved that the performance of responsible funds would be better than that of traditional funds, nor is there any overriding and convincing evidence to the contrary. This confirms Milton Friedman's bon mot, according to which "[i]f people want to invest that way, that is their business. In most cases such investing is neither harmful, nor helpful" (Laufer, 2003, p. 165). It seems that responsible funds perform slightly worse in the short-term, while in the long-term and overall they perform somewhat better than traditional portfolios.

There are three different assumptions with three different explanations. According to the first assumption, the performance of responsible funds equals that of traditional funds. This is explained by the fact that investors, should they want to sell their investment, will always find sufficient traditional buyers and as such the market does not pay a premium for their investment, while research has not proved that the financial performance of responsibly operating companies would be any better than the performance of companies not operating responsibly. It is true that some studies show a positive corporate level comparison between the slightly better performance of responsible indices (Dow Jones Sustainability Index, FTSE4Good) and the traditional stock exchange indices (S&P 500, NYSE), however the correlation between cause and effect is still unclear. Corporations managing their stakeholders consciously and doing justice to their social, ecological and ethical duties are generally well-managed corporations, therefore it is not clear whether their better performance is due to their more conscious, strategic and planned management or to responsible operation. According to the second assumption performance of the responsible funds is lower than that of the traditional ones, which is attributed to higher operating costs (such as screening, more thorough selection and control), and the narrower allocation possibilities and smaller market, which negatively influence the value of the portfolio. Not to mention that stockholders of traditional portfolios can put together exactly the same portfolios as those of the SRI funds, while this is not possible vice versa. This means a market advantage for traditional funds. According to the third assumption SRI funds surpass traditional funds. This may be explained by the fact that news related to environmental damage caused, violation of social norms and ethical scandals may from time-to-time unduly reduce the value of traditional portfolios, thereby giving SRI portfolios a competitive edge. Similarly, the targeted investments underlie a stricter scrutiny which may also involve a deeper investigation of the financial performance and prospects of the corporation – this can also contribute to value expansion exceeding that of traditional funds predicted by certain studies of SRI funds (Wallis & Klein, 2014).

The process of responsible selection

Responsible funds use different methods to select their investment targets. Many of them do not use one single method but a mix of various methods, screens and processes. The most basic selection criteria that funds use are the screens. Screens are specific criteria that help select non eligible candidates from a possible universe of investment targets. (Kinder & Domini, 1997). Negative filters involve an investigation which excludes from the investment portfolio companies operating in certain industries, regions or countries or certain kinds of operations. Traditional negative filters relate to the ‘sinful’ industries – alcohol, tobacco, arms, sex and gambling – but negative filters can also relate to different negative scripts of sustainable or stakeholder performance, from the high number of workplace accidents to the practice of non-ethical cooperation with suppliers or the non-effective management of consumer complaints. If the examination is based on industry affiliation, by using negative screens it can be determined what proportion of the turnover has to come from negatively assessed industries for the corporation to be excluded from the portfolio. Of course, special funds may use specific negative screens based on religious, ethnic or other ethical principles if investors in these funds demand or accept such screens.

The basis for positive screens is the disclosure of responsibility-related principles and authentic information regarding their practice, as well as the application of ESG (Environmental, Social and Governance) principles in corporate operation. From the perspective of the funds, these principles can be laid down in the statutes of the fund or they can be determined in a directive by the owners of the fund. As regards responsible operation, positive screens may be general or limited to certain areas – ecological footprint, social impact or emission –, while they also may be tied to certain ESG performance indicators. Similarly, there are funds which may require the audited disclosure of the ESG principles and an active and systematic dialogue with stakeholders based on the disclosed information. Positive screening is often complemented with the ‘best in class’ approach in the course of which the corporations in a given industry are ranked according to their performance relating to sustainability or some of its sub-aspects and only the best are selected as investment targets.

Negative and positive screens represent the first and second generation of the inquiry and decision-making procedure of the SRI funds. Today’s responsible funds use a combination of negative and positive screens, generally complemented with the ‘best in class’ approach. Third generation procedures are methods by which investment decisions are taken based on responsibility performance embodied in measurable and public performance indicators, reports, and certified by third parties. Fourth generation SRI tools complement the earlier tools (negative and positive screens, best in class and performance measurements) with stockholder activism. This means that the fund influences the corporation to include greater responsibility, better performance, and stockholder interests and values to the largest possible extent in the operation of the corporation. Stockholder activism is especially important because it uses responsibility for stockholder value creation beside the stakeholder one: the responsible performance of corporations targeted for investment is generally objectionable, and the stockholders' presumption of interest assumes that a change in responsible operation and stakeholder value creation through stockholder activism increases the value of the corporation thereby creating (financial) value increase for stockholder investors as well.

The different tools of responsible investment are basically political: partly they try to lessen potential environmental and social impacts stemming from the conflicts of the operation of the economy, i.e. from negative externalities; and partly they use institutions and methods which can and want to reduce these conflicts or influence the outcome of the conflicts. In the case of responsible investments, the prime goal is to make profits, either by eliminating conflicts brought about by negative externalities or by limiting these, by using tools and creating institutions which reduce the consequences thereof. While SRI institutions may engage in 'public deliberations, collective decisions and the provision of public goods or avoidance of public bads' their explicit aim is to meet economic expectations, with being mindful to contribute to society or enhance social welfare through applying screening processes, evaluating ESG performance or stockholder activism.

Social impact investment

The term social impact investment (SII) first appeared at the Bellagio Conference organized by the Rockefeller Foundation in 2007. Since then numerous studies and conferences have dealt with the topic. In 2013 a special section was devoted to it at the Davos World Economic Forum. More and more SII funds were set up and the initial few hundred million dollars managed in funds soon exceeded a billion dollars (Freireich & Futon, 2009). There are two basic forms of social impact investment: investments primarily aimed at social integration – including education, healthcare and areas of micro-financing – and investments in projects promoting ecological sustainability, with special emphasis on renewable energy, food production and sustainable agriculture, mainly in the developing world. Thus social impact investment operates with the 'explicit aim of contributing to society or enhancing social welfare' beyond economic motivations.

Social impact investment originally appeared as a criticism of donations and of the development trap in the second half of the nineties. The criticism relating to donations was, on the one hand, that projects supported by donations were unsustainable from the point of economic value creation and therefore, when donors withdraw from the projects they often come to a standstill – thereby putting the social goal and earlier invested money and energy at risk – and on the other hand, that the 'market' and the projects to be supported are to an ever-increasing degree created by goal determination of donors rather than by true social need or social impact. SII may be seen as SRI 2.0: the basis for selecting an investment is no longer the negative or positive screening of the traditionally operating corporation in the traditional economy but some – in the majority of cases measured on the social goal rather than on the return on investment maximum achievable in the market – social or environmental impact equal to the financial return on investment. It even happens that in the case of SII the goal is modified and the order reversed: the social impact becomes equal or primary, and the financial return serves the sustainability of the investment.

Some authors – like the Morgan Stanley study that first defined it as an independent area – speak of SII as an independent and growing investment category (Reeder & Colantonio, 2013; Alnoor & Rangan, 2014). SII can be viewed as an independent investment category because it requires specific investment strategic and risk management principles and an independent institutional structure for these principles and their practical implementation, and it also requires the setting up and application of new evaluation mechanisms, standards and benchmarks. The most important actors of the SII market are investment management organizations, funds, institutes and consultancies evaluating and measuring impact using standards, institutions for reporting and data collection, NGOs and corporations participating in the processes of supporting and strengthening social impact.

Social impact investment represents a new generation of managing externalities and the inclusion of the Triple Bottom Line criteria into corporate operation. Here, the operation is market-based, i.e. profits are a pre-condition while the goal of operation is to reduce negative externalities and to trigger and support positive externalities. SII institutions assume that negative externalities occur primarily in areas of the environment, while positive externalities may mainly be triggered in areas of developing human resources – education, healthcare and housing – and in areas of valuable and direct economic value creation – job creation and financial micro brokerage.

The two most frequently raised questions in connection with SII are – as is the case in examining the performance of responsible funds – the financial yield expectations from the investments and the modes of measuring the social impact complementing the yield. According to various organisations analysing and determining SII, whether an investment can be deemed to have a social impact does not depend on the size of the yield expectations. There are social impact investments which have similar return on investment expectations as those of high-risk investments, whereas there are those which value social impact higher than financial yields. On the other hand, there is an ever-increasing number of investors who – not least due to their fiduciary responsibility – expect and realize a yield that can generally be expected through their social impact investment (Grabenwarter & Lichtenstein, 2011).

Measuring impact is helped by various standards, tools of process management, indices as well as certificates and accreditations. This is in order to, on the one hand, lay down disclosure principles and to establish the expected processes necessary for achieving the impact and, on the other hand, to have corporate goals, activities and results measured by a stakeholder or professional third party. Social impact can be measured on results achieved – based on a pre-determined indicator – or on the process that leads to the desired and adequate social impact. These impact evaluation systems are stakeholder-focused: whether they look at the result or the process, their point of departure is that "Value is created when business adds to the capital or well-being of its stakeholders. It is destroyed when a business reduces their capital or undermines their well-being" (Laszlo, 2008, p. 120).

Following the 2007 Rockefeller Foundation conference, concerned investors and organizations set up the Global Impact Investment Network (GIIN) to assist organizations, corporations and NGOs in becoming more efficient in meeting environmental and social challenges by promoting investments. The establishment of the organization was announced at the Clinton Global Initiative conference in 2008. Since then the organization has been supporting entities and individuals active in social impact investment with research, with a uniform standard (IRIS) helping investors and other stakeholders, and with educational and training material. Parallel to this initiative, the movement of ‘B (benefit) corporations’ got underway in the United States. The aim of these corporations and their movement was – based on a system of evaluation criteria similar to that of GIIN – to have ‘B Corporations’ recognized by the various legislative bodies. This would allow their managers to carry on stakeholder value maximizing activities taking stakeholders’ interests and values into account besides their fiduciary responsibility aimed at maximizing profits for their stockholders. Legislation relating to ‘B corporations’ has so far (end 2017) been enacted in thirty three states of the US[3]. The significance of the regulation is that ‘B corporations’ are not defined according to a uniform standard approved by the state, but that it provides corporate leaders, stakeholders and – separately – stockholders with the opportunity of adopting any of the approved and disclosed standards and directives (GRI, GIIN, etc.) prepared and certified by third parties, thereby becoming ‘B corporations’.[4]

Responsible banks

The prime objective of responsible funds, operators of social impact investments and ‘B corporations’ is to screen and limit negative social or ecological effects stemming from business operation and to promote positive social impact with the help of investments – i.e. the incorporation of stakeholder interests and values into business operation. This is one of the possible responsible manifestations of the financial intermediary system: allocating capital through investments. At the same time, for the successful operation of the economy, the effective and responsible functioning of the whole financial intermediary system is indispensable: the system provides the financial means necessary for economic activities, collects and allocates idle financial

[3] For the actual status of states with laws for B corporations see: http://benefitcorp.net/policymakers/state-by-state-status
[4] The approved list of standards can be found at: http://benefitcorp.net/third-party-standards/list-of-standards

assets (savings) in the interest of a more effective functioning of the economy in various ways not limited in time or space. This carries substantial moral hazard in addition to negative externalities. Moral hazard stems from the fact that the collection and reallocation of unused capital, not limited in time or space, happens amidst significant information asymmetry, putting the players of the transaction and their environment at incalculable risk (partly unknown due to information asymmetry, partly immeasurable due to the complexity of interactions). The regulation, supervision and control of the financial intermediary system attempts to contain moral hazards and systemic risks. However, moral hazard cannot be eliminated through a control and regulatory system that primarily serves aspects of profitability and effectiveness, since it is screening system level financial risks and moral hazard stemming from information asymmetry in order to secure the stability of the system.

Besides system level moral hazard, individual moral hazard – for the screening of which the control system is not suitable – appears ever more often. Managing these individual moral hazards on a system level requires decision-makers to take steps that lead to banks pocketing profits, while taxpayers take the bills. The 'Too Big to Fail' principle, in which taxpayers have to bail out banks, leads to further moral hazards since it suggests to bankers that they may take incalculable risks and will still be bailed out. Following the 2008 financial crisis, and in some cases even earlier, financial institutions themselves recognized that – due to the extremely important role that financial intermediaries play in the economy – managing moral hazard and negative externalities, taking positive social impacts in the course of operation into account, and including stakeholder interests and value in business operations is a priority for financial institutions.

Looking at the above one might think that responsible banking is a modern phenomenon. However, at the dawn of the Industrial Revolution social financial institutions were set up for the prohibition of usury and the avoidance of usurers. Religious ethics of the time laid down exact rules for lending money. It was a pre-requisite for getting a loan that the debtor had to be hard-working, responsible towards their family and environment, and prepared to take a personal risk. It was not allowed to lend money for luxury purchases: that was the territory of the 'loan shark' usurers. The Monte di Pieta organization, brought to life by the Catholic Church in the sixteenth century against usurers to lend money to the poor and destitute on a non-profit basis, formulated the following principles: loans are to be given primarily to members of the local community or to people with close local links; loans should be relatively proportionate to the guarantees offered; beneficiaries need to be involved in social activities; oaths to be taken by beneficiaries that they are taking the money for necessities, and there was an acceptance of voluntary deposits remunerated at interest rate (Milano, 2011). During the Industrial Revolution in the second half of the eighteenth century, more and more credit and banking societies, initiated by local communities for the personal financial development of the members of the community, were founded to secure the financial needs of their members – mainly middle class citizens and better-off workers. Credit societies collected deposits from their members and invested these in the local economy (Weber, 2011). The first credit society in the United States was established in 1816 (Milano, 2011). These credit societies and local communal banks became the model for the ethical social banks in the twentieth century.

Social and ethical banks

The basic philosophy of social and ethical banks can briefly be summarized as financial institutions being 'banks with a conscience'. Their prime goal is to include sustainability – financial, social and ecological – in decisions related to financial processes. Their investment policies, risk management and screening criteria do not differ from those of responsible funds. These banks take ESG aspects into account when making lending or investment decisions, and they use positive and negative screens to filter negative impacts, to support and promote positive social effects. Besides acting with the aspects of environmental and social sustainability in mind, these financial institutions put special emphasis on the development of borrowers, on increasing the financial awareness of underbanked groups, and on reducing financial segregation. This purpose is served by the various micro-lending and micro-financing tools introduced and operated, as well as the expansion of responsible lending, and furthering of financial awareness. Micro financing does not merely mean the lending of small amounts but also helping and supporting borrowers in order that repayments and the small, livelihood-ensuring enterprises can continue.

In Europe there are a number of social banks among the most important financial institutions. Their balance sheet total exceeds 10.5 billion euros and they produce an annual growth of 13-15% compared with the 1-3% growth rate of mainstream banks. According to prognoses, social banks will provide banking service to more than one billion people by 2020 (Benedikter, 2011). The most significant such institutions in Europe are the German GLS Bank (Gemeinschaft für Leihen und Schenken), the Dutch Triodos Bank, the Italian Banca Etica, the Swiss ABS Bank and the Danish Merkur Bank. These financial institutions founded the Global Alliance for Banking on Values (GABV) in March 2009 so that "trends can be set to change the boundaries of mainstream finance, and contributions can be made to the growth and development of social innovation in the financial sector. The Alliance is a global alliance of innovative banking institutions, focused on delivering social finance products and basic financial services, while financing community based development initiatives and social entrepreneurs thereby fostering sustainable and environmentally sound enterprises, and fulfilling human development potential including poverty alleviation, while generating according to a triple principle: for People, Profit and the Planet" (Benedikter, 2011, p. 2). Similar goals were formulated by the International Association of Investors in the Social Economy (INAISE) founded back in 1989 that organized the small financial organizations, communal banks and credit societies into a group.

The economic crisis further strengthened consumer demand and support for the ethical social banks. Already prior to the crisis, international civil organizations believing in the importance of ethical banking accepted a common declaration about the principles according to which financial institutions should operate in the future. The Collavecchio Declaration was accepted in 2003 at the Davos World Economic Forum. The premise for the declaration was that financial institutions have played a role in irresponsibly channeling money to unethical companies, corrupt governments, and egregious projects. […] However, most financial institutions do not accept responsibility for the environmental and social harm that may be created by their transactions, even though they may be eager to take credit for the economic development and benefits derived from their services. […] Similarly, the vast majority of financial institutions do not play a proactive role in creating financial markets that value communities and the environment. […] For example, during financial crises, financial institutions have charged indebted countries high risk premiums while at the same time relying on public bail-outs. They have spoken out against innovative solutions to the debt crisis […] their voice has been absent in efforts to address tax havens, a problem that blocks progress towards equity and sustainability" (Collavecchio Declaration, 2003). The declaration lays down six commitments which financial institutions should ideally adhere to. These are: commitment to sustainability, commitment to 'do no harm', commitment to responsibility, commitment to accountability, commitment to transparency, and commitment to sustainable markets and governance**.** It also names the first steps necessary for putting these principles into practice. The declaration urges financial institutions to build stakeholder interests and values into their business operation, to reduce information asymmetry and the risks of negative externalities stemming from it and to try to manage moral hazards due to unsustainable and unethical operation.

The 2007/2008 crisis amplified the demand for the implementation of the principles formulated by the Collavecchio Declaration and for regulatory intervention. One of the important causes for the crisis was that in 2006 more than 160-190 thousand billion worth of dollars liquidity was looking for investment opportunities (Kimmit, 2008; Kaufer, 2010). This huge free liquidity (by comparison: global GDP is 52 thousand billion dollars) did not only dramatically overheat the market but 'naturally' found its way to poisonous financial products. After a while maintaining the level of placing assets was only possible by taking dramatic risks. This lead to unmanageable moral hazards and later to terrible negative externalities – primarily swallowing tax payers' money. At the same time, existing regulatory tools and institutions made the controlling of processes and prevention of risks build up impossible – not least of all because of the multi-level yet non-democratic stakeholder interests and bonds between the regulators and the financial institutions (Kwak & Johnson, 2010). The non-democratic, asymmetric and oligarchical regulatory system, which excluded certain stakeholders from processes of information flow, influencing, cooperation and regulation, made it impossible to keep processes under control, while the costs of the negative externalities had to be carried primarily by exactly these groups.

The politics of responsible finances

Challenges of risk society (Beck, 1986), the power and legitimacy of oppressive discourses striving for exclusivity (Foucault, 1999) and the importance and readiness to take dramatic moral risks during crises of the financial intermediary system indicate that there is a need for a new politics of responsible financial management. The need is not for giving up competition and economic meritocratism, but for what authors such as Scharmer (2010) call ‘Capitalism 3.0’. This creates the institutional framework and channels for equality-based discourse for the stakeholders in order for negative externalities and moral hazards to become manageable and reduced to a minimum in a democratic way. This means both the ‘reoccupation of a part of the commons’, and the creation of commons which counteracts the risks of negative externalities, may reduce inequality or represent the interests of future generations (Barnes, 2006). But there is more to it: there is a need for rethinking the political economics of capitalism; this could be capitalism 3.0 (Scharmer, 2010).

Looking at it from the angle of responsible operation and sustainability, capitalism 1.0 – the traditional free competition that followed the Industrial Revolution – brought about huge economic growth, along with dramatic externalities, unmanageable inequality and poverty, and environmental and social damage. Capitalism 2.0 – from the same angle – meant regulated competition based on a liberal democracy where regulatory institutions and processes representing stakeholder interests – institutions of legislation and supporting democratic participation, trade unions, institutions of the welfare state, public services supporting human resources, supervisory bodies controlling financial and economic processes and central banks – tried to reduce the effects of negative externalities. Capitalism 2.0 had its limitations: on the one hand, it only really functioned in OECD (or developed) countries, and on the other hand, it could only handle a part of the negative externalities. Inequality of wealth and income distribution kept growing, quality of life and perceived well-being did not increase, crises deepened and the impact of their consequences became wider spread (Stiglitz, 2012; Piketty, 2014). Capitalism 3.0 – in the words of Scharmer – is an “intentional and inclusive ecosystem economy that upgrades the capacity for collaboration and innovation across all sectors and systems” (Scharmer, 2010, p. 5). Capitalism 1.0 was an ‘ego system’, a self-interest driven economic system in which growth and efficiency were the result of the self-interest driven actions of players. In capitalism 2.0 it was the invisible hand of the market that was meant to limit unbounded self-interest complemented by some selected and efficiently organized stakeholders who were therefore capable of setting limits, with the political elite representing the interests of ownership and ruling state regulation, with labour rights representatives of organized trade unions and later with issue-guided and globally organized NGOs. However, capitalism 2.0 was not able to put up enough barriers against overpowerful stakeholders' forcing through their interests and the negative externalities stemming from this, and against the dramatic impacts of moral hazards that hit stakeholders without information and political representation – mainly future generations (Kaufer, 2010). Capitalism 3.0 must be a politically directed ecosystem where stakeholder self-interest assertion by some stakeholders is effectively limited by a way of thinking that takes into account the collective viewpoints of the sum total of stakeholders operating in the system as a whole. Ego-system thinking must be replaced by ecosystem consciousness (Scharmer, 2010). Ecosystem consciousness requires that stakeholders recognize that the perspectives of the sum total of stakeholders must be made apparent when making an individual decision, thus externalities must be internalized (Greenwald & Stiglitz, 1986; Endres & Fraser, 2010), and political institutions and processes must be created which radically reduce information asymmetry and enhance the involvement of groups without organized interest representation – among others the future generations – or reduce the possibility of their exclusion. Part of this is the development of the systems of cooperation: the institutionalization of spaces for public dialogue which makes it a condition for the legitimacy of decisions that all stakeholders, or organizations legitimately representing the interests of all stakeholders, participate in such decisions to the greatest degree possible, and the creation of methods for social will-forming where the process itself ensures the internalization of negative externalities. The implementation of third generation, fundamental social rights must be part of these processes. These must go beyond the necessarily (power politically determined) unequally utilized public services and public political institutions, for example, manifested in an unconditional basic income (van Parijs, 1995).

In all this, the role and responsibility of the financial intermediary system – as economic and social actors with the most effective and most significant resources – could be of key import. Financial system 1.0 strove exclusively to support stockholders, their interests and common profit maximization. Following Piketty (2014) – growth of labour is lower than growth of capital – actors of the financial system were, based on self-interest, right when they formed an alliance with stockholders in the interest of value increase and profit maximization. Negative externalities develop in weak stakeholder groups, especially in future generations which are unable to voice their opinion now, yet will presumably have to carry the costs of ecological damage. Financial system 2.0 recognized that stockholder-financial interest assertion must be limited because the processes create unmanageable risks, as was underlined by the 2007/2008 financial crisis. Besides, financial organizations appeared which – as part of their strategy of self-interest enforcement – suggest and support the inclusion of stakeholder interests and values in business operation (Kaufer, 2010). This, however, is still not the ecosystem way of thinking. Financial system 3.0 – the politics of responsibility and the institutions of stakeholder democracy through the operation of the financial intermediary system becoming operative – will come into effect when the entirety of the financial intermediary system will be ruled by the common desire for shared value creation and the legitimacy of its institutions and decisions. In order to achieve this, our focus should be directed at complex wellbeing and quality-of-life based value creation rather than at economic value creation as a basis for growth measured in monetary terms. It also seems necessary that GDP as the prime indicator of economic growth, i.e. the measuring system for monetized social transactions, be exchanged for a complex accounting and indicator system primarily measuring the common and equal growth of human and economic capital (Stiglitz et al., 2008). The seeds of this and of the financial system 3.0, taking the interests of every stakeholder of the financial system into account, are to be found in the funds and institutions – primarily in the social and ethical banks, and social impact funds – whose main goal is to reduce negative externalities and to maximize social impact. The purpose of their profit is the sustainability of impact maximization and not the continuous increase of profits.

8. RESPONSIBLE RESEARCH AND INNOVATION

The State of the Union

On 13 September, 2017 President Jean-Claude Juncker delivered his regular State of the Union address in the European Parliament. The speech was presented at a momentous time for the European Union. Under Juncker's watch the Union has gone through a series of crises: Brexit, the refugee influx, the emergence of the far right in several countries and some member states, Poland and Hungary, introducing policies that explicitly contradict the shared values of Europe. According to one of the founding fathers, Jean Monnet, "Europe will be forged in crises, and will be the sum of the solutions adopted for those crises" (Monnet, 1978, p. 417). Acknowledging Monnet's dictum, President Juckers did not address the crises but the opportunities that lay ahead of the Union: "The wind is back in Europe's sails. But we will go nowhere unless we catch that wind. (…) We should chart the direction for the future. As Mark Twain wrote, years from now we will be more disappointed by the things we did not do, than by the ones we did. Now is the time to build a more united, stronger and more democratic Europe for 2025" (Juncker, 2017).

The State of the Union was, actually, a follow up to the document released earlier in 2017 addressing the future of Europe. In that document five scenarios for Europe were presented from offering a more limited Union as an economic merger to a full union of the United States of Europe. The document was offered in a format that all future EU scenarios were supported by illustrative snapshots showing readers what that scenario will entail in 'real life'. There is only one theme that runs through all illustrative snapshots: European policies and deployment of connected autonomous cars. Connected cars illustrate how European flows of people, goods, and capital will be disrupted by most of the scenarios and how they would flow unobstructed if the favoured 'Doing much more together' would prevail. Juncker in his State of the Union picks up on this theme not only by claiming that he is presenting a 'sixth scenario' for the future of Europe, but also by endorsing openly a car dominated future "regime of automobility" (Böhm et al., 2006, p. 2-4). One of the key political initiatives proposed is his claim "to make our industry stronger and more competitive" (Juncker, 2017, p. 3.). This is significant, as Juncker asserts, because "they make the world-class products that give us our edge, like our *cars*. I am proud of our *car industry*" (p. 3. my emphasis).

The State of the Union speech by the President is a ritual political act offering a 'status report' on the assumed and politically desired shared understanding of the state of affairs, as well as it is a performative claim about the common desirable future told from a position of power. The State of the Union is actually 'word-making' (cf. Jasanoff, 2015): there is a list of upstream proposals and suggestions of what is bureaucratically doable and strategically desirable from the policy apparatus and other key stakeholders, which is then filtered through the politically attractive and performatively advantageous by the political staff and the leader's team. Once uttered, the performative act is soon transduced into downstream policy action in innovation funding programs, regulatory measures and new institutional structures. All the words in the Juncker speech on industrial innovation, carefully selected, support the act of 'world making': "world-class" artifacts encapsulating the excellence of European innovators, offering the union an "edge" in the competition between communities.

Research and innovation in mobility is, clearly, focused on the concept of the car. The car was both a blessing and a curse in the 20th century (cf. Featherstone et al, 2004) creating what John Urry (2004) calls the 'system of automobility.' The "steel-and-petroleum car" enabled "the car-driver to travel any time in any direction along the complex road systems of western societies that link together most houses, workplaces and leisure sites" (Urry, 2004, p. 28.). It 'strapped' the driver and passengers into armchairs, surrounding them with sources of information and pleasure (Urry, 2006). The system of automobility created an arrangement of fluid interconnections in which autonomous humans combined with machines acquired a capacity for free movement along the paths created for the purpose (Thrift, 1996; Urry, 2004). The 20th century may be called the century of the car.

With advances of mobility technologies, artificial intelligence, the emergence of autonomous and connected vehicles, in the 21st century a new post-automobility system may emerge in which the system of automobility gives way to a more liquid technology arrangement (Bauman, 2007; Sheller, 2004) of mobilities populated by interconnected, autonomous smart 'mobility-things' (Hansson, 2015). 'Vehicular cyberization' (Sheller, 2004) has been happening at a growing pace since converging infrastructures of transportation and information were created in the last decade of the previous century. Post-car mobility may transform the "car": new materials, new forms of propellants, new interior and exterior designs emerge recreating people and object carrying mobility things. Post car mobility things may also rearrange desires, inhabitations, socialities as well as urban 'scapes' and vice versa (Urry, 2004; Sheller & Urry, 2000; Sheller & Urry, 2006; Sheller, 2004).

It is not accidental that European futures and cars are so connected. Research and innovation, investment in new technologies lay at the heart of European competiveness, as "innovation is at the basis of transforming the EU into a knowledge based economy" (Moedas, 2016). This agenda, promoted by many, is most forcefully driven forward by the European Round Table of Industrialist. The European Round Table of Industrialists (ERT) is a forum of leaders of European companies with combined revenues exceeding €2,250 billion. This group, of about 50 Chief Executives and Chairmen of major multinational companies of European parentage covering a wide range of industrial and technological sectors, since its conceptualization has been in the forefront of the research, innovation and competiveness debate. In the transport and mobility arena, given that the members comprise of the biggest manufacturers of transportation and mobility infrastructure unsurprisingly, they have been pushing European infrastructure and spatial policy that enabled an integrated network of modern high-speed roads, railways and other physical and virtual infrastructure across the European continent between the 1960s and 1980s (Jensen & Richardson, 2004). ERT is in discussion with the commission on a regular basis (according to lobbyfacts.eu, an independent lobby transparency site, ERT met European Commission officials 51 times in 2016) and seeks to contribute pro-actively to the debate on policy priorities and long-term policy direction. ERT involvement in innovation and policy has a direct impact on how sociotechnical imaginaries (Jasanoff, 2015) of mobility are formulated and how certain technologies, like the automobile, are locked in by European power discourses.

Juncker's speech and the White Paper on the Future of Europe represent power discourses that frame research and innovation; they not only perform potential political visions but also animate techno-social futures. These futures are created through, open and hidden, performances and interactions of power, of techno-social visions and of sociotechnical imaginaries; they are also shaped by our key concepts of how research and innovation is conceptualized and regulated. Technology is not a blank slate as it is not only a driver for competiveness and job creation. The car as technology in the 20th century created socialities of commute, family life and community (Urry, 2004); opened up or closed down visions of the future, locked in technologies as well as urban scapes. Thus, research and innovation in automobility, as in many other territories, is far too important for our common social future to leave it in the hands of innovators, politicians or businessmen only.

Knowledge as a public good

Many think that technology develops through its internal dynamic and then, without any other influence, shapes society to fit its designs (Winner, 1986). Others believe that the role of research and innovation is to bring technology fixes for the main challenges facing contemporary societies (see critically: Kuhlmann & Rip, 2014). Again, others are raising basic questions about the goal and purpose of science based innovation; the pathways in which specific technological options are foresighted on implicit suppositions and value judgements that are open to being challenged and contested; the need for recognizing and deliberating alternative techno-social avenues that are effectively excluded by those currently endorsed, and the possibility of imagining different futures and different ways of doing research and innovation to get there (Raman & Mohr, 2014).

Innovation, or rather knowledge that forms the basis of or is created during the innovation process, is a classic public good. Knowledge, information, and ideas are non-rivalrous – the consumption of one individual does not detract from that of another –, and non-excludable – it is difficult or impossible to exclude an individual enjoying the good –, thus satisfying the two critical properties defining a public good (Samuelson, 1954; Stiglitz, 1998; Verschraegen & Schiltz, 2007). While knowledge, information and ideas are public goods, technologies for disseminating information or artifacts, designs encapsulating knowledge and ideas are not. While it would be hard to exclude someone from learning Joseph Stiglitz’s concept of knowledge as public good, his book written together with Bruce Greenwald ‘Creating a Learning Society’ is a private good and is sold on the market. While the line between knowledge as public good and specific pieces of knowledge as private goods is clearly defined by intellectual property and patent regulations, the nature of a ‘knowledge good’ may change over time. Some dissemination technologies lose their private nature after a certain time; also authors may choose to give up their private rights and make specific knowledge semi-public through ‘open access’ or creative commons regulations. It may happen the other way around: television broadcast was aired as a public good until television wave scrambling was made possible; now some programs may only be seen for a fee (Verschraegen & Schiltz, 2007).

Research, innovation and the provision of public goods are closely connected. In H2020, the 8th framework program for research and innovation funding in the EU, 28% of research funding went to corporate entities, making this sector the second largest beneficiary of public contributions to research and innovation after higher education institutions (EU webgate, 2017). Scherer (2017) therefore rightly notes that "exploring the conditions and contributions of responsible innovations" (p. 8) should be among the areas where political CSR research is to make contributions to better understand corporate strategies and underlying normative or descriptive concepts. Political CSR is concerned with the corporate provision pure public goods (Scherer et al. 2016). However, public/private good transitions may also happen by public deliberation and collective decisions. Policy decisions may lead to rival goods being made non-exclusive like education or healthcare; or non-rivalrous when copyrighted knowledge is offered as openly accessible. The challenge is to find the right balance between knowledge/innovation public/private good ratio.

Innovation, of course, is a complex economic concept. From a microeconomic perspective, innovations (both product and process) may help companies better compete on the market: process innovations reduce marginal costs of production; product innovations minimalize elasticity (and thus increase price and maximize profits) because of the lack of available substitutes. Therefore, unsurprisingly, companies are not particularly interested in making their new knowledge/innovation become public goods. Also if new knowledge is not marketable (because it is non-excludable), companies will not be incentivized to innovate, therefore they will underinvest in innovation, which, in turn will lead to market failure: the undersupply of innovation by corporations (Arrow, 1962). There are also other market failures. It may be the case that innovation remains a private good with positive externalities. It is hard for corporations to stop other companies use ideas that are, or cannot be, patented; thus innovation spillovers will save innovation costs for competitors. This again will lead to underinvestment and undersupply, as not all investments in innovation may be appropriated from potential users. Another reason to innovation related market failure is the indivisible and uncertain nature of costs of innovation. Innovation projects have major up-front fix costs, while in most cases such costs are not compensated by revenues or pay off only in the long run. Any innovation exercise carries an element of potential failure, thus uncertainty, to really generate new knowledge and potential user take-up; this again may lead to underinvestment in innovation activities. Market failure may also stem from what is called the 'patent race' when companies are working towards the same innovation but the winner takes all the returns once IPR protection is granted. These market failures need to be dealt with, since as Arrow (1962) notes "in a free enterprise economy the profitability of innovation requires a suboptimal allocation of resources" (p. 616-617). Intellectual property rights (IPR) originating from a Coarsean appropriation of property rights are powerful, even if challenged, ways of dealing with issues of excludability. Appropriating property rights in the form of IPR, however, creates a thin line for IPR theory; to walk the line IPR law tries to preserve adequate incentives for companies to innovate while avoiding the gift of excessive monopoly power, which leads to socially inefficient exploitation of the created knowledge/innovation. Tradeoffs between strong and weak IPR regimes as well as the benefit of alternative regimes, such as prize systems, are widely and continuously discussed in both academic and policy literature (cf. Halls & Helmers, 2010; Brandstetter et al., 2010; Stiglitz & Greenwald, 2014; Sweet & Maggio, 2015). Public funding of basic research is a way to deal with appropriation and uncertainty. The system of public funding for universities doing basic research originated from Vannevar Bush, former MIT vice president, dean and president of the Carnegie Institute. He was tasked to design an apparatus that could fund science in the postwar years; Bush penned the historic report 'Science: the endless frontier' which became the basis for the National Science Foundation in the US (Bush, 1945). Public funding was extended to private firms creating a form of Pigovian subsidy to compensate for the positive externalities of innovation benefiting other companies. A reverse process was initiated by the Bayh-Dole Act of 1980 by which universities and SMEs were awarded ownership and patenting rights of innovations originating from publicly funded research; this opened the avenue to create private goods from a public good in order to incentivize commercialisable basic research done by universities (McDevitt et al., 2014).

Thus, 'exploring the conditions and contributions of responsible research' and innovation is not easy. It is not straightforward to exclude economic motivations or to address the explicit aim of contributing to society or enhancing social welfare in the research and innovation territory (Scherer et al., 2016). Knowledge and innovation are contested public/private goods; regimes of regulation and policy, whether initiated by public authorities, or private entities in some form of co- or self-regulation struggle to address the challenges of ‘creating a learning society’ (Stiglitz & Greenwald, 2014). Such challenges also arise from co-governing public goods, and there is a dynamic interaction of cooperation and competition between public and private actors securing the provision of common goods (Tosun et al., 2016). In the case of knowledge/innovation it may not the direct provision of the public goods by corporations that is societally beneficial, but the corporation being ready to engage in public deliberation about the provision of a specific innovation good as public or private. Even more importantly, the corporation may engage in collective decision-making regarding innovation from its early stages that may hold the key to the politicization of the corporation and its enhancing social welfare through creating a more democratic corporate polity.

The participatory turn

The participatory turn originates in the political science idea that new public policy arrangements are to be developed in which citizens can directly be involved in policymaking (Tholen, 2015). These arrangements would facilitate dialogue and deliberation among citizens as well as citizens and public policy decision-makers. Such participatory endeavours are not limited to public policy, but emerged as a consequence of a number of factors, also discussed in this book, commencing the rethinking of concepts of power, social interactions and knowledge. This conceptualization of the (post)modern human condition entails late-modernity seen as a liquid arrangement (Bauman, 2007); as having to live with ‘incalculable delocalized interdependence’ manifesting in a risk-society (Beck, 2006); leading to a fragmented society, the decentering of identities and thus to neo-tribalism (Maffesoli, 1996). This created diminishing legitimacy of representative democracy as well as distrust in traditional forms and processes of knowledge creation and epistemology that inform democratic decision-making.

One of the earliest examples of an innovative participatory process of decision-making was the 1975 Berger Commission in Canada in which indigenous North Americans were actively engaged on the Mackenzie valley oil pipeline and on the development affecting the local native people (Berger, 1977). A number of emerging environmental and social conflicts in the 1970s and 1980s seemed to pose complexities of social and natural systems that have created fundamental difficulties in traditional decision making processes; in case of the natural systems the de-coupling of identifiable causes and effects lead to incalculable risks, while in case of social systems the increasing multiplicity of value systems, worldviews and identities pointed to an ever more pluralist society (Wittmer et al, 2006). It has been argued by a number of authors that representative democracy and the application of single perspectives are incapable of coping with the apparent complexity in decision-making, and so the inclusion of multiple perspectives including those of different publics should be sought through participation and deliberation. At the societal and institutional level a number of researchers have observed a political concern about the loss of trust in institutions, those of governance and science in particular, in the areas of environmental and risk-centred decision-making as a justification for involving the public through participation. This is again linked to a search for a pluralistic decision making process in order to reflect the nature of contemporary societies (Cass, 2006). Collins and Burgess (1999) summarise the socio-cultural aspects of contemporary society that frame the participatory turn as encompassing "(i) socio-cultural pluralism; (ii) the gathering sense of powerlessness; [and] (iii) the shifting social and realist constructions of the environmental crisis" (Collins & Burgess, 1999, p. 2 quoted in Cass, 2006).

The participatory turn informed much of what has been discussed in this book. However, nowhere has it been so controversially looked upon as in the process of knowledge creation and dissemination. While science, innovation and technology permeate the culture, society and politics of modernity "the dominant discourses of economics, sociology and political science lack vocabularies to make sense of the untidy, uneven processes through which the production of science and technology becomes entangled with social norms and hierarchies" (Jasanoff, 2004, p. 2). The idea that social norms and hierarchies rooted in different publics has mainstreamed in corporate strategy, based on ethical claims, via Freemanite stakeholder theory; it has been accepted in political science and public policy as a critique to representative democracy via Habermasian communicative ethics; and has permeated sociology and political theory via the understanding of Beckian risks. The emergence of a deliberative, participatory idea of co-creation in business and society is based on a postmodern understanding of ethics as void of grand narratives or as universal moral claims having limited legitimacy. It has, however, been challenged and questioned in epistemology: truth claims invariably are seen as holding some level of universality; any other approach risks being grouped in the radical anti-science camp of Fayerabendian 'anything goes' radicals.

Far from being simple, technology cannot be understood outside social interactions of a community; Science, technology and society (STS) literature has shown the multilevel interconnectedness of society and technology. Artifacts are not to be understood outside the community that creates or consumes them; as technological determinism, technology acceptance is oversimplifying the relationship of technology and society. It singles out one stakeholder and picks one specific stake to be analyzed after they have been already been invented or deployed. Langdon Winner (1986) in his formative article “Do Artifacts have Politics” proposes two ways in which artifacts can contain social or political properties. Technologies with flexible features are strongly compatible with certain socio-political values, while those with intractable features require certain socio-political ideals. Winner claims that societies influence and hold sway over technological advances by emphasizing the importance of understanding the implications of technologies before they are introduced to ‘users’. Others maintain that technology and society should not be conceptualized as separate spheres influencing each other but rather as being mutually constitutive (MacKenzie & Wajcman, 1999).

In the late 1960s and early 1970s, originating from the ‘participatory turn’, several participatory practices of technology assessment were being experimented with. Influenced by theories of deliberative democracy, Habermasian communicative action and participatory models of technology assessment new formats of participation in technology diffusion pathways were experimented with. ‘Planning cells’ bringing together a random group of citizens provided with information deliberated controversial planning issues involving technology in Germany in the late 1960s (Dienel, 1978); ‘Citizens Jurys’ in the US experimented with representative and legitimate decision making processes to empower citizens and counter the dominance of interest groups, professional lobbyists and think tanks on public discourse on technology adoption in the early 1970s (Crosby, 1974); while in the 1980 the idea of ‘consensus conferences’ was introduced by the Danish Board of Technology as a trial of a new form of public engagement to technology assessment (Andersen & Jager, 1999). Academics also developed formal and constructive approaches to reflexive engagement with and assessment of technology addressing citizen panels with technological innovations having potentially problematic dynamics and wider societal repercussions (Voss & Amelung, 2016). Constructive technology assessment methods were developed to stimulate discussions and analysis to contribute to a social debate on the diffusion of certain technologies (Rip et al, 1995; Schott & Rip, 1997; Rip & Te Kulve, 2008). All of these participatory processes may be seen as an "ongoing innovation journey, working against a technological black boxing of basic features of political order and democracy [...] to make underlying political principles and assumptions explicit, as opposed to hiding them in claims of scientific neutrality and universal functionality." (Voss & Amelung, 2016, p. 761.)

Participatory and constructive technology assessment designs reflect the socio-political and co-productive nature of innovation and technology; it is not a blank slate or black box to be assessed independent of its social and political context; multiple stakeholders may have different claims on impact as well as being involved in the innovation journey itself. Such approaches reinvigorate the territory of research governance by expanding the scope of research and innovation as well as technology related scientific research beyond formal compliance with risk regulations or ethical guidelines. There is also a shift in focus from innovation to have impact beyond economic/business benefits or only deliver technological fixes to our grand challenges (Raman & Mohr, 2014). Research and innovation as well as technology requires a 'social licence to operate' stemming from the notion that the key stakeholder of technology is the polity as a whole; while the materiality and sociality of research and innovation creates a much greater power to transform society than other forms of knowledge, because sociotechnical imaginaries (Jasanoff, 2015), techno-social regimes or regulatory science (Jasanoff, 2003) have the capacity to become embedded in material arrangements, transform socio-cultural relations and shape the environment to a previously unseen degree. (Raman & Mohr, 2014)

This shift in focus is exemplified in the recent criticism of 'permissionless innovation', a term coined by Google's Chief Internet Evangelist Vinton Cerf (Cerf, 2012), to mean the notion that experimentation with new technologies and business models should generally be permitted by default. Unless a compelling case can be made that the new invention will bring serious harm to society, innovation should be allowed to continue unabated and problems, if they develop at all, can be addressed later (Thierer, 2014). The techno-optimistic vision of permissionless innovation rests on the fetishization of human technological creativeness and the faith that technology and progress are bundled together, therefore any political oversight or social control may hinder its effectiveness and power to further the wellbeing of humankind. The 'participatory turn' aims at bringing the 'social licence to innovate' to life by creating processes and methods in which different publics may become part of the decision-making process regarding innovation. However, participation only works if proper structures and appropriate institutions are created that embed multiple perspectives and knowledges into the research and innovation process. As Jasanoff (2003) puts it: "participation alone, then, does not answer the problems of how to democratize technological societies. […] What has to change is the *culture* of governance, within nations as well as internationally; […it is no longer the issue] *whether* the public should have a say in technological decisions, but *how* to promote a meaningful interaction among policy-makers, scientific experts, corporate producers, and the public" (p. 238, emphasis in original).

The history of responsible research and innovation

The concepts of 'responsible innovation' and 'responsible research and innovation' go back until the turn of the millennium. Not surprisingly these ideas also stem from the societal processes described in Chapter 3 and are related to the emergence of responsibility, stakeholder orientation and engagement in different areas of business and institutional operation. Also, at the same time when challenges of business ethics emerged in the 1970s and '80s, discussions concerning the ethical, legal and social implications of research and research integrity (in nuclear energy, medical sciences and genome editing) also appeared (Fischer & Rip, 2013). However, it was only at the beginning of the 2010s that the concept of responsible research and innovation (RRI) gained traction in a science, research and innovation policy context. The background of the emerging policy level discussion was the GMO debates (Grove-White et al, 2000), geoengineering (Royal Society, 2009), the dilemma of control for emerging technologies and the idea of public participation in setting research agendas as well as discussions about the social desirability of research and innovation (Fisher et al, 2006). A number of meetings took place in Brussels at DG Research and in London at the French Embassy in the Spring of 2011 at which expert from academia and policy tried to come to a common understanding of the concept of responsible research and innovation (Owen et al, 2012). This process has been taken forward by Gilles Laroche, Head of the Science in Society Programme, creating a number of funding instruments to assist research and coordination in the 7th Framework Program of the EU on RRI and also establishing an expert group to advise the EC on issues of developing appropriate governance frameworks to assist the mainstreaming of RRI. He also seeked an opinion on the subject from the European Group of Ethics, the group providing Commission high quality and independent opinion on ethical aspects of science and new technologies in connection with EU legislation or policies. At the London meeting Rene von Schomberg from the DG Research and Innovation of the European Commission circulated a paper on the basic idea of RRI. The definition used in this paper was to become the first definition of RRI as “a transparent, interactive process by which societal actors and innovators become mutually responsive to each other with the view on the (ethical) acceptability, sustainability and societal desirability of the innovation process and its marketable products (in order to allow for the proper embedding of scientific and technological advances in our society” (von Schomberg, 2011, p. 9). On one of the follow up meetings on Science and Society in Europe EU Commissioner Mary Geoghegan-Quinn stated that “Research and innovation must respond to the needs and ambitions of society, reflect its values and be responsible…our duty as policy makers (is) to shape a governance framework that encourages responsible research and innovation” (Geoghegan-Quinn, 2012). This marked the first tangible, high-level support for the concept (Owen et al., 2012).

In the coming years several other definitions and descriptions have emerged about responsible research and innovation as “taking care of the future through collective stewardship of science and innovation in the present” (Stilgoe et al, 2013, p. 1570). Stigloe and his co-authors emphasized four dimensions that are of key import in RRI: anticipation, reflexivity, inclusion and responsiveness (ibid). Anticipation involves systematic thinking about potential problems and available alternatives in innovation; reflexivity refers to a critical approach to activities, commitments and assumptions of the innovation process as well as scrutinizing underlying value systems and beliefs that influence innovation; inclusion refers to the active engagement of stakeholders for the purpose of a more socially embedded decision-making process and enhancing mutual learning; while responsiveness entails the capacity to shape or redirect the innovation process in reaction to the expressed values of stakeholders and others publics, as well as create an institutionalized co-responsibility for the innovation outcomes (Lubberlink et al., 2017). Other authors have extracted some key characteristics that are shared across of the different European definitions of RRI as (a) focus on addressing significant socio-ecological needs and challenges; (b) a dedicated attempt to anticipate potential problems, assess available alternatives, and reflect on underlying values, assumptions and, beliefs, (c) a commitment to actively engaging a range of stakeholders for the purpose of substantively better decision making and mutual learning, and (d) a willingness among all participants to act and adapt according to these ideas (Wikinson & Carew, 2014). A recent definition claims that "responsible innovation is essentially an attempt to govern research and innovation in order to include all stakeholders and the public in the early stages of research and development. The inclusion of different actors and the public is, in turn, meant to increase the possibilities to anticipate and discern how research and innovation can or may benefit society as well as prevent any negative consequences from happening" (Burget et al., 2017, p. 15).

In 2001, the 'Science and society' action plan in the EC was launched to set out a common strategy to make a better connection between science and European citizens. In 2007, under the Seventh Framework Programme for research and technological development (FP7), 'Science and Society' became 'Science in society (SiS)' with the main objective to foster public engagement and a sustained two-way dialogue between science and civil society. This effort is pursued under part V 'Science with and for Society' of Horizon 2020 in the Eighth Framework Programme. Since 2010 the focus of SiS has been to develop a concept reconciling the aspirations and ambitions of European citizens and other research and innovation actors. The EU in its policy documents currently defines RRI as "a process for better aligning R&I with the values, needs and expectations of society. It implies close cooperation between all stakeholders in various strands comprising: science education, definition of research agendas, access to research results and the application of new knowledge in full compliance with gender and ethics considerations" (Council of the European Union 2014). The EC has also formulated responsible research and innovation in terms of several key areas: (a) public engagement; (b) gender equality; (c) science literacy and science education; (d) open access; (e) ethics; and (f) governance (EC, 2015). The then incoming EU Commissioner for Research and Innovation, Carlos

Moedas in his speech in Brussels in June 2015 set three goals for EU research and innovation policy, which he summarized as "Open Innovation, Open Science and Open to the World" (EC, 2016).

Parallel to the emergence of the concept of responsible research and innovation in the EU, similar approaches to research and innovation emerged in other parts of the globe. Responsibility at the Chinese Academy of Science is understood as trying to benefit society to the maximum extent, as well as being aware of injustice and avoid the potential risks of using a specific technology. They set up four general policy principles: (a) responsibility; (b) sustainability; (c) serving the societal needs; (d) and fostering economic development. The Academy also emphasizes societal responsibilities, as scientists being aware of their responsibilities in political decision-making, in science communication, in teaching young researchers about S&T ethics and in avoiding conflicts of interest (RRI Practice, 2017). In the US Arizona State University (ASU) is a leading example of awareness about RRI. ASU, ranking 17th of 768 U.S. universities, adopted a transdisciplinary approach in teaching and research to its activities, integrating education, research and innovation, and also its outreach activities towards local publics, non-profit and corporate partners. ASU also established a network structure in which horizontal activities are not centrally governed, but rather facilitated or supported by the university administration. According to Crow & Dabars (2015): "In the course of a decade, ASU reconstituted its curriculum, organisation, and operations through a deliberate design process undertaken to build an institution committed to the pursuit of discovery and knowledge production, broad socioeconomic inclusiveness, and maximisation of societal impact. The academic community has been consciously engaged in an effort to accelerate a process of institutional evolution that might otherwise have proceeded, at best, only incrementally, or possibly in the face of crisis" (p. 60). In India the concept of responsible research and innovation is not used, however the idea of 'Access, Equity and Inclusion (AEI)' can be linked with RRI in the Indian context. Key elements of RRI such as societal engagement, open access/science, gender equality, ethics, governance and science education have been part of policy discourse and programs in S&T and Innovation based on the AEI framework (Chaturvedi and Srinivas 2015).

Several authors, however, have voiced criticism about the Global North dominance in the conceptual development of responsible research and innovation.

Some have voiced their concerns whether RRI is an appropriate method to anticipate local and specific vulnerabilities of indigenous populations in Global South contexts (Di Giulio et al, 2016), while others have pointed to the normative liberal foundations of the concept that may lead to a 'decent non-liberal peoples dilemma' in countries with different political traditions then those of the liberal polities of the global North (Wong, 2016). The European Commission's recent 'Open to the world' goal may imply the involvement and engagement of non-European countries in a mutually acceptable, shared RRI definition, however in emerging economies of the Global South (BRIC) and also in the more advanced economies such as Japan or Australia, there is little awareness of the concept of RRI. It is apparent that considerable work needs to be done before RRI is recognised as a concept that offers traction in non-European contexts, while the normative liberal foundations need to be re-thought in order for Global South policy-makers to embrace the concept to the full. As Forsberg and her co-authors (2017) claim: "[b]y engaging with major global S&T players and their sometimes different and often differentiated needs, it may become clear that research and innovation may have to be responsible in ways that are not an immediate priority for those nations where the RRI discourse has so far largely developed" (p. 2).

Responsible research and innovation and its stakeholders

The concept of RRI revolves around stakeholders of research and innovation: it aims at 'societal desirability of the innovation process' as well as for a 'proper embedding of scientific and technological advances in our society' (von Schomberg, 2013). However, in most of the RRI discourse 'stakeholders' are used as a catch all phrase denoting 'societal actors' without pointing to who they are and why they count in the research and innovation process (cf. Freeman, 1984). The basic concepts of RRI – anticipation, reflexivity, inclusion and responsiveness – require stakeholder involvement and engagement. Anticipation requires alternative sets of knowledges to be represented in the innovation process to assess the potential of alternatives; reflexivity involves an open dialogue about the different assumptions and beliefs that animate the innovation process; inclusion requires a diversity of societal actors to be included beyond the usual suspects of industry players, research institutions and global NGOs in the environmental field; while responsiveness aims at establishing institutionalized ways of stakeholders taking co-responsibility for the innovation process as well as the potential outcomes.

I argue that stakeholders in the innovation process are those groups who have a stake in or a claim on both the innovation process and the potential innovation outcome (Freeman, 1984). In order to ensure proper social embedding and 'to anticipate and discern how research and innovation can or may benefit society' stakeholder claims need to be understood, assessed and prioritized. I also claim that since research and innovation are based on a 'social contract' between researchers, innovators and the society (Guston, 2004, 2008; Rip, 2011; Bird & Ladyman, 2013; Brown & Guston, 2009); researchers, innovators and societal actors are involved in co-producing the cognitive, the material, the social and the normative basis of the research and innovation process (Jasanoff, 2004); and R&I involves a division of moral labour between the different social actors (Rip, 2014) stakeholders must participate in determining both research and innovation agendas and take part in the research and innovation process, based on their potential claims or stakes, from its early phases. According to Clarkson (1994) there is no stake without risk. Research and innovation place stakeholders at risk because they have either invested some form of capital (human, financial, knowledge) in the research and innovation process either directly or through public channels, and are impacted by the outcome of the research and innovation activity in a number of ways (directly through its negative or positive impacts on stakeholders; indirectly through technology determining common techno-social futures), therefore they do have a diverse set of stakes in the process (Clarkson, 1994). Given the public funding of research and innovation, and the levels of uncertainty in research and innovation processes (Poel et al, 2017) all stakeholders are voluntary and involuntary stakeholders at the same time. As Brown and Guston (2009, p. 364) argue, the social aspects of research and innovation as well as its right based nature is to be understood as a way of initiating a discussion on what sort of research is appropriate, legitimate, desirable (Raman & Mohr, 2014). Stakeholders have different risks, claims, interests and values, therefore it is important to have some clarity on what these stakes and claims may be, and who or which stakeholder group should be involved in a specific research and innovation process. This is a rephrasing of Freeman's classic question of finding an answer to 'who or what counts?' in the research and innovation process.

The most cited example of strategic stakeholder theories is the *power-legitimacy-urgency* model of Mitchell et al. (1997). The authors, as discussed in Chapter 2, propose that the various stakeholder approaches should be organized into a theoretical structure in order to explain the degree of attention managers should pay to the different stakeholders during strategic management processes. A comparable stakeholder theory for responsible research and innovation should aim at understanding potential stakeholder claims in order to re-define the 'culture of research and innovation governance', as well as to create a model for the 'meaningful interaction among policy-makers, scientific experts, corporate producers, and the public'. This then would assist the creation of appropriate governance models of research and innovation processes as well as stakeholder selection and prioritization in participatory approaches by decision makers in setting research agendas, funding schemes and cooperation of different actors in the early phase of innovation processes. From a stakeholder perspective the triad of anticipation, reflexivity, and responsiveness (as inclusion is a direct reference to the engagement of stakeholders) are related to three dimensions of stakeholder attributes: the distribution of moral labor they denote, the epistemic qualities and approaches they contribute to and the power or social embeddedness they represent in the innovation process. Moral aspects of responsibility are emphasized by scholars who understand RRI as a new division of moral labor (Rip, 2011; 2014) or criticize the second order separation of technology and ethics as misleading (Martin & Freeman, 2004); epistemic aspects of responsibility are dealt with by authors who work in the realm of social epistemology and innovation (Raman & Mohr, 2014; Rooney et al., 2014) or co-production of knowledge by science and society (Polanyi, 1962; Bijker 1995; Jasanoff, 2004); while the power discourses and power rationalities of certain actors animating technology, research and innovation are dealt with scholars who write about the 'politics of artifacts' (Winner, 1980), 'technologies of humility' (Jasanoff, 2003) or 'sociotechnical imaginaries' (Jasanoff, 2015). If we conceptualize RRI as the 'inclusion of different actors to anticipate societal benefits of R&I and prevent negative consequences from happening' we need to create a stakeholder mix in each innovation project that brings all three dimensions – the moral, the epistemic and the power/participatory – into the inclusion process through involving and engaging the stakeholders best suited for the purpose. The goal of RRI is to anticipate, reflect and respond to the moral, epistemic and power aspects of the social embodied in the different stakeholders invited to, involved and engaged in the innovation process.

Anticipation is the 'negative impacts prevented or mitigated' through the division of moral labor by different stakeholder groups; being aware of uncertainty may be dealt with by the epistemic qualities represented by the different stakeholder knowledges participating in the process; and uncovering different pathways of prevention/mitigation may be arrived at by stakeholders holding positions of power or determining policy through power discourses. Reflexivity is understood as being confronted with and critically thinking about different 'responsibilities, values and motivations' in the division of moral labor; about the different epistemologies and perceived realities embedded in the diverse knowledges engaged in the process; and what governance structures may be applied by the different power players to arrive at desired and negotiated outcomes. Responsiveness, at the same time, means that the organization is able to and does adjust the innovation process through a recalibration of roles and responsibilities or a re-division of moral labor inside and outside the organization; by understanding, reflecting on and addressing 'events and changing circumstances' impacting different groups of stakeholders; as well as safeguarding the achievement of the desired and agreed innovation outcomes through appropriate processes and governance structures (cf. Lubberlink et al., 2017).

As opposed to the stakeholder theory of the firm by Mitchell et al. (1997) where the goal of the theoretical construct is to assist managers in dealing with the different stakeholders groups, the aim of the stakeholder construct in RRI is to assist the selection of diverse stakeholders representing the moral, the social epistemic and the power-political aspects of the social to better embed the innovation process in society through proper and diverse stakeholder inclusion. Groups representing moral claims in the research and innovation process would be NGOs, CSOs and social enterprises; epistemic claims would be addressed by stakeholders with diverse types of theoretical or practical knowledge, expertise and experience; while power discourses are animated by funding agencies, policy or industry representatives familiar with the governance structures, management processes and policy discourses framing technical-social visions. The goal of such moral, epistemic and power diversity is to have a broad democratic debate between a wide group of stakeholders on what research and innovation is appropriate, legitimate, and desirable as well as open up the research and innovation process to the deepest possible societal scrutiny

(Raman & Mohr, 2014). We may conceive participatory innovation processes as a form of action research platforms (Argyris et al., 1985) as it is the ‘practical knowledge’ embodied in the moment-to-moment dialogic action of each participant, the ‘communicative co-inquiry’ into the world through collaborative relationships with each other and the ‘experiential presence’ of persons through sharing their sensing, feeling, thinking and attending that social desirable and socially legitimate new knowledge embodied in marketable products or services may be arrived at (Reason & Torbert, 2001).

The politics of RRI

In accordance with the strategy of the European Commission as represented in the ‘three Os’ – Open Science, Open Innovation, Open to the World – several new research and innovation governance structures, participatory processes and co-production formats are experimented with. Open Innovation as an innovation model is understood to be “a distributed innovation process based on purposively managed knowledge flows across organizational boundaries, using pecuniary and non-pecuniary mechanisms in line with the organization's business model” (Chesbrough & Bogers, 2014, p. 17). This aims at moving away from a firm-centric innovation process, claiming that innovation processes take place in webs of innovation, rather than in clear and singular value chains (Robinson & Rip 2013). The constantly changing webs of innovation are highly complex processes, structures and governance models, involving companies and other groups that are effected by or contribute to research, innovation, market uptake and diffusion such as NGOs, CSOs, regulatory agencies and consumer group representatives. Quadruple Helix (Carayannis et al. 2016) innovation models “focus on and leverage higher order learning processes and dynamics that allow for both top-down government, university, and industry policies and practices and bottom-up civil society and grassroots movements initiatives and priorities to interact and engage with each other toward a more intelligent, effective, and efficient synthesis […] with the aim of people, culture, and technology to “meet and interact to catalyze creativity, trigger invention, and accelerate innovation across scientific and technological disciplines, public and private sectors (government, university, industry, and nongovernmental knowledge production, utilization, and renewal entities as well as other civil society entities, institutions, and stakeholders), and in a top-down, policy-driven as well as bottom-up, entrepreneurship empowered fashion" (Carayannis & Campbell, 2012, p. 4). Open science is an attempt to make scientific research, research data and result dissemination accessible to all levels of an interested and inquiring society including practices of publishing open research, campaigning for open access of research outputs, papers and publications generally making it easier to publish, disseminate and communicate scientific knowledge to a wider range of different publics. Citizen science initiatives are defined as scientific work undertaken by members of the public, in collaboration with or under the supervision of professional researchers, scientists and scientific institutions.

All these changes signal a 'regime change' in the evolution of science and its interactions and cooperation with society or, as the MASIS report (2009) puts it: "Since World War II, and with the experience of the war efforts to which science contributed, a new regime of science in society emerged, sometimes called 'Science, the Endless Frontier', after Vannevar Bush's report to the US President in 1945. The regime included a strong division of labour, with public research institutes devoted to missions of societal relevance, and universities being funded for basic research, without any questions asked about relevance. From the 1960s onwards, this regime came under pressure, in parallel to national science policies becoming more active. The regime opened up to new policy instruments, for example strategic research programmes; and public scrutiny became important, including more accountability as well as links with various publics. By the 1980s, the earlier regime 'Science, the Endless Frontier' was giving way to a new regime which could be labelled 'Strategic Science'. […] Instead of a linear model of innovation (and attendant policy measures and expectations of immediate benefits), one could speak of a lateral model of innovation, where innovations and their effects on wealth creation and quality of life are not limited to a linear chain of innovation. Some of the more interesting innovations and their impacts derive from new, lateral combinations, and the social and intellectual mobility of key actors. This applies to innovation-oriented research, as well as to expertise and decision-oriented strategic research. Life sciences and technologies such as nanotechnologies are linked to innovation, as well as to insight and expertise, and thus straddle these two components of the regime of Strategic Science. Environmental and earth sciences, most social and behavioural sciences are primarily linked to the second component, strategic decision making (e.g. against the background of the Precautionary Principle)" (MASIS Report, 2009, p. 11-13).

Thus, corporations turn into political actors by applying the principles of anticipation, reflexivity, inclusion and responsiveness to their research and innovation activities through engaging in public deliberations and collective decisions with their stakeholders in the provision of innovation and knowledge public goods together with public authorities, public or private research bodies and other public and private actors. Social embeddedness and the corporate provision of public goods are facilitated through public engagement, including diverse stakeholders in the innovation process seen as a key factor in ensuring the societal readiness of corporate innovations and marketable products. Referring to the innovation activities exemplified in President Juncker’s State of the Union speech political CSR and RRI aims at avoiding technology lock-ins and path determinations through ‘industry push’ and ‘policy pull’ (von Schomberg, 2013) by opening up the innovation process to include a wide variety of stakeholders from the early stages of the innovation process.

PART III : THE OPERATION OF CSR

The GRI story

In the spring of 1997 Bob Massie and Allan White, the CEOs of CERES, a company specialized in sustainability, and of Tellus Institute wrote a letter to their good friend Ralph Taylor, who was then a director of CERES and whose parents had a foundation that also supported sustainability projects. At that time White was already receiving 200-300 emails a day in connection with a new initiative aimed at standardizing the dissemination of corporate information regarding environmental sustainability. The initiative originated in a discussion at the end of 1996 in which three people took part: Massie, White and Joan Bavaria, the founder of CERES. At the time CERES had already been working for quite some time on how sustainability-related measurements could be unified, while Massie was contemplating how allies could be found for a standardized reporting system. Find and convincing entailed extensive traveling, for which funds had to be found. It was obvious that they could not ask for corporate money – that would have undermined the independence and credibility of the project – therefore they were trying to get support from foundations. Taylor's parents lived in Florida, therefore Massie flew there in order to convince them that the initiative was worth supporting. After Massie had already spent two days trying to convince them, they were having lunch in a country club on Palm Beach when — Taylor's father, who had earlier headed a medium-sized local company and had a rather soldierly manner, turned to him: *"So, Bob, let me get this straight. You are telling me that you are going to set up a system that is going to alter how companies are going to disclose on their economic, and social, and labor, and environmental impacts, and you are going to this on a global basis over the next couple of years. And you are going to do it with a hundred thousand dollars from me." "Yes, that is what I am telling you",* answered Massie. *"I think your one hundred thousand dollars will trigger another one hundred thousand dollars and then that's going to trigger several million dollars, and then we will then be able to do it. Of course all this is going to depend on a lot of people being willing to participate. But you will be the first."* A couple of weeks later the cheque for a hundred thousand dollars arrived which was –

as was prophesized by Massie – followed by millions of dollars. As a result the Global Reporting Initiative (GRI) got under way. With the help of the money, meetings took place with leaders of international corporations and global NGOs and international organizations – with Greenpeace, WWF, Transparency International, UNDP, AFL-CIO and the Brussels based ICFTU (International Confederation of Free Trade Unions). Everybody connected to the initiative responded with interest and support. By early 1998 the cooperation of numerous organizations and corporations was secured, everybody espoused the same views and was prepared to contribute their own reporting initiative to the whole. The second turning point happened when John Elkington, who was a member of the initiator committee of the formally functioning organization, raised a point: "If this initiative remains environmental only you will be history before you get the first guidelines out. Time will have passed you by. You've got to do more than just the environment." This advice proved to have far-reaching consequences. This was the moment when the GRI turned into a sustainability initiative and ensured that 'economic, environmental and social reporting became a daily routine for every organization, similar to financial reporting.' In 1999 the UNEP (United Nations Environment Programme) joined the process as official collaborator and in 2000 the first GRI reporting recommendation was published. In 2002 CERES established GRI as an independent organization with its head office in Amsterdam, with its own management and a staff of about 60 people and officially involving close to six hundred institutional stakeholders. As Massie later said – in concord with what Malcolm Gladwell wrote in his book 'Tipping point' – it was an important factor of the change that " […] – it wasn't like we had a strategic plan – the internet made possible a different kind of conversation and an extremely rapid ability to reach consensus on a document. So we could meet in a country for two days, get 70% of the way there, then under the old way things got done, you would have to mail things back and forth, and the next stage would have taken three years. We literally did it in three weeks." (Waddock, 2008, p. 190; Gladwell, 2000).

The theory of the institutions of responsibility

The theory and practice of responsibility – the point of departure for this book – is in the early stages of disciplinarization. The transformation of thinking is a long and evolutionary process and a shift is slow-moving and full of challenges. Change and permanence, i.e. the evolutionary and disruptive processes, must happen concurrently: the institutions of society must go through a gradual change without existing institutions limiting or hindering the process of change. Radical critics of the present-day socio-economic order often accuse the theory and practice of responsibility of losing its essence while striving for the legitimacy necessary for a change and in so doing accommodating to the old traditional paradigm of power and the economy. This is a real process necessary for success. Change and adjustment – formation, transformation and stabilization of institutions – to what exists must happen simultaneously and gradually if it is to succeed.

For the process of the shift to be successful – as postulated by the sociological and political institution theory – "cognitive or normative constructs that define the conceivable and appropriate forms of political organization, policy goals, and policy instruments for attaining those goals" are needed (Amenta & Ramsey, 2010, p. 17-18.). The structure, purpose and legitimacy of these forms can be very different. What is common to them is that they offer cognitive patterns, descriptions and paradigms which help the actors to determine which possible and imaginable directions for action there are. In other words, the thoughts must be channeled into institutional frameworks and structures, and they must be transformed into some kind of manageable order and form of cooperation where the participants know in which common direction the process is moving. Epistemologically, the thinking and awareness of political actors who shape and determine the direction of the action is independent of each other and of other actors – experts, activists and early adaptors. In part they think alike about the possible directions but they view them critically from both inside and outside the network. This is why it is important that players develop the "epistemological communities" of cognitive and normative feasibility, that is, a common language (Adler & Haas, 1992).

Institutional theories look upon institutions both as possible generators of change and as maintainers of stability and constancy. The institutions do not create the framework for the totality of individual actions but they show the structures above the individual level which influence political processes and outcomes within the framework of some rule-governed pattern. The different possible institutional forms and schemes often exist side by side and it is open for interpretation how the processes of substitution and change happen. Change is often affected by ‘policy entrepreneurs’ and ‘policy networks’ offering an alternative to the currently prevailing institutionalized politics, that is, movers and shakers who are personally committed, and who act according to their commitment (Mintrom & Vergari, 1998). It is an especially interesting moment in the process of institutional change when certain norms no longer enjoy full hegemony and their legitimacy becomes questionable, while at the same time the challenger institutions have not yet created a full legitimacy base and a power-supported hegemony for themselves. The collective actions of the challenger(s) are transmitted by the existing political institutions, therefore the challenger norms, rules and budding institutions can only count on success if they find allies, supporters and helpers among the players in the existing and valid institutions. To achieve this, it is necessary that the players operating within the framework of existing institutions and challengers thinking similarly or alike should see the advantages of supporting the challengers. Simultaneously, through the supporting alliance the way of thinking of the institutional actors who do not think like the challengers also changes. For this the challengers must adapt to organizational forms and strategic steps that fit in with the changing political environment (Amenta & Ramsey, 2010).

According to sociological and political institutionalists – as opposed to the rational decision institutionalists – institutional change does not occur because certain institutional operations and organizations serve given goals more effectively, but because it increases the social legitimacy of the participants in the organizational operation. In other words, cognitive and legitimate change is a dual and mutually effective process: through the processes of iterative discursive dialogues of expert cultures, ‘epistemological communities’, ‘policy entrepreneurs’ and calculating players of political institutions social adequacy is transformed. This results in increased social legitimacy of the challenger institutions. The strengthening of these institutions and their increasing cultural authority generates a further need for adaptation by the players of political institutions, just as it furthers the expression in an appropriate institutional framework of the ‘common cognitive maps’ created by the expert cultures. All these processes often transgress the boundaries of the immediate political community and reach a transnational scale: modes of modernity having social adequacy and legitimacy give the practices of the ‘most developed’ countries certain authority which – with the support of international organizations – then put these structures and practices into effect across national borders (Hall & Taylor, 1996). As a result, the institutional practices of responsibility – standards, guidelines, process descriptions, expert cultures and organizations of policy entrepreneurs – have significance beyond their mere existence: these institutional processes create the conditions for the institutional change of responsible operation, the framework for social adequacy and the power foundation of social legitimacy. Thus standards and guidelines bring about the institutionalization of the spaces for public dialogue, as put forward by Habermas, and new modes of social will-forming processes, thereby creating the conditions for the legitimacy of social decisions.

Epistemological community recommendations

For certain thoughts and suggestions to serve as basis for socio-political processes and for various communities to see them as imaginable and suitable organizational forms and as a contextual goal, a common understanding – accepted and internalized knowledge, an opportunity for verbalizing authoritative statements and the ability to make suggestions for policies – is needed. It could be a good basis for this if a network of experts working in different fields came into being which had convictions based on the analysis of different social processes and practices, building on a common, normative and principle-based causal logic. For the validation of these convictions the members of the community must have methods determined and accepted by members of the expert community, which are suitable for the rating, evaluation and acceptance of knowledge in the various areas. Also, they must determine those common social processes and practices dictated by their expertise which could serve as a basis for common policy and which could contribute to the development of the public good according to their common conviction. Such networks – having common ideals, convictions based on principles, and a common standpoint on validation and policy goals – are called ‘epistemological communities’ (Haas, 1992b). The literature on policy-based decision-making and organizational operation emphasized in the nineties that uncertainty and the growing complexity of decisions often made decision makers turn to epistemological communities for help when making policy decisions relating to different social processes.

At the same time, uncertainty and complexity make it unclear which epistemological community is capable of formulating authoritative statements and has adequate social legitimacy. Also, different communities with competing suggestions and influences result in the emergence of new epistemological communities. This is especially true for periods of societal shift. As indicated at the beginning of this book, CSR and the associated disciplines represent a paradigm shifting train of thought. Therefore it is natural that in periods of transformation, which were called pre-paradigm periods by Kuhn, the various scientific and expert communities are characterized by frequent and profound arguments about the right methods and acceptable solutions, and about which are the processes on which problem-solving can be built. These arguments characterize schools of thought and expert cultures. A number of eventualities – epistemological, normative and methodological prejudice (Kuhn, 1962), cognitive bias (Kahneman, 2011) and discursive force of power (Foucault, 1999) – influence the process whereby a train of thought achieves sufficient explanatory and authoritative opinion-forming power.

Epistemological communities are formed in a similar way. For the members of the epistemological community to have common, normative convictions, numerous arguments, analyses and decisions are necessary. These arguments are not only shaped by the results, facts and data of scientific research but also by ideological constructs, theories, generalizations and influences of power: these are constructs which organize the often diverging results, statements and knowledge crumbs into a uniform and authoritative narrative. They support the process by signaling in advance the generalizable consequences of results achieved. Norms especially have a role to play in setting up theories and processes: these are norms which determine what exactly the community expects as the 'right' action from a person having a specific identity or from the sum total of persons having such identity. Thus, these norms determine the expectations towards the actors and decisively influence and determine the processes and systems as well which turn a 'fact' into the basis for authoritative convictions. Therefore, the emergence of epistemological communities depends on three fundamental steps: on the existence of empirical proof based on research, the acceptance of a general theory organized in a uniform narrative, and on the introduction of operating rules, recommendations and norms determining the appropriate action expected by the communities (Bloodgood, 2008). This is the political process of 'epistemological-policy' paradigm shift.

Scientific research and theoretical foundations were important phases of the emergence of the theory of responsibility which – primarily from the perspective of ecological damage, risks, consequences and processes – proved that corporate operation ignoring negative externalities and moral hazards leads to dramatic consequences. Hundreds of studies – in numerous disciplines from ecology through economics to psychology – proved the social, economic and political consequences of irresponsibility. Two decisive theories supported the organization of research results into a uniform narrative: Elkington's Triple Bottom Line theory and Freeman's stakeholder theory. However, in order for these 'facts' and the resultant narrative constructs to serve as basis for authoritative statements and policy recommendations, epistemological communities had to emerge.

Methods of establishing guidelines and standards which play an important role in the development of epistemological communities can be differentiated. These are typically the own norm- and procedure systems of some identity community – of a prospective epistemological community – which it publicizes and spreads. Nowadays there are hundreds of organizations formulating various recommendations, guidelines and standards in the general area of responsibility. In all these cases, the point of departure is always some interpretation of corporate responsibility or feasible business ethics providing the foundation for organizational operation and stakeholder activity in the given field. The purpose of these organizations and of the standards and recommendations published by them is partly the definition of the principles and practice of the organisation as identity community, and partly the support and spreading if the principles of responsibility.

On the website of Fairtrade International for instance we can read: "Embracing transparency and stakeholder participation is an important way that we will be accountable for our work." The 'Constitution' of Fairtrade International is just such an epistemological community guideline, in which the signatories declare that they "share a vision of a world in which justice and sustainable development are at the heart of trade structures and practices so that everyone, through their work, can maintain a decent and dignified livelihood and develop their full human potential. The fair trade movement believes that: Trade can be a fundamental driver of poverty reduction and greater sustainable development, but only if it is managed for that purpose, with greater equity and transparency than is currently the norm. […] In pursuit of this vision, the members of the Association work individually and collectively, and in partnership with others, to connect the aims of those in more affluent parts of the world who seek greater sustainability and justice with the needs of those in the Global South who most need those changes. […] By adopting this Constitution, the members of the Association re-affirm their commitment to maintaining and developing a common international system for Fairtrade and to maximize the impact and effectiveness of that system through partnerships with others." (Fairtrade Labelling Organization, 2007/2011). The goal of the 'Constitution' is to promote the cooperation of organizations and individuals working within the same theoretical framework in the interest of commonly professed practical goals. The 'Constitution' defines precisely what members of Fairtrade expect as 'proper conduct' from an individual with 'sustainability and justice' identity, or from a group of such people, wanting to achieve this through fair trade. The organization has published numerous studies on its website which prove empirically the social and economic advantages and significance of fair trade in the interests of sustainable development. It was Fairtrade that developed the change theory framework organising the steps and activities of the movement into a uniform narrative which can serve as a theoretical guide for the epistemological community (Fairtrade Theory of Change, 2013).

Greenpeace International – looking at responsibility from an ecological point of view – has a similar epistemological community creating function with the goal "to ensure the ability of the earth to nurture life in all its diversity. Therefore […] seeks to: protect biodiversity in all its forms; prevent pollution and abuse of the earth's ocean, land, air and fresh water; end all nuclear threats; [and] promote peace, global disarmament and non-violence" (Greenpeace: Core Values). Here, the scientific justification is also present as is the need and support for the creation of a uniform theoretical narrative. This can be found in the case of other international organizations, such as the Forest Stewardship Council, the Rainforest Trust or the Climate Reality Project, too. These organizations have recognized in the last decade that epistemological communities to influence operations of global corporations (MNCs) must also be globally organized and of global size. Furthermore, that they must present and represent scientific discoveries and globally valid empirically proven evidence to the international community in an understandable and accessible way, develop a unified theory based on the evidence and the organization founded on this theory must have global aspirations. This is how the international NGOs, operating in the same global epistemological space as the actors of leading global and supra-national corporations, came into being: the epistemological communities of responsibility – the global justification by research, the theoretical narrative which is internationally valid and disseminated, and the norms published in form of international standards and guidelines – made the institutional background of responsibility and its organizations global, thereby creating the institutions of spaces for global public dialogue and the carriers of the new global methods of the processes of social will-forming.

Legitimacy standards

The theory of legitimacy has for long been part of institutional sociology. Following the legitimacy theories of Weber and Parson, many authors based their analyses of the operation of institutional actors on the definition of legitimacy. Legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, and appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Suchman, in his work on the different possible strategies for institutional legitimacy differentiates between three basic forms of legitimacy: pragmatic – self-interest directed –, moral – which rests on morally appropriate and desirable action –, and cognitive that rests on some generally accepted assumption or construct. For the shift of responsibility to come about, the theory and practice of responsibility has to create the conditions of legitimacy for responsible social decisions. Studies and analyses describing the economic benefits and business case of responsible business behaviour demonstrate such legitimacy demands. Examples of such legitimacy references were also shown above in the areas of responsible HR, responsible marketing and responsible investing. These 'legitimacy references' aim at creating pragmatic legitimacy: to find the group with which, if direct contact is established, the responsible behaviour clearly improves the well-being of the given group/community. To acquire pragmatic legitimacy, the acceptance of the business benefit of responsibility is needed: the creation of such legitimacy is targeted by indices showing correlations between sustainable corporate performance and the share price (Footsie4Good, Dow Jones Sustainability index), indices and researches measuring the performance of sustainable funds and studies showing the economic returns of responsible HR, responsible marketing and other strategies that include sustainability in business operation. The bases for pragmatic legitimacy of responsible business operation are created by the justification of the business and economic value creating ability of responsible operation.

For moral legitimacy – action that the community/society thinks proper – it is necessary that the community or its institutions accept that responsibility has the appropriate consequences, that it carries out the appropriate and desirable processes and practices, and that it applies the appropriate and socially accepted categories and structures. In other words, modes of institutional legitimacy are needed which provide the moral foundation for the institutionalization of the spaces for responsible dialogue and the processes of responsibility-based social will-forming. It is a frequent practice to link an issue claiming legitimacy – responsible, sustainable operation and involvement of stakeholders – to existing organizations, which already have the moral legitimacy of society, and to look for their support (Suchman, 1995). Thus it is not the moral foundation that creates the necessary social legitimacy but just the opposite, the already existing 'borrowed' institutional legitimacy (partly the legitimate foundations and partly the accepted legitimate processes) creates the independent moral foundation for legitimacy. Responsibility-related guidelines, standards and process descriptions of certain organizations having substantial social legitimacy serve this goal of moral legitimacy. The best known standard that aims to entrench the moral institutional legitimacy of responsible corporate operation is the Global Compact initiative of the United Nations. The UN is one of the institutions with the strongest and most wide-spread international institutional legitimacy. Its goal is to help inter-state cooperation with members numbering nearly two hundred. Its specialized organizations are present in numerous areas of global institutional operation bringing about international cooperation. The purpose of the initiative is to make corporations world-wide accept, apply and support practices in connection with sustainability and responsible operation, and to briefly report on the inclusion of these practices in their business operation. The initiative, announced in 1999 by Kofi Annan, Secretary General at the time, was joined by more than ten thousand supporters representing corporate and other institutional stakeholders. Institutional moral legitimacy does not only manifest itself in the UN, as an organization with substantial international legitimacy, standing by the issue of responsibility, but also in the ten principles ratified by it – as statement of principle – serving the justification of legitimacy of responsibility as business activity having the proper consequences. A kind of a moral declaration, the ten principles formulate 'rules of business operation' as businesses (1) should support and respect the protection of internationally proclaimed human rights; (2) make sure that they are not complicit in human rights abuses; (3) should uphold the freedom of association and the effective recognition of the right to collective bargaining; (4) should eliminate all forms of forced and compulsory labour; (5) should abolish child labour; (6) should eliminate discrimination in respect of employment and occupation; (7) should support a precautionary approach to environmental challenges; (8) should undertake initiatives to promote greater environmental responsibility; (9) should encourage the development and diffusion of environmentally friendly technologies; and (10) should work against corruption in all its forms, including extortion and bribery (UN, Global Compact). Thus, the UN Global Compact presents its guidelines and initiative to help create institutional legitimacy for responsibility in that, on the one hand, it supports legitimacy needs through institutional legitimacy present in other areas and, on the other hand, by formulating moral principles that define the proper consequences of corporate application of responsibility, offering a consequentialist moral justification.

The other way of acquiring institutional legitimacy is when the claim is supported by the definition and prescription of the appropriate and desirable processes and practices. After many years of work, the International Organization for Standardization (ISO) published its recommendation regarding corporate processes and tools of social responsibility, the ISO 26000, in 2010. The standard is legitimized by the one hundred and sixty-two member states of the ISO and the observer states. In a like manner, the long and painful process, involving a significant number of global and local stakeholder organizations, assists the acquisition of institutional legitimacy. The recommendation aims primarily at the acceptance of the ideal and practice of responsibility through standardizing responsibility by fitting it into the usual and accepted order of corporate operation. It does so by incorporating it into the system of more than eighteen thousand standards, processes and guidelines of ISO. The aim of the standard – beyond defining and describing responsibility in detail – is to offer corporations tools, processes and practices that would help them to incorporate the principles and practices of responsibility in their operation. The uniqueness of the ‘responsibility standard’ is the voluntary nature of responsibility, therefore – other than in the case of other standards – it cannot be certified and there is no system for compliance with principles and practices. ISO 26000 identifies seven core subjects concerning corporate social responsibility and presents associated guidelines and areas of action. These are: (1) organizational governance (processes and structures of responsibility); (2) human rights (due diligence, avoidance of complicity and discrimination, international legal standards and the main labour standards of the ILO); (3) appropriate and necessary labour practices (social dialogue/just remuneration, and health and safety at work); (4) environment protection, procedures and processes of reducing environmental impact (prevention of pollution, sustainable use of resources, climate change mitigation and protection of natural habitats); (5) fair operating practices (anti-corruption, responsible political involvement, fair competition, promoting social responsibility in the value chain and respect for property rights); (6) consumer issues (fair marketing, factual and unbiased information and fair contractual practices, protection of consumer health and safety, sustainable consumption, consumer service, consumer data protection and privacy); and (7) regional integration and environment development (integration into the region, education and culture, employment creation, technology development and general welfare investments).

[ISO 26000 schematic illustration HERE]

ISO, as an international standards organization, helps creating the institutional legitimacy of responsibility by, on the one hand, supporting the claim for legitimacy through its institutional legitimacy in the area of standardization and, on the other hand, by prescribing standardized processes and practices which formulate the deontological, normative moral justification of responsibility.

The third way for businesses to acquire institutional moral legitimacy is through prescribing appropriate and socially accepted categories and structures, and applying these categories and structures in their operation. The best known and most comprehensive such recommendations is the one for responsible corporate operation targeting international corporations, published by the Organization for Economic Co-operation and Development (OECD) in 2011. The OECD is an organization with the goal of coordinating and supporting the economic, trade and financial activities of the most developed nations. This recommendation, 'The Principles on Corporate Governance' determines the categories, structures, organizational forms, principles and practices in nine areas – disclosure, human rights, labour and economic institutional relationships, environment, corruption and bribery, consumer protection, science and technology, competition and taxation – which should determine the responsible operation of international corporations. The recommendation devotes different chapters to the principles of operation, the international and national structures necessary for sustainable operation and international cooperation in the interest of achieving it, and to organizational frameworks. These are followed by annotations including practical explanations and clarifications helping the interpretation and application of the various categories, principles, organizational frameworks and forms of cooperation. The OECD helps creating the institutional legitimacy of responsibility by supporting the claim for legitimacy through its own political institutional legitimacy on the one hand and, on the other hand, by recommending structures and modes of operation which define the proper practical realization of the application of corporate responsibility, i.e. the pragmatic moral justification of responsibility.

These recommendations and standards are aimed at acquiring moral institutional legitimacy and the social acceptance of the practice of responsibility. In the course of acquiring institutional legitimacy all these recommendations were prepared by some international organization, and 'use' its support, which itself has significant social acceptance and in certain cases also executive power. While the organizations with executive power – the UN or the ISO – could enforce the application of the standards, the central element of these recommendations is their voluntary adoption congruent with the accepted principles and practice of sustainability. Joining Global Compact is voluntary and it does not provide one with any rights or duties. Likewise, defaulting on the reporting obligation does not have any clear and definite sanctions. Similarly, the ISO 26000 standard does not prescribe or recommend any certification, therefore various organizations can support the introduction and application of the standard but they cannot certify that the corporation ‘satisfies’ its procedural and practical requirements. Of course there are numerous other standards and recommendations aimed at creating social legitimacy – e.g. the IFC, the ILO, recommendations of the EBRD, the recommendations and goal declarations of various international organizations, the Millennium Development Goals of the UN and the EU directives relating to reporting. In the same way as in the case of the above-described classification by different categories – ‘proper consequences’, ‘desirable processes and practices’ and ‘appropriate and socially accepted categories and structures’ – the content of these standards and recommendations overlap, since the acquisition of social legitimacy is a complex goal and supporters of responsibility can count on legitimacy success if they exert their legitimacy claim in as many different forms and structures as possible and through different organizations. It was in the first decade of this century that the issue of responsible operation reached the level of claiming international moral legitimacy when organizations with legitimacy in other areas supported the acquisition of institutional legitimacy of responsible operation by offering their own legitimacy. This process has continued in the present decade and by now the issue of responsibility has wide social acceptance and stakeholder support – morally based institutional legitimacy – in the developed countries of the Global North.

Political procedures and recommendations

Politics transforms social oppositions and conflicts stemming from the inevitably diverse social fragmentation into socially resolvable, manageable and accepted oppositions and hierarchies. It is an institutionalized activity that takes place in a system of power and between powers creating the socially accepted institutional framework for managing these oppositions and conflicts. Broadly defined, politics concerns the production, distribution and use of resources in the course of social existence. Politics is about diversity and conflict, about scarcity of resources, broad desires and aims as well as relations of power, hierarchy, cooperation and the ability of ‘acting in concert’ (Arendt, 1958). Applying this definition to a Freemanite stakeholder business operation, the corporation is a multifarious matrix of stakeholders with a diverse stakeholder fragmentation due to the complexity of corporate operation and multiple goals and interests. The operability of the corporation necessitates the transformation of this fragmentation and conflicts stemming from it into resolvable, accepted and manageable oppositions, institutional hierarchies and systems. Within corporations resources are similarly scarce, whereas goals and desires are broad and, oftentimes, unlimited.

The discourse ethics of Habermas and a politically understood corporate responsibility take the institutionalized discursive processes of a corporation as the political model of stakeholder democracy and equality-based social responsibility – as an institutionalization of the spaces for public dialogue and the modes of social will-forming processes with corporate participation.

Beck's risk-society model diverges in as much as it is not the rational justifiability of decisions that creates the possibility for institutional resolution of stakeholder conflicts but the acceptance of the consequences and the continuous revision of consensus. In this approach the guarantee for the realization of stakeholder democracy, equality and stakeholder participation is the setting up of stakeholder-political institutions which do not see universally valid ethical agreements as their goal but rather the consequence approach where there is stakeholder consensus that is temporary and can be modified through mutual will. To set up the institutional framework for managing the inevitable stakeholder conflicts – i.e. deliberative stakeholder participatory democracy – mutual acceptance of the consequences based on deliberative consensus and the social legitimacy resting on it must be brought about. Thus, responsible operation transcends the framework of the traditional stakeholder-social hierarchy thereby creating new and earlier unperceived oppositions and conflicts. Its goal is to resolve these stakeholder conflicts and oppositions within the framework of stakeholder dialogue based deliberative institutions and through will-forming processes resting on the legitimacy of the TBL principles, or to make them hierarchically and institutionally manageable.

Another group of recommendations and standards within the social responsibility universe departs from the recognition that the precondition for stakeholder participation in resolving conflicts and the creation of equality-based deliberative spaces is the reduction of the information asymmetry between different stakeholders. The aim of these recommendations and standards is making processes accepted which mark operation related information part of the stakeholder public domain in a uniform, interpretable and workable form. GRI was established with the goal of setting up a system through which information related to corporate operation and sustainability – environmental and sustainability reports – could be made available in a uniform and easily interpretable format for stakeholders. To achieve this, it was not only necessary to determine a uniform structure of information in connection with responsible operation and institutional stakeholder impact, but also to determine the extent of information and the methods of its definition and measurement through which information asymmetry could be reduced. Thus, sustainability reports served both the reduction of information asymmetry and as a guide for corporate decision makers to methods of measuring and collecting sustainability-related information.

The story of the emergence of the Global Reporting Initiative (GRI) and the principles and procedures applied demonstrate this process precisely. Towards the end of the nineties, the voluntary preparation of sustainability reports by corporations was considered an accepted though not general practice. Numerous recommendations, lay-outs and organizational framework helped corporations preparing such reports but there was no uniform reporting standard – as opposed to financial reporting with its uniform and legally recognized system. There were three factors that made GRI successful: the process of preparing the recommendation, in the course of which organizations that would not have thought themselves members of uniform political networks cooperated effectively and transparently; the institutional structure that ensured – through its receptive, equality-based and multi-stakeholder participation based operation – that the recommendations complied with the manifold modes of social legitimacy; and the continuity of deliberative will-forming offering the possibility of the applicability and continuous renewal of the recommendations (Brown et al., 2009).

The first GRI recommendation was published in June, 2000. Its preparation was supported by wide-spread stakeholder participation – from diverse areas (civil, investor, state, corporate and academic) – and by multi-level and transparent dialogue, primarily via the internet. Following the completion of the first version, thirty-one corporations consented to test the process and the recommendations, spending significant time and resources on its refinement. The results of the tests were built into the process and in 2002 – with the support of the UN – the GRI was established as an independent organization with its head-office in Amsterdam. Not much later the new version of the recommendation, called G2, was published. This was followed by sectoral recommendations and, in 2006, by the third generation of reporting recommendations, the G3. The collaborative work did not stop here and in 2013 the fourth generation recommendation was published as G4. More than 1500 stakeholder delegates from 69 countries attended the conference where G4 was accepted. The fact that the vision and political goal of GRI and CERES were clear from the beginning played a key role in the success: to increase corporate accountability by offering all stakeholders the opportunity to get standardized, trustworthy and comparable environmental and social impact information, similar to financial reports (see GRI Principles). This was complemented by the fact that the executives of GRI operated as ‘institutional entrepreneurs’ – similar to ‘policy entrepreneurs’ – who had the goal of changing the existing political institutional order (Levy & Scully, 2007). ‘Institutional entrepreneurs’ work to change the traffic patterns, rules and standards between the organization and society. Through this they create and effectively operate the common communicative platforms of social and business interests and their discursive cooperative institutions. As their resources and current political and power positions are insignificant, it is their strategic sense that determines whether they are capable of taking advantage of the tension in the given institutional system. It is the strategic merit of the founders and operators of GRI that they were able to recognize and take advantage of the institutional tensions stemming from stakeholder information asymmetry and that they called GRI to life as an institution of public, multi-level and continuous dialogue. They created a new kind of social will-forming through making their general standard on reporting accepted, and spreading it through information dissemination and stakeholder inclusiveness supported by the publication of continuously renewed generations of recommendations.

However, the GRI did not only create the discursive institution for formulating reporting recommendations but it also brought to life the recommendation for reporting along similar principles and in the interest of creating institutional processes. These principles ensured both the reduction of stakeholder information asymmetry (thereby allowing for the conditions of equality-based discursive space) and the possibility of stakeholder inclusiveness based management of social, environmental and economic impact by corporate decision makers (thereby creating the conditions for the new processes of stakeholder will-forming). For reports prepared according to the GRI, the recommendations suggest the adoption of the following principles: materiality, stakeholder inclusiveness, sustainability context and completeness. Materiality means that the reports have to present indicators and areas which, on the one hand, account for the most important social, environmental and economic impact of the corporation and, on the other hand, significantly influence stakeholders' evaluation and opinion of the corporation. Stakeholder inclusiveness stipulates that corporations should map their stakeholders and indicate in their report how they create the space for response to sensible stakeholder expectations. The principle of sustainability context declares that the corporation must be able to place its own operation and the ensuing impacts in a wider sustainable environment reaching beyond direct impacts of the corporation, while the principle of completeness states that the report must give stakeholders sufficiently detailed information to be able to assess corporate impact in the reporting period. In the interest of reducing information asymmetry and the equal treatment of stakeholders, the recommendations prescribe that the report has to extend both to positive and negative impacts and performance; the data and information supplied has to be consistent in time and comparable; and it has to give the opportunity for stakeholders to compare it with the performance of comparable corporations. Information provided has to be precise and it has to be presented periodically at clearly defined intervals so that stakeholders can make an informed decision. Further, the data have to be disclosed in a way that is comprehensible for interested stakeholders. The recommendations on reporting provides the opportunity for corporate decision makers – under the subtitle 'Disclosure on Management Approach' – to complement the provided information on given topics and areas with their own strategic approach and to present the corporate viewpoint, strategic goals and interests. The second generation recommendations introduced the "in accordance" category where the report makers could make a declaration that the report was prepared in accordance with the GRI principles and reporting rules. The purpose of this was to allow corporations in the beginning of the reporting cycle to use GRI by only reporting on certain areas without having to prepare a fully-fledged report. The third generation of the recommendations divided this into six categories and introduced the C (C+), B (B+), and A (A+) "in accordance" categories. These referred to the application, i.e. the number and topical structure of the indicators used, and the indication of a third party verification or certification by using the plus sign. The most important change in the fourth generation recommendations was the abolishment of the 'in accordance' categories with the reasoning that it might appear to stakeholders that they referred to the social and environmental performance of the corporation and not to the depth of the social and environmental report. The recommendation returned to a redefined version of ‘in accordance’ and when it includes the whole supply chain and the process of the value chain in the circle of topics and areas that have to be reported on it forces corporations to broader data collection and impact evaluation.

The four generations of GRI recommendations, their wide-spread corporate application and the stakeholder legitimacy achieved have made it possible to prepare uniform reporting rules and processes. For the minimal institutional background for stakeholder democracy – a radical reduction of information asymmetry between stakeholders and the corporation, and the availability of information on economic, environmental and social performance and impact in a comparable and accountable form – a uniform financial and sustainability reporting obligation must be introduced. For this, a uniform reporting system has to be worked out, the preparation of which started in 2009. The process is in a stakeholder dialogue stage about the framework of principles and forms of the uniform international reporting system published in 2013. Global corporations and numerous stakeholders participate in the process, with the support of the responsible investing initiative of the UN (UNPRI). In 2010, under the patronage of Prince Charles, the International Integrated Reporting Council (IIRC) was called into being with the goal of creating the organization and standard for reporting with a broad stakeholder participation and cooperation, similar to that of the GRI. The process has started and – whether in the IIRC or within other frameworks – it is very likely that the reporting integration will continue in the interest of creating the conditions for institutional and social legitimacy of stakeholder democracy (Hohnen, 2012).

The strengthening of these political conditions was the aim of the European Parliament when in July 2014 it revised the directive about the corporate obligations regarding non-financial reporting issued a year earlier. Besides defining more precisely the social impacts that corporations employing more than 500 people have to account for – this affects about 6000 large European corporations – the directive shows a departure from the earlier political doctrine of responsibility. According to the earlier definition, responsibility is a voluntary activity that takes the values and interests of stakeholders into account. This time, however, the Union – with member states incorporating the directive into their legal system by 2016 and corporations having to prepare their reports according to the directive for the first time in 2017 – made reporting for certain types of corporations compulsory. Thus, the Union forced certain type of corporations defined by size to support the establishment of the discursive spaces of stakeholder democracy and to manage their social and environmental impact. Corporations can apply a number of recommendation formats and rules accepted by different epistemological communities, just as they can choose freely between the standards of various organizations having moral legitimacy (ISO, UN, OECD), as they may also use the GRI recommendations. Thus, conditions for the compulsory inclusion of stakeholder interests and values in business operation in the European Union – in the case of certain corporations – have been created.

This process means that conditions for the creation of the equality-based discursive political space have been established and the legitimate modes of social will-forming have been extended. Before the structures of the discursive political space and the processes of stakeholder dialogue are analysed, an important detour has to be made.

Prospect theory and the stakeholders

The inclusion of stakeholder values and interests in business operation is the self-interest of the corporations. It follows from stakeholder theory that the success of the corporation means the maximization of the value created by stakeholders. From a triple bottom line perspective, the corporation should create the highest possible value for all stakeholders. Thus, the performance of the corporation can also be defined as the sum total of value created through its activity for all legitimate stakeholders (Freeman et al., 2010). This value can simply be financial value, although, based on the triple bottom line, beyond financial value, social and environmental values should also be included. A number of researchers, however, have voiced their reservations about the theory of social and environmental value creation (Harrison & Wicks, 2013). According to this, the application of the triple bottom line endorses the 'separation thesis' of Freeman (1994) which looks upon the economic order as a separate area from the ethics underlying social and environmental values (Wicks, 1996).

Therefore it is especially important that the exact meaning of 'stakeholder value', the maximization of which will be the goal of corporate politics, be defined. In doing this, stakeholder value theories generally look for some objective, external factor in order that stakeholder value can be defined and measured in a generally applicable way. However, stakeholder value maximization is basically the result of discursive cooperative processes in which the process of value creation is not only the task of the corporation but it is a common activity with stakeholders involved. For the corporation to create the highest possible value for all the stakeholders through its activity, the active discursive participation of stakeholders is needed. It has already been argued in this book that the inclusion of stakeholder values and interests is a political activity in the course of which the corporation, by involving and engaging stakeholders, sets up the new discursive political institutions of cooperation and dialogue for the new modes of the legitimate social stakeholder will-forming. Thus, beyond the 'factual' aspects, it is extremely important – in the interest of stakeholder participation – to define value creation from the viewpoint of the stakeholders as well: the corporation can count on stakeholder participation if the common value creation also meets the value expectations of the stakeholders. Accordingly, stakeholder value can also be defined as 'the subjective judgment of a stakeholder, occurring at the individual or collective level depending on the situation, of the total monetary and non-monetary value experienced as a result of one or more of a firm's actions.' (Smith et al., 2011a, p. 11).

Prospect theory (Kahneman & Tversky, 1979) laid the ground for a different kind of understanding of human decision-making processes thirty years ago. Contrary to the theory of rational choice and expected utility – according to which human decisions are the result of weighing up different possible probabilities based on the same aspects trying to find maximum utility – prospect theory claims that decisions are determined by presentation (framing effect), its basis is some pre-existing expectation (reference point) – usually the status quo, and that decisions under risk are influenced by numerous other heuristics and biases (Kahneman, 2011). The most important of these is 'loss aversion': decisions are mostly influenced by the minimization of a perceived loss. However, perceived loss does not depend on the measured and non-relative utility of the loss or gain but on the point of reference: values under the reference point appear as loss, above it as gain. Prospect theory claims that the 'endowment effect' also influences decisions: the willingness to accept (WTA) – i.e. the sum for which one is ready to give away or sell already acquired possessions – is higher than the willingness to pay (WTP) – i.e. the amount that one is prepared to pay for the same object in case of objects that are owned or assumed to be already possessed. Human decisions are context dependent: risk averse in the perceived loss zones and more risk tolerant in the perceived gain range. And what is considered to be a loss or a gain is determined by the point of reference – the original value influenced by personal surmise. Therefore one tries to avoid losses because 'losses loom larger than gains' (Kahneman & Tversky, 1979). The result of this is the need for maintaining the status quo because "individuals have a strong tendency to remain at the status quo, because the disadvantages of leaving it loom larger than advantages" (Kahneman et al., 1991, p. 197).

Prospect theory may become especially important in defining stakeholder value, since according to it, the definition of 'the subjective judgment of [...] the total monetary and non-monetary value' is not the maximization of the expected utility calculated from comparable and identically measured values but according to a point of reference determined loss-gain calculus. All this significantly influences how standardized, comparable and reliable information relating to the operation of corporations helps the process of stakeholder value creation, what effects a reduction in information asymmetry have on the determination of reference points stemming from given stakeholder contexts, what kind of stakeholder engagement and behaviour loss aversion (i.e. the perceived losses and gains) induces as a result, and what value creating models and measures the various biases – primarily the 'endowment effect' – offer (Smith et al., 2011a).

The assumption in connection with the disclosure of information related to corporate operation is that authentic and comparable operational information may create a uniform discursive space for all stakeholders and it may launch processes that make manageable value maximization through stakeholder engagement possible. According to prospect theory, the same information means something else for the different stakeholder groups, since the information is interpreted in terms of different stakeholder reference points as losses or as gains. The corporation may publish one of its environmental impact indicators and the 'improvement' achieved – expecting the acknowledgement of stakeholders – yet for some stakeholders the indicator of the signaled improvement is in the loss zone and therefore they deny their acknowledgement. Similarly, certain changes may count on the support or rejection of the corporate action by certain stakeholders depending on the reference point because it is not the provided utility of the information but the position relative to the stakeholder reference point that will determine stakeholder behaviour and their attitude to be risk averse or risk taking.

Uniform information is important, yet in order to be able to determine stakeholder decisions, expectations, the readiness for common value creation and its possible extent and the modes further research is needed. Researchers have just started to apply prospect theory in various sub-disciplines of economics. Therefore, further research is required to fully understand how reference point based decision making, different heuristics and biases influence stakeholder value creation, participation in the discursive corporate political institutions and the legitimacy of stakeholder will-forming. The findings of such research may fundamentally influence how the discursive political institutions created by the corporation must and should be viewed and how the legitimization of stakeholder will-forming progresses. A topic for further research could be the method of determining stakeholder reference points and how they are arrived at. Likewise, it would be interesting to look into the possibility of moving reference points as well as methods thereof, and how forms of stakeholder cooperation and the processes of stakeholder value creation are influenced by loss aversion, risk taking and biases – the framing effect or the endowment effect (cf. Kőszegi & Rabin, 2006; Kőszegi, 2006).

Change has begun, institutions have been set up and the theoretical and procedural bases – through guidelines, standards and procedures discussed in this chapter – for their operation have been created. In what follows the most important stakeholder institution of corporate politics, the process of stakeholder dialogue will be discussed.

The GAP turn

In March 2014 President Obama demonstratively stopped to shop in one of the Gap stores in New York. Beyond the fact that the President presumably likes the emblematic brand, this time he choose Gap because the company had announced that they would voluntarily raise the minimum hourly pay of their staff above the official national minimum wage, thereby being among the first companies that applied the voluntary 'living wage' in the United States. This is higher than the official minimum wage: a regulation-supported, voluntarily-offered minimum wage that is calculated to meet basic needs to maintain a safe, decent life. Offering the living wage is part of Gap's principles of responsible operation, policies that have been developed over nearly a decade with the close cooperation of stakeholders. The reporting and stakeholder processes introduced by Gap have been deemed exemplary by numerous researchers and activists concerned with responsibility. On the other hand, although the operation of Gap and its stakeholder inclusiveness policies have been acclaimed, it does not mean that the complete supply chain of the company would always have been void of violations of human rights or of environmental rights. Researchers do, however, claim that inclusiveness-based stakeholder cooperation is capable of handling problems that arise more quickly, more effectively and, for stakeholders, more authentically. (Smith et al., 2011b)

Gap was founded by Dan Fisher in 1969 and by the nineties it had become a large corporation producing and selling numerous successful brands – BabyGap, Old Navy and Banana Republic – in its network of three thousand shops, cooperating with emblematic stars like Madonna, Sarah Jessica Parker or Bono. The responsibility turn of Gap was brought about by the so-called 'sweatshop' scandal: in the 1990s it was uncovered that the products of numerous clothing companies – among them GAP – sold in Western European and American shops, had been made in parts of the Global South where deep poverty was dramatic. Their suppliers had the goods produced under inhumane conditions, for pittances, more often than not using child labour.

Following the exposure, consumers declared a boycott and the price of the shares of Gap fell significantly.

In 1992 Gap developed a standard to which their sub-contractors had to adhere as suppliers. It contained rules relating to human rights, working conditions, the environment, and to health and safety. In 1995, however, the National Labour Committee (NLC) investigation revealed a number of dramatic irregularities – extreme overtime, low wages and the prohibition of a trade union – at one of their suppliers, Mandarin International in El Salvador. This awakened public interest once again and Gap was the first to understand that guidelines-based policies are worth little without control and auditing. Following the new scandal, Gap built a team of more than one hundred auditors and controllers who continuously monitored whether their suppliers adhered to the rules. In spite of these efforts, a BBC report still uncovered violations of human rights at one of the suppliers of Gap in Cambodia. Here, as witnessed by the report, some children were employed whom the auditors could not identify since – as the management of The Gap, Inc claimed in their defense – not even the local doctors could establish the exact age of the youngsters due to their documents having been lost in the civil war in that country.

The issue of child labour and low wages, which is burdened with numerous ethical dilemmas, has been an important topic in the literature on ethics (Velasquez, 2011). Gap recognized that the traditional defensive and responsibility negating attitude taken in these situations would not lead anywhere. The exposure of the situation was followed by new boycotts and repeated demonstrations in front of the head office of the corporation, amidst media interest. This spurred Gap to continue on the road taken earlier and start out in the direction of local cooperation. There were some antecedents: Levi Strauss – working with multi-stakeholder initiatives (MSIs) – vigilant of the ethical dilemmas worked out possible processes of cooperation with local stakeholders: they gave the youngest children a school-going subsidy and guaranteed that they would get a job after finishing school, while youngsters near employment age were given training and a replacement wage and finally a job. It became clear for GAP that soft laws, enforcing the rules, and shifting the responsibility onto the local government would not solve the problem. Therefore, in cooperation with two MSIs – New York-based Social Accountability International (SAI) and Ethical Trading Initiative (ETI) – they worked out the institutions and forms of local cooperation involving local stakeholders and together with them they formulated the precise goals and processes. This holistic approach affecting children, their families and the suppliers could count on the support of all stakeholders, even including some of the competitors, with Levi Strauss in the first place. However, even these steps could not save Gap from a further scandal: in 2007 *The Observer* reported an Indian supplier where ten-year-old children were working sixteen hours a day. The children had been sold by their parents to the factory owner, which meant that they did not get any pay, they were maltreated and had no hope of ever becoming free. The children interviewed by *The Observer*, ten-year-old Amitosh and twelve-year-old Jivaj and Manik, talked about the dramatic conditions themselves.

However, this time Gap knew what to do. They immediately started an investigation in cooperation with ETI, they stopped the cooperation with the supplier, and had their products taken off the shelves of the shops. In addition, Gap launched the programme already tried in Bangladesh. While some NGOs still kept protesting, the international stakeholder initiatives and think-tanks as well as numerous media stood by Gap. The international organization AccountAbility declared that it is natural that the largest corporations would always be in the forefront of criticism and the more they do in the interest of a cause, the more they attract public attention. The question is whether they are prepared to be honest or flee from ethical and political challenges. The approach to stakeholders has changed fundamentally. In the words of Dan Rees, CEO of ETI: “It is not a crime to find child labour in your supply chain. What is important is what you do about it when you find out.” In the experience of Dan Henkle, vice-president for sustainability, this time the scandal evoked a different reaction in the stakeholders: “They worked with us, found us to be good partners and therefore, instead of beating us up their approach was ‘how can we help?’” (Smith et al., 2011b, p. 75).

The theory of stakeholder engagement

To discuss the theory of stakeholder engagement, we have to return to the basics of Freeman's stakeholder theory. Freeman summarized his theory as: *(1)* No matter what you stand for, no matter what your ultimate purpose may be, you must take into account the effects of your actions on others, as well as their potential effects on you. (2) Doing so means you have to understand stakeholder behaviors, values, and backgrounds/contexts including the societal context. To be successful over time it will be better to have a clear answer to the question "what do we stand for". (3) There are some focal points that can serve as answers to the question "what do we stand for" or Enterprise Strategy. […] (4) We need to understand how stakeholder relationships work at three levels of analysis: the Rational or "organization as a whole"; the Process, or standard operating procedures; and the Transactional, or day to day bargaining.[…] (5) We can apply these ideas to think through new structures, processes, and business functions, and we can especially rethink how the strategic planning process works to take stakeholders into account. (6) Stakeholder interests need to be balanced over time" (Freeman, 2004, p. 231).

The basis for any corporate strategy and operation should be the management of stakeholders – a collaborative, communicative, conciliatory, agreeing and motivating relationship. Freeman also reminds us that his book on stakeholder theory was meant as a strategic management textbook and not as the basis for a new normative ethics for corporations. As the corporation has or could have numerous and varied stakeholders with divergent stakes and values, the communicative cooperation with stakeholders inevitably carries inherent conflicts. Consequently, the fundamental goal of stakeholder management is that inevitable stakeholder conflicts be transformed, through corporate strategies, into ethics-based communicative systems and stakeholders together create long term sustainable value along answers given to the question 'what do we stand for?' assessing the matrix of stakeholder impacts. This means that strategic management is essentially a political activity: creating and operating institutions which transform inevitable conflicts stemming from stakeholder values and interests into resolvable, accepted and manageable institutional hierarchies. Stakeholder theory thus stems from the Habermasian normative basis of communicative rationality, which makes communicative reason the basis for democratic institutions (Scherer & Palazzo, 2011). 'Political CSR' as described by Scherer and Palazzo – the deliberative cooperation of multinational corporations, NGOs and governments, under uncertain legal and social conditions of legitimacy, in a global, post-Westphalian context – aims at redefining the normative social role of corporations. Political CSR thus offers social legitimation to the deliberative processes taking account of the linguistic-pragmatic-Foucauldian turn of communicative contexts (Scherer & Palazzo, 2007, 2008, 2011; Scherer et al., 2016; Scherer, 2017). Following this line of thought, in the context of stakeholder theory all corporate activities are essentially political: stakeholder interests and values are coordinated and managed to create long-term stakeholder value as well as sustain social legitimacy. Stakeholder engagement is the institutionalisation of deliberative stakeholder management processes based on communicative reason, taking into account the behavioural biases and heuristics of ‘subjective’ stakeholder judgement on value. Stakeholder engagement so understood would be the starting point of and precondition for a corporate system of stakeholder democracy calling forth the creation of inter- and intra-corporate institutions and hierarchies (systems of checks and balances) for the joint, sustainable maximization of stakeholder value.

As discussed in detail in this book, members of the corporate stakeholder community – corporate citizens – have inalienable stakeholder rights, societal, political, social rights and obligations, as well as opportunities for participating in the democratic processes. This is why the corporation is to engage in public deliberation and collective decisions (Scherer et al, 2016). Corporate citizens are able to participate in the deliberative democratic corporate processes as well as to have their identity positions acknowledged (Crane, Matten & Moon, 2008). From the perspective of the stakeholders, “corporate citizenship describes the role of the corporation in administering citizenship rights for individuals” (Matten-Crane, 2005, p. 173). These rights can differ, therefore on the part of the corporation, the administration of the rights may take different forms of action. As regards social rights, the administration of these rights is ‘providing’ because the corporation can offer the stakeholders, i.e. the corporate citizens, these rights. The administration of human rights means the validation or limitation of these rights, i.e. the administration of rights is of an ‘enabling’ nature. As far as political rights are concerned, the corporation provides the opportunity for exercising these rights within the corporation, and as such the role of the corporation is one of ‘channeling’ (Matten & Crane, 2005). In other words, the subjects of corporate politics are corporate citizens who have social, human and political rights stemming from their stakeholder positions and their status of being corporate citizens. These can be enforced through processes of deliberative conflict management and through institutional hierarchies created by the corporation with due consideration of institutional guarantees, transparency and accountability (Crane et al., 2004). The process of stakeholder engagement puts these principles into practice, creating the framework for a consensus between stakeholders and the corporation and the institutions for control, cooperation and accountability. It can be the way to create or re-create trust and it can become part of the institutional hierarchy of corporate governance.

The process of stakeholder engagement

For the corporation to create the possibility for common value maximization of stakeholders, a new approach to stakeholders is necessary. Freeman (2014) calls this the 'value creation stakeholder model'. This goes beyond the strategic view of priorities and compromises defined by corporations taking stakeholder interests and values into consideration, or the strategic view of civil society/CSR considering sustainability, social values and interests when applying stakeholder interests and values in corporate operation. This model, instead of enforcing value creation in the interest of achieving compromises and sustainability, views common value creation in the institutionalized management and harmonization of stakeholder conflicts, , since "[w]here stakeholders conflict is precisely the place where value can be created" (Freeman, 2014, p. 98). It is the ethical engagement of stakeholders that is at the centre of the value-creating approach because engagement requires the enforcement of such values as respect, dignity, accountability and the honest conviction that we can help others. Therefore, fairness-based stakeholder engagement creates a moral partnership of equals (Phillips, 1997; Freeman, 2014).

The basis of value creation is ethically approached engagement, the most important aspects of which – as laid down by the AA1000 Stakeholder Engagement Standard of AccountAbility – are materiality, completeness, and responsiveness, all framed in the discourse of inclusiveness. Materiality refers to the recognition that the circle of stakeholders must be defined – i.e. there must remain non-stakeholders and also those towards whom the corporation has no moral obligations because they are not stakeholders of the corporation (Phillips, 2003) – and that the stakeholders and the corporation must clarify their material demands, concerns and reservations towards each other and towards others. Completeness refers to the recognition that the stakeholders and the corporation mutually understand each other’s concerns and commitments – i.e. the claims, assumptions performance/impact expectations stemming from material issues. Responsiveness means that the stakeholders give mutual answers to arising concerns and demands (AccountAbility, 2011).

There are many modes and forms of stakeholder inclusivity: from the observation and analysis of stakeholder interests, through consultation with stakeholders, to the creation of strategic dialogue and collaborative governance. Further to the implementation of the above principles, the key to stakeholder inclusivity is equality, i.e. the creation of a ‘moral partnership’, of empowerment and collaborative governance. That is, the setting up of a formal process of governance and cooperation through which the cooperating stakeholders create the commonly accepted structures and institutions of equality-based discursive political space. The process of stakeholder engagement fulfils its role in strategic management when it pays attention to the context *(*i.e. the interests and values of the different stakeholders and the corporation and their relationship to each other); it makes appropriate value choices possible (i.e. corporate decision makers include social and environmental aspects in their strategic decision making in addition to economic value creation); it enforces the aspects of appropriate measurability (i.e. they use the appropriate ‘measuring tools’ for evaluating the success of the engagement and strategic cooperation); and their communication is in line with the principles of engagement (i.e. they enforce the aspects and practices of equality, accountability, transparency, honesty and fair feedback) (O’Riordan & Fairbrass, 2014).

The current corporate level processes of stakeholder engagement are, mostly, one-offs and issue-centred. Even in their widest form they basically only mean some cooperative form of stakeholder dialogue. Although that dialogue is often complemented by communication tools (dedicated website, sustainability report), authenticating and certifying tools (sustainability audit, environmental report, reporting certification), measurements and rankings (ratings, acknowledgements), equality-based engagement can only become reality through institutionalized deliberative stakeholder cooperation and dialogue. Traditional dialogue takes place under the direction of some external party: the identification of stakeholders and the evaluation and ranking of their interests and values, followed by a hearing of the stakeholders in a dialogue with the corporation in a formalized process – often as part of the social/sustainability report –, the feedback on corporate operation, social, economic and environmental impacts, and the formulation of tactical or strategic and perhaps cooperative undertakings that take stakeholder interests into account. Current processes of dialogue create corporation-stakeholder relationships in the course of which – provided the above principles are adhered to – a strategic cooperation is entered into between the corporation and certain stakeholder groups in the interests of a mutually beneficial implementation of given causes. Fair, open and respectful stakeholder engagement can already in its present form become a strategic tool of corporate operation: engagement based 'ethical strategy' makes it possible to optimally allocate resources at the disposal of the corporation in a way that it creates value for all stakeholders (Noland & Phillips, 2010).

The most widespread form of inter-corporation stakeholder engagement processes are the multi-stakeholder forums and organizations (Multi Stakeholder Initiative – MSI) which many view as the institutional spaces of 'corporate democratization' (Scherer & Palazzo, 2007). Multi stakeholder initiatives – like the UN Global Impact, Forest Stewardship Council or Social Accountability International – create the institutions for deliberative reconciliation, supporting the corporations and the stakeholders by institutional learning and democratic negotiating processes in finding common interests and establishing processes of democratic cooperation. MSI may offer epistemological, transformative and legitimizing benefits for stakeholders. Epistemological benefits may be the depth and quantity of information becoming common for stakeholders, thereby contributing to a better understanding of the challenges facing others and the corporation by stakeholders. Transformative benefits may offer stakeholders becoming capable of re-thinking their own standpoints induced by information and deliberation, of changing their attitude and understanding the problems, in turn strengthening the solidarity between the stakeholders and corporate communities. Stakeholder and corporate legitimacy is increased by creating new forums for common governance and wider platforms of stakeholder engagement and participation (King, 2003; Payne & Samhat, 2004).

On the other hand, there are some who are rather critical of the role that MSIs play in bringing about real political change. Critics note that the ringleaders in these organizations are always the most significant international civil organizations – WWF, Greenpeace – and therefore the voice of the smaller stakeholders representing a more definite standpoint cannot be heard. The creation of true transparency, accountability and the principle of representation is very difficult, and therefore these organizations often become forums of ‘green-washing’ and ‘façade building’. Some critics go even further, claiming that in reality MSIs – precisely because they cannot create the conditions for true representation and transparency – become hinderers of processes of democratic reconciliation and therefore their activity is more harmful than beneficial (Moog et al., 2015).

In a corporate context the current institutions of stakeholder engagement are isolated and limited: they do not appear on the levels of corporate governance and corporate strategic decision making, in the best case they inform them. The inter-corporate institutions of engagement – as critics of MSIs maintain – are as yet imperfect and cannot sufficiently implement stakeholders’ political expectations regarding the creation of an equality-based and influence-free discursive space. Thus, for stakeholder engagement to become stakeholder democracy, new corporate stakeholder institutions must be set up.

The institutions of stakeholder democracy

For the democratic institutions of common stakeholder value maximization to come about, stakeholders do not only have to participate in dialogue-based strategic cooperation with the corporations. It is not enough if the deliberative political institutions are implemented in a global inter-corporate and inter-stakeholder framework, but the stakeholders must also have a role in corporate strategic decision making. In the course of the politicization of corporations it is not sufficient that corporations – in the interest of promoting democratic social cooperation take over social roles and duties which were earlier the privilege of the state (regulation, legislation, education and social or cultural support), or that they participate in global stakeholder cooperation going beyond traditional, nation state determined reach (MSIs). Corporations also need to transform corporate institutional decision making so that stakeholder engagement can really serve stakeholder value maximization (Scherer & Palazzo, 2011).

In the twenty-first century – as discussed earlier – the frame of corporate legitimacy has changed radically. Beyond pragmatic and cognitive legitimacy, corporations must maintain their moral legitimacy in order to keep their 'licence to operate'. Moral legitimacy relates to moral judgement in connection with corporate impact, processes, organization and management form and reflects a societal logic that differs fundamentally from narrow self-interest (Suchman, 1995). In essence, the condition for attaining legitimacy is the inclusion of different stakeholder interests and values in the operation of the corporation. In addition, for corporations to meet the challenges of deliberative democracy, the equal, deliberative, institutionalized and legitimate social will-forming processes must appear not only in inter-corporate relationships but also in the corporation as stakeholder matrices. Thus, for corporate operation to adjust to the conditions of stakeholder democracy, the structure of governance and decision making, the democratic mode of stakeholder will-forming and the institutional protection of stakeholder rights and values must comply with the institutional forms of liberal and deliberative democracy. In the interests of bringing about a moral partnership of equals, it is necessary that stakeholders have 'universal suffrage' for participating in the democratic processes of the corporation and in strategic decision making, and that the elections allow for the conditions for securing the 'stakeholder majority' necessary for the acquisition and continuous maintenance of legitimacy; that stakeholders can participate in processes of stakeholder will-forming as 'informed corporate citizens'; that the procedural conditions for managing inevitable stakeholder conflicts and 'corporate rule of law' be secured; and that the branches of power be separated and institutions independent of strategic stockholder or management dominated decision making be set up in the interests of ensuring accountability. Beyond enforcing moral legitimacy and the principles of democracy – supported by Rawlsian political philosophical arguments – a practice considering stakeholder values and interests in strategic decision making also complies better with the justice requirements of economic efficiency. According to the 'Stakeholder Equality Norm', for the optimal distribution of resources from a stakeholder value maximization point of view – i.e. to achieve economic efficiency – stakeholders may receive suffrage in forums of corporate strategic decision-making, primarily in the board of directors and supervisory bodies (Smith & Rönnegard, 2014).

Currently these institutions are not available or they exist only in embryonic form. The enforcement of the principles of stakeholder engagement, the sporadic appearance of the institutions of stakeholder dialogue, and the participation of some stakeholders – e.g. representatives of employees or of independent non-operative directors – on the boards, supervisory bodies or in other bodies of strategic decision making may mean the beginning of the emergence of stakeholder democracy. Yet, independent or limited representative participation on corporate boards is not sufficient for stakeholder democracy to emerge. Stakeholders must get or obtain 'universal suffrage' and the participation of stakeholder representatives in bodies of strategic decision making must be based on periodically recurring democratic elections. For this to come about, stakeholders need independent and unbiased information about the operation. For this, independent interactive fora are needed that share non-confidential business information, operate from the common resources of the corporation and the stakeholders, with the participation of all interested stakeholders, and that ensure the freedom of speech. The process may be assisted by internet-based and mobile tools of communication, providing stakeholders with the possibility of participating in processes of decision making and voting at low cost, independent of time or space. It can also provide interactive channels of information based on equality and sharing, which may radically reduce stakeholder information asymmetry. For stakeholder conflicts to be transformed into accepted and manageable oppositions and hierarchies within a corporative institutional framework, clear operative rules, 'corporate legal systems' are needed. Although the germs of this are detectable in various codes of conduct and there are internal institutions aimed at enforcing them – supervisory bodies, internal audit and compliance committees – independent institutions are missing which enforce and sanction the consequences of norm violation within the corporate political community.

In order for corporations to establish the 'moral partnership of equals' within the framework of deliberative democracy, more stakeholder democracy is necessary. Stakeholder engagement – i.e. the inclusion of stakeholder values and interests in the business operation – is the public dialogue of free and equal corporate citizens in the course of which the processes of opinion- and will-forming takes place through democratic corporate institutions, and it is their binding, albeit temporary, validity accepted by all stakeholders that brings about the legitimacy of corporate strategic decisions and thereby of common stakeholder value creation. All this, of course, raises a number of problems: how stakeholders to participate in the process can be identified; on what group size the possibility of participation depends; exactly how and with what regularity members of the decision making forums should be elected, etc. This does not, however, violate the theoretical validity and the feasibility in principle of the process (Smith & Rönnegard, 2014). Time and dialogue will overcome these difficulties in the same way as some time back it seemed impossible that there would once be guidelines and standards for uniform sustainability reporting, or, in a wider political frame, universal and secret suffrage. Thus, the political-moral legitimacy of business activity – applying the deliberative democracy concept of Habermas to corporate stakeholder democracy – will be transformed from the exposed interest or verbalized opinion of individual stakeholders to the corporate *institutionalization* of the spaces of public dialogue similar to the spaces of liberal democratic political communities.

The institutionalized forms of stakeholder engagement – stakeholder dialogue and stakeholder participation in corporate strategic decision making – are the basis of responsible corporate operation. This also means that the fiduciary responsibility of corporate leaders changes: they no longer only have a responsibility towards the stockholders, but also towards every stakeholder and the community corporate citizens as a whole. Thus stakeholders, having become part of corporate operation, form an equal 'corporate community'. Fiduciary responsibility no longer binds decision makers to maximize stockholder value but to maximize common stakeholder value based on 'stakeholder sovereignty'. Equality-based institutionalized, democratic stakeholder engagement is the true politicization of the corporation: 'inside' the corporate stakeholder community it means the creation and operation of institutionalized spaces of democratic dialogue and participation, whereas 'outside' the stakeholder community it means the modes of acquiring and upholding social legitimacy with the general public. This also means that beside supra-corporate macro-level stakeholder cooperation as political spaces, intertwined political spaces of multi- and micro-level corporate cooperation come about, thereby further decentralizing and breaking up the system of power and the homogenous spaces of public policy. This helps both stakeholder value maximization, the strengthening of the multiplying institutions of Habermasian post-liberal deliberative democracy and the reduction of the risks of Beckian "incalculable delocalized interdependence."

The politics of the prospect theory

As discussed in the previous chapter, prospect theory – the theory of making heuristics and bias based decisions under uncertainty – can fundamentally influence the possibilities of stakeholder value maximization and therefore of corporate politics. Stakeholder decisions are made under uncertainty: decisions, based on unknown consequences, to cooperate or not stakeholders risk their fundamental values and the benefits stemming from them. Prospect theory may have numerous impacts on stakeholder behavior and the possible management of stakeholder-corporate conflicts. Original research by Kahneman and Tversky proved that in decisions under risk the most frequent reference point for assessing gains and losses and forming positions of risk aversion is the status quo (Kahneman & Tversky, 1979). Stakeholders, however, in their stakeholder decisions may start from a different reference point as they expect their values and interests to appear in corporate operation – i.e. in a more responsible attitude. They are, especially concerning environmental or human rights issues, less interested in only changing the status quo in a given situation but rather in achieving some zero indicator level. For the corporation, the status quo means the point of departure in weighing up decision options arising as a result of possible discursive negotiations. Therefore parties may have different reference points offered not by available or shared sustainability information but based on stakeholder expectations. Therefore – hypothetically – corporate decision makers are risk averse; through their actions they are already in the gain territory. They try to avoid change – since their reference point is the status quo, consequently, for them, change is in the loss range. Stakeholders, however, are risk takers, since their reference point is different from the status quo and for them the status quo is already in the loss range. It requires further empirical research to establish what kinds of stakeholder positions exist and what follows from them. Likewise, research could focus on how corporations view their reference point in connection with available data of operation, what alternative actions they see for themselves, which conflict management and reconciliation strategies are possible in view of the different reference points, and how the findings of prospect theory influence the creation of the deliberative institutional space and its possible institutions.

Traditional literature on political stakeholder conflicts seldom turns to prospect theory. One of the analyses using prospect theory in the nineties studied the introduction of restrictive measures and their acceptance in Latin-American countries.

The questions posed were: why did the leaders in some countries (Argentina, Brazil, Peru and Venezuela) decide to introduce reforms, and why did the population in the different countries react to the reforms in different ways – supporting in some, while revolting in others. According to the explanation using prospect theory, hyperinflation caused such losses for the leaders that they were already in the loss-zone and therefore their readiness to take risks was much higher than if the status quo had been the point of departure. While the population of Argentina, Brazil and Peru knew the devastating effects of hyperinflation from earlier years – and as such they were also in loss –, the Venezuelan leaders kept the possible effects of the emerging inflation secret and earlier inflations did not make a major impact either, thus it was the status quo according to which the population perceived the reforms as a loss and therefore took to the streets (Weyland, 2002). Other international political examples, conflicts during the introduction of some policies or the risk-taking tendency of politicians after a won or lost election, indicate the applicability of prospect theory to decisions regarding political and social issues, risk-taking inclination and the attitude of the individual actors (Vis, 2009). To what extent these political conflicts and examples can be applied to stakeholder conflicts and the stakeholder practice of corporate operation, and to the ensuing consequences require further research.

It may however be assumed that when interpreting common stakeholder value creation and the expected reactions of stakeholder engagement we are better off applying findings of prospect theory than rational choice based on cost-benefit or expected utility. It is important to understand when and why some stakeholders feel that they are in loss as we also need to assess why corporate decision makers see a deviation from the status quo as an avoided loss or as missed gain. The structure of these, and the uncovering of the differences and similarities in stakeholder decision making require further research. The disclosure of simple data and the potential of stakeholder value maximization based on calculations from these data do not provide sufficient grounds for answering the questions of how stakeholder engagement must be managed and the different discursive institutions of stakeholder democracy be created and operated, so that they really serve stakeholder value maximization and effective stakeholder cooperation. It is similarly important to see how the various stakeholder reference points in the possible different matrix elements of value- and interest representation change. Further research is required to see how far reference points depend on traditional stakeholder typologies, such as urgency, power, legitimacy (Mitchell et al, 1997) or other dynamic stakeholder position approaches. Likewise, in connection with stakeholder engagement and the creation of discursive cooperative and conflict management spaces, it could be especially important to see who, to what extent, and by which means is capable of influencing and shaping different reference points offering diverse risk-taking and cooperative – i.e. inclusive and participating – strategies for different stakeholders (Kőszegi & Rabin, 2006; Kőszegi, 2006). Thus, the confluence of prospect theory and stakeholder focused corporate operation, the interpretation of the politics of corporations applying the findings of behavioural economics, could be an independent area of research in the future.

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We do see the future that lies ahead of us.

For corporations, as the actors with the most significant social impact and resources, to be able to do justice to their role in bringing about new more democratic and more equal societies, capable of maximizing economic, environmental and social values for stakeholders to flourish, a re-interpretation of corporations is needed. Corporate social responsibility is essentially political corporate responsibility: corporations, realizing the democratic role they must play reinventing democracy in a transnational globalized world, engage in public deliberations, collective decisions and joint activities with stakeholders in order to (1) anticipate, respect and be responsive to values and interests of stakeholders; (2) integrate their stakes and claims into corporate operations and processes; and (3) take on the provision of public goods or the restriction of public bads in cases where public authorities or other societal actors are unable or unwilling to fulfill this role (Scherer et al., 2016; Scherer, 2017). Thus, political CSR is the inclusion of stakeholder values and interests in business operation, the management of inevitable conflicts stemming from stakeholder value differences and the dissolution of institutional hierarchies within the context of power. The aim of this politics is to reduce the harmful economic, ecological and cultural impact of corporate operation and the realization of stakeholder value maximization and stakeholder democracy according to the principles of stakeholder well-being and TBL based corporate success, through corporate political processes, the creation of a deliberative democratic public political space institutionalized for corporate citizens, and a free and equal system of checks and balances offering the possibility of unveiling the development of the stakeholder 'I' and of corporate discourse of power.

Corporate operation, as was shown earlier, is progressing in this direction. Triple Bottom Line and stakeholder theory support the establishment of epistemological communities of a paradigm shift, and the various guidelines and standards bring about the moral legitimacy for change. The different areas of corporate operations gradually become politicized: in the area of responsible corporate governance, human resources management, environmental management and responsible marketing, responsible research and innovation the institutional frameworks and processes of change keep evolving and the conditions for the moral partnership of equals are being created. The work that is left after the analysis of political corporate responsibility is to develop a theory, structure and operation of the political corporation after corporate politics has been defined. This is a task reaching beyond the limits of this book, and for which further research has to be conducted.

The discourse ethics of Habermas and the political corporate responsibility based on it sees the political model of stakeholder democracy and responsibility in institutionalized and equality based discursive processes: the institutionalization of public dialogue and the modes of processes of social will-forming with corporate participation. According to Beck's risk-society model, political social responsibility presumes the emergence of institutionalized discursive processes, its basis is, however, not the rational justification of decisions but the acceptance of the consequences and the possibility of continuous re-evaluation of the consensus. A Foucaldian political corporate responsibility views discursive institutions with suspicion – as a manifestation of power – and puts the emphasis on the individual stakeholder. First the stakeholder self has to be defined and made public, observing and unveiling the power-based corporate discourse, followed by enforcing engagement through continuous shaping and development of the stakeholder self. The 'stakeholder self' thus established must be represented in dialogue with other stakeholders parallel to continuous consultation about the own stakeholder interests and values within the own community as a result of the process of dialogue. Both the unveiled power discourse and the emerged temporary consensus serve the interests of the whole corporate stakeholder community, i.e. of the corporation, since they secure the commitment of all stakeholders both through the processes and through reducing transaction costs, thereby increasing result efficiency.

All this serves a more effective maximization of stakeholder value creation. The bases for a theory of change are available: a system of measuring output based on well-being indicators beyond GDP taking quality of life, ecological footprint, and the development of human capital into account; cognitive heuristics and biases influencing the process of stakeholder value maximization and its empirical justification; and a theory and practice of the politicization of corporate operation. For all this to become a unified new narrative of corporate theory and strategy, the creation and strengthening of the discursive institutions of a post-liberal deliberative risk democracy within the corporation, the establishment of a system of checks and balances and other power limiting institutions, and a corporate strategy applying findings of prospect theory are needed. Thus, instead of less politics, the further politicization of corporations leading to true stakeholder democracy is needed.

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