Ethical and Social Perspectives on Global Business Interaction in Emerging Markets

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Chapter 12
Toward Responsive Corporate Governance:
Engaging Stakeholders from Beyond

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ABSTRACT

Since the early 1980s, globalisation has deeply affected the way in which corporations typically conduct their affairs. This is true not only for business organisations that are active in the OECD countries but also for those operating in the emerging markets of the less affluent parts of the world. New social and ethical perspectives have become relevant for management strategy and have highlighted the need to acknowledge the existence of stakeholders—old and new—in a way that may benefit the interests of firms as well as those of local communities and society at large. In this chapter we argue that of all possible stakeholders the ones beyond the present periphery of the firm have the most potential for its long-term survival. Responsive corporate governance, therefore, will seek to engage with stakeholders from beyond.

PARADIGM SHIFT IN MANAGEMENT STRATEGY

Economic globalisation seriously took off after the fall of the Berlin Wall in November 1989, when the number of participants in the global market grew almost overnight from one billion and a half to six billion people—thus tremendously expanding the possibilities for trade and consumption. The globalising economy has come with the discovery of new management territories to be explored for companies operating from multiple nations, including the so-called emerging economies of the BRICS countries: Brazil, Russia, India, China, and South Africa (Guest, 2011). New social and ethical perspectives, sometimes embodied in new codes of conduct, have become relevant and have prioritized the need to deal with stakeholders in a way that may benefit the interests of firms in the long run as well as those of local communities and society at large (Van Tulder & Van der Zwart, 2006; Crane & Matten, 2010; Griseri & Seppala, 2010; Chandler & Werther, 2013). This shift in perspective is a trend in management strategy that we refer to as a move toward responsive corporate governance.

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The story of the role of stakeholders in management strategy starts, of course, with the work of Edward Freeman and with the huge impact of this prominent American business school professor. In 1984 Freeman published his seminal book, *Strategic management: A stakeholder approach.* Freeman explicitly addressed a corporate audience, for which he defined the concept of "stakeholder" as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). Freeman's own objective was pragmatic: to provide corporate managers with an instrument for dealing with the important, unexpected changes that were taking place in society at the time. From the 1960s onwards, corporations had been confronted with new groups, events, and issues that until then were not part of standard corporate affairs and which the traditional managerial view of the firm was not able to address. For Freeman, the stakeholder approach was a way to make managers more responsive to these changes in the world outside. This new approach intended to make not only traditional interest groups (owners, customers, employees, and suppliers) but also these newly emerging groups (governments, competitors, consumer advocates, environmentalists, special interest groups, and the media) relevant for management strategy development. Freeman's main message was that every single one of these groups of stakeholders could play an equally vital role in the success of the business enterprise (Freeman, 1984, p. 25).

A few years later, Freeman's stakeholder approach took off in a slightly new direction to become the hallmark of corporate social responsibility or CSR. It was increasingly used to describe and clarify the responsibilities of corporations towards society with a growing concern for social, ethical, and environmental issues. Subsequently the concepts of "stakeholder management" and "multi-stakeholder dialogue" have come to play a central role in discussions concerning CSR (Clarkson, 1995; Jones & Wicks, 1999; Kakabadse, Rozuel, & Lee-Davies, 2005; Waddell, 2005, 2011; Kakabadse & Morsing, 2006; Visser, 2011; Blowfield & Murray, 2011; Crane, Matten, & Spence, 2013; Beal, 2014).

A CHANGING GLOBAL ENVIRONMENT TO DEAL WITH

Since the publication of Freeman's book, the environment for doing business has again changed dramatically. We now live in the era of globalisation (Barber, 1995; Friedman, 1999, 2005; Van Seters, De Gaay Fortman, & De Ruijter, 2003), in which the combined effect of a demographic explosion and a fundamental makeover of the world economy is becoming more and more visible (Rischard, 2002). Following World War II, the reconstruction of infrastructure and industrial production in Europe and Japan paved the way for the reestablishment of an integrated global trade system. Initially, during the Cold War period, there were three different worlds. They were divided in political terms and mirrored the struggle between two economic systems—capitalism and communism. The first world of capitalist countries was based on private enterprise and a free market; the second world of communist countries was based on state ownership and central planning of production; while the third world referred to the rapidly rising number of postcolonial countries that economically belonged to neither capitalism nor communism, but were wooed by either side. Both the second and the third world had its own reason, seemingly valid at the time, for not joining the economic system of the first world (Sachs, 2005, 2009). However, after the end of the Cold War, the global economy experienced a sharp upturn. Because now only one economic system, i.e., capitalism, was left, it became possible to think of the world as a whole. Hundreds of millions of people in Eastern Europe, but also in Africa, Asia, and South America, had to orient themselves to this one remaining economic system.

In general, globalisation refers simultaneously to the "distanciation" of time and space as well as to the growth of interconnectedness and interdependency (Giddens, 1990, 2003; Castells, 1996; Beck, 2000). Globalisation was enabled by the revolutionary changes in transport and telecommunications and took off with the expansion of businesses and the growth of multinational enterprises. In fact, the creation of the global fibre-optic network during the craze of the dot-com bubble and the exponential growth of digitized information and application software to handle it set the stage for what Thomas Friedman (2005) identified as "the next phase" of globalisation. Its unique character is the newly found power for individuals—rather than for nation-states or multinational corporations, which were so characteristic for earlier phases of globalisation—to collaborate and compete globally. By the start of the 21st century, the world for doing business had become flat, a level playing field for corporations and individuals alike, connecting knowledge-pools and resources. Moreover, this flattening and shrinking of the world was not restricted to or even primarily taking place in the countries belonging to the OECD. "Clearly, it is now possible for more people than ever to collaborate and compete in real time with more other people on different kinds of work from more different corners of the planet and on more equal footing than at any previous time in the history of the world—using computers, e-mail, networks, teleconferencing and dynamic new software" (Friedman, 2005, p. 8).

More and more non-Western individuals and groups of individuals are driving this development as it moves forward. A good example of this comes from Bangalore, India's Silicon Valley, where an IT revolution has taken place that was able to provide a growing number of valuable goods and services to all countries around the world where business is conducted in English. The growth of the Internet, a young, English-speaking work force with high-tech skills, and a new openness to foreign investment all make India a top choice for foreign companies looking to outsource work that used to be done at their home territory. Business is thriving and moving from data transcription and financial-record keeping, to consulting and advising, to full-fledged back-office processing and call-centre operations. Distance is of no importance and can even become an advantage. For instance, radiologists of many small and some medium-size hospitals in the US are now outsourcing the analysis and interpretation of CAT and MRI scans overnight to doctors in India and Australia. Diagnosis of medical data can now be provided around the clock, often at lower salary costs. Shipping these images, which are already available in digital format on a network with a standardized protocol across the globe, and viewing them is no problem whatsoever (Friedman, 2005, pp. 11-16; Sachs, 2005, pp. 15-16).

It may be useful to think of globalisation in terms of three levels: firstly the primary process of economic expansion and the dominance of free-market neoliberalism; secondly the political, societal, and ecological deficits that become apparent as the consequences of the process of primary globalisation; and thirdly the human response that is evoked by those secondary consequences and is aimed at achieving a more sustainable global development (Van Seters, 2012). Not surprisingly, globalisation on all three levels is creating new and significantly more complex challenges for businesses and their interactions with society.

Corporations are now increasingly conducting their operations at locations around the world. As a consequence, their interdependence has grown enormously and a complex web of production chains and relationships is more and more connecting them. At the same time they have lost their original social embeddedness and are thus also contributing to the distanciating effect of globalisation (Granovetter, 1985). Furthermore, when global entities operate in local communities, corporate management is typically confronted with unfamiliar issues. Decision-makers live far away from the societies on which they have an impact (Googins & Rochlin, 2000). As the social context of their operations changes, so do the expectations of society toward corporations; this profoundly affects the social responsibilities of doing business. Smoking chimneys and employment opportunities were once welcomed as part of modern life as the industrial revolution swept over Europe and North America in the 19th and early 20th century. When some of the true costs became apparent, the expectations of society changed, first on social issues and later on, in the 1970s and 1980s, also with regard to the environment. The subsequent national legislation that was drawn up in the Western world to deal with these externalities has left the door wide open for over-exploitation of social and ecological resources in other parts of the world. Meanwhile nation-states went on trying to attract the establishment of international corporate headquarters by offering highly competitive tax rebate schemes, a race to the bottom where taxes no longer need to be paid. Multinationals clearly learned to benefit from operating on different continents. Since they often failed to address the over-exploitation of resources, they also met with a new kind of opposition. Corporations discovered that their nationally and internationally known brands were not just marketing investments. Their reputation is also a liability that makes them vulnerable to the critical eye of outsiders. A growing number of social groups and individuals, campaigning on specific issues and social concerns, are challenging corporations and dispute their license to operate. These critics are often well-organised, innovative, and powerful (Doh & Teegen, 2003) and their influence is needed and noticeable, even today (SOMO, 2014).

The intended disposal of the Brent Spar by Shell in 1995 is still considered a milestone in the development of antagonistic relationships between business and NGOs. “Industry was considered the ‘bad guy’ by the environmental movement, while business had regularly condemned the utopianism, radicalism and amateurism of environmental organisations” (Arts, 2002, p. 26). Even though Shell UK had done its homework with the government’s tacit approval and the technical reports to back up their proposed solution of dumping the platform in the deep-water of the Atlantic Ocean, they underestimated the political implications and were caught off-guard by a consumer boycott, organised by Greenpeace, in Germany and elsewhere in continental Europe (Winsemius & Guntram, 2002, p. 108).

In the eyes of many critics it would be better, of course, to keep a long distance away from the green wash of the modern corporate world at all times. Firms simply cannot be trusted because, by definition, they only have the short-term interests of shareholders in mind (Vogel, 2005; Reich, 2007). And even if their moral intentions are sincere, they still cannot be trusted. The concept of “moral licensing” explains that CEOs are inclined to corporate social irresponsibility (CSiR)—consciously or not—as soon as they feel pleased about the moral credits they have achieved through CSR (Ormiston & Wong, 2013). This is illustrated by BP’s CEO, Tony Hayward. Prior to the Deepwater Horizon disaster, BP’s safety record was promoted as one of the best in the industry. “However, in 2010, the Deepwater Horizon explosion shattered BP’s positive safety record when managers missed key safety warning signs (…) Moreover, Hayward’s reaction to the spill was seen as cold and perceived as minimizing BP’s responsibility for the spill as well as the environmental damage to the Gulf of Mexico” (Ormiston & Wong, 2013, pp. 861-862). The more outspoken a CEO is about his or her social reputation, the more likely subsequent less ethical stakeholder treatment is to occur. They are only human.

THE CHANGING RELATIONSHIP BETWEEN BUSINESS AND SOCIETY

The struggle of how to deal with these ever-changing corporate social responsibilities is taking place not only in practice at the level of individual firms, but also in the academic literature. The relationship between business and society has been studied for decades. The idea that business has duties toward society is widely acknowledged, but what these duties entail has changed radically over time. This is reflected, for instance, in the multitude of definitions of CSR academic writers have proposed over the years. The subject has been addressed in different ways and covered by an interesting array of banners, ranging from Corporate Social Responsibility to Sustainable Development, from Business Ethics to Corporate Social Contract, from Corporate Accountability to Business in Society, and from Corporate Citizenship to Corporate Governance (Kakabadse et al., 2005, p. 280). This certainly indicates the richness of the concept and its susceptibility for being studied from many different viewpoints: the relationship between business and society is multifaceted, complex, and constantly changing. It may also account for the many discussions and misunderstandings each time the concept is being implemented or studied within a specific context (Blowfield & Murray, 2011; Crane, et al. 2013; Beal, 2014).

Historically, Freeman's stakeholder approach is said to have emerged in opposition to the prevailing neoclassical economic theory of the firm, creating a dichotomy between a stakeholder's perspective and a shareholder's perspective. The neoclassical economic position is often expressed by Milton Friedman's well-known statement that profitability is the ultimate social responsibility of corporations. Free to pursue profits—following Adam Smith's 1776 argument—business will eventually benefit the common good. In contrast, it is argued following Edward Freeman—and with the endorsement of an elaborate set of moral and legal obligations in view of a variety of stakeholders—that business could and should serve society in a way that goes far beyond its primary responsibility of making profits (Kakabadse et al., 2005; Kakabadse & Morsing, 2006). However, this dichotomy between a stakeholder's perspective and a shareholder's perspective is somewhat misleading because it appears to imply that some of business's profits are sacrificed when stakeholders are taken into account. It is as if some of the benefits are used to please others rather than the company's shareholders. It is crucial to note that Freeman's stakeholder approach does not reject profitability as a corporate purpose. On the contrary, it rather widens the shareholder model to the ultimate benefit of all, shareholders included. In order to be able to go on making profits in the future, organisations must try to achieve their own objectives while satisfying the legitimate claims of their stakeholders at the same time.

Of course, it is also very unlikely that Adam Smith back in 1776 had the modern, multinational corporation in mind when he was writing about the invisible hand that harmonizes the activities of individuals pursuing their own entrepreneurial ends. It is, furthermore, often overlooked that corporations were originally invented to serve a specific public purpose for a restricted period of time, for example to build a road or a bridge. In 1776, when the USA was founded, there were no more than six corporations in the whole country (Moore Lappé, 2011). The original corporate charters of these early enterprises used to spell out an obligation to serve the public as a condition for the privilege of operating in the corporate form and for the generous grants of money and land they received from the government to deliver the agreed services. Serving the public was their reason for being. "In fact, the first corporations in the Anglo-American tradition had nothing to do with profits (…) [but] were actually regulatory agencies, such as guilds, or local governments such as townships (…) Later, the British Crown adapted the corporate form to what we would call today a *public-private partnership*. The Queen wanted to lay claim to the New World, but such ventures required huge amounts of capital, and were risky in the extreme. To amass the capital, there was a need to insulate investors from responsibility for the undertaking, beyond the amount of their investment. Thus the *joint stock company* was born" (Rowe, 1995, p. 31). This legal tradition carried over to the American colonies. By the middle of the 19th century the prerequisite of providing a public service became less prominent, while the public resentment of being granted special privileges grew. In view of the explosive growth of commerce at the time, however, privileges of incorporation were not curtailed or abolished but rather extended to everyone. No longer were corporations limited to specific activities that served the public: anyone could form one to do whatever they wished. Hence, the invisible hand of the market grew more significant as a token to safeguard serving the public good. The history of the relationship between business and society is thus much more revealing than a simple choice between favouring shareholders or stakeholders.

Making profit as the driving force of doing business remains a necessity, but cannot be accepted at any price. Rather than trying to replace profitability with human decency or blaming the corporate sector for all evil, it is important to understand better what doing business entails and how the objectives of individual benefits and common goods can complement each other and be achieved simultaneously. The ultimate purpose of engaging stakeholders is not to manipulate them in order to avoid being manipulated by them, as is often suggested. Contrary to popular belief, there is a genuine business interest in improving the social environment in which business operates and in becoming more knowledgeable about the global context (Winsemius & Guntram, 2002; Prahalad, 2005; Hart, 2005; Esty & Winston, 2006). Against this background, some authors therefore claim that doing business in the 21st century requires a new type of business enterprise, the "civil corporation" (Zadek, 2007), or even an entirely new economy, the "sustainable enterprise economy" (McIntosh, 2013).

THE RISE OF PARTNERSHIPS

People have always joined forces and collaborated to improve their living conditions and achieve social change in view of existing circumstances. The term "civil society" is used to cover this kind of social activity by individuals, groups, and social movements and refers to society as a community of citizens, linked by common interests and collective action. The early development of social movements was connected, for instance, to the broad economic and political changes that were taking place in England in the middle of the 18th century. According to James and Van Seters (2014) a social movement should thus be defined as a form of political association between persons who have at least a minimal sense of themselves as connected to others in a common purpose and who come together across an extended period of time to effect social change in the name of that purpose.

Civil society is often called the third sector of society, distinct from both the state and the market. Associations that are referred to as nongovernmental organisations or NGOs are part of civil society and may focus on social change via advocacy and political influence, on providing social and humanitarian services—often in cross-national contexts—or on a combination of both (Boli & Thomas, 1999; Doh & Teegen, 2003). As part of an organised group, individuals are better informed at lower costs. The effective gathering and dissemination of information can, therefore, be seen as a core business of NGOs. Furthermore, organised groups of individuals addressing the authorities are also able to play an important role in influencing public policy (Keim, 2003). However, NGOs are hard to define unambiguously and the term "NGO" is rarely used consistently. Even so, three types of organisations are clearly excluded from consideration: political parties, criminal groups, and profit-making organisations (Willetts, 2002). Increasingly, "civil society organizations" or CSOs is also used as a more general term to describe this wide range of organizations, networks, and associations.

NGOs have a new and vital role to play in today's volatile world and have demonstrated an increased influence and ability to shape global public policy during the past couple of decades. They have, for instance, mobilized successfully a large support around the world on issues such as climate change, fair trade, and poverty reduction. The considerable authority and influence of NGOs is also more and more contributing to new corporate practices (Winsemius & Guntram, 2002; Prahalad, 2005). NGOs have a significant impact on the way business is conducted: either directly through blaming and shaming, or indirectly via the changing of ideas and attitudes of particular stakeholder groups like employees, shareholders, and customers. Lately, a more intimate relationship is becoming popular, indicated by a spectacular rise of so-called partnerships (Glasbergen, Biermann, & Moll, 2007; Van Huijstee, 2010; Pattberg, Biermann, Chan, & Mert, 2012).

The term "nongovernmental organisation" was first used when the United Nations was created in 1945 (Willetts, 2002). When drafting the UN Charter, the need arose to differentiate between participation rights for specialized agencies established by *inter*governmental agreement of the member-states, and participation rights for internationally operating private organisations, commonly denominated as *non*governmental in nature. The UN, itself an intergovernmental organisation, made it possible for certain approved specialized international non-state agencies—i.e., nongovernmental organizations—to be awarded observer status at its assemblies and some of its meetings. From the early 1970s onward, the term "NGO" also received a growing popular meaning outside UN circles, and NGOs can now best be understood as organised components of social movements and civil society.

Since the UN's creation in 1945, roughly three generations of NGOs can be distinguished (Hill, 2004). The first generation lasted up till the end of the Cold War. By and large, the relationship between the UN and this first generation of NGOs was formal and ceremonial rather than political. It consisted mostly of professional and business associations, and similar kinds of internationally established NGOs. Examples of this first generation are the International Chamber of Commerce, the International Confederation of Trade Unions, and the International Committee of the Red Cross.

In the 1990s a second generation of NGOs appeared on stage. This generation is characterised by a rapid increase in the numbers of NGOs, primarily operating at a national level, and by a much greater variety of issues that is addressed. However, at the same time many new forms of global collaboration and transnational NGO networks were initiated This in turn has contributed significantly to the operational capacity and growing political influence of individual, nationally operating organisations as well as to the size, role, and visibility of civil society in general (Keck & Sikkink, 1998; Florini, 2000). A rough estimate by the Union of International Associations in Brussels indicates that some 47,000 international NGOs and 20,000 transnational NGO networks are active in the world at the turn of the century, 90 per cent of which have been formed since 1970 (Edwards, 2004, p. 23). Examples are the Third World Network, the Coalition for the International Criminal Court, and Oxfam International. Taken together, these quantitative and qualitative changes have been identified as the emergence of a global civil society (James & Van Seters, 2014). It is one of the most momentous developments taking place in the world today, according to Anthony Giddens: "Taking globalisation seriously means emphasising that democratisation cannot be confined to the level of the nation-state. A global public sphere outside the state and the market is needed: an arena for public life created by citizens" (as cited in Anheier, Glasius, & Kaldor, 2001, p. iii).

In marked contrast with the first generation, the second generation NGOs intended to engage directly in intergovernmental deliberations and to influence the outcomes of the major UN Conferences and Summits (Hill, 2004). They were politically motivated and wanted to become part of the institutional architecture of global governance. Second generation NGOs did also become significant players in global development assistance. It accounts for the important role civil society plays today in humanitarian relief, social development, and improved governance. The Organization for Economic Cooperation and Development (OECD) estimated, for instance, that in 2011 $19.3 billion in official development assistance was channeled through NGOs, signifying a substantial increase in operational cooperation of NGOs with UN agencies. Since the middle of the1990s the breadth and quality of relations between the World Bank and civil society intensified while NGO involvement in Bank-funded projects has risen steadily over the past decade from 21 percent of the total number of projects in1990 to an estimated 81 percent in 2009. And for good reasons. By engaging with civil society the World Bank was able to improve the development outcomes of its investments by making good use of the technical expertise and institutional support of NGOs on the ground within local contexts. In particular, NGOs could help to ensure that governments heard the voices of poor and marginalized communities, that social services were provided, also in fragile governance and post-conflict settings, and that public sector accountability and transparency in such contexts improved (World Bank, 2015). Establishing operational relationships with this second generation of NGOs has thus stimulated an intensive information exchange between the UN agencies concerned and local civil society. This capacity of NGOs to organise themselves on a global scale, while remaining deeply rooted within local activities, also accounts for the attractiveness of NGOs to the corporate sector. It might be considered a key element for understanding the next generation.

Toward the end of the 20th century, with the power shifting from national governments to international government organisations and multinational corporations, NGOs once again started to reorient themselves (Kaldor, 2003; Kaldor, Anheier, & Glasius; Kaldor, Moore, & Selchow, 2012). A few years later, the emergence of a third generation of NGOs can be observed, characterized predominantly by the involvement of various types of networks and partnerships and by its engagement in multistakeholder processes (Hemmati, 2002; Wadell, 2005, 2011; Glasbergen et al., 2007; Pattberg et al., 2012). Some of these third generation initiatives are closely related to the UN, e.g., the Global Compact and the World Summit on Sustainable Development with its more than 200 "Track II" partnerships (Hill, 2004). Other developments, like the World Social Forum that started up in Porto Alegre, Brasil, in 2001 and its manifold regional counterparts, have taken their inspiration from elsewhere, are in fact opposing the neoliberal Washington Consensus, and largely ignore the UN (Glasius, 2003).

The state, the corporate world, and the civil society are gradually recognizing the need for concerted efforts in the pursuit of global peace, economic stability, and human dignity. In an increasingly complex political, social, and economic environment, like-minded representatives of all three sectors are teaming up to work together, ensuring a new kind of governance in which traditional roles and interventions become redefined. This third generation of NGOs is hybrid in character, for even though such partnerships are not intended for making a profit, they certainly contribute to improving the conditions for doing so. And even though such partnerships are not initiated to rule the world, they certainly help to generate the commitment that makes global governance possible (Stern & Seligman, 2004). Partnerships between the private, the public, and the civil sector are learning to become more and more effective indeed. There is a growing awareness that traditional, sector-specific, or national solutions are not sufficient to address today's most urgent issues such as economic development, health care, poverty alleviation, social justice, and environmental sustainability. Public or private sector solutions, therefore, must be enhanced by learning and borrowing from organisations in other sectors (Reinicke & Deng, 2000; Rischard, 2002; Selsky & Parker, 2005).

TOWARD A COMMON FRAMEWORK FOR BUSINESS AND SOCIETY

In studies of the relationship between business and society, two basic strands can be distinguished: one predominantly ethically oriented and normative to what the corporation ought to do or not; the other more practical oriented and instrumental to achieving desired outcomes (Scholl, 2001; Kakabadse et al., 2005). While some of the earlier models of CSR focused on clarifying its moral content, Max Clarkson (1995) took a practical approach and argued that a firm's social responsibilities are best understood by the way in which its relationships are actually managed: "It became clear that all the corporations being studied had relationships with various groups or constituencies, which could be defined as stakeholder groups, and that these relationships were either managed, or not being managed, for better or worse (…) Obligations and responsibilities to customers, shareholders, employees, and other important constituencies are defined by most companies, together with corresponding accountabilities. Consequently, there are data concerning the management of corporate relationships with these constituencies or stakeholder groups" (Clarkson, 1995, pp. 98-99).The change of perspective from motives and moral content to stakeholder relationships and to the management of these relationships, therefore, helped to remedy the lack of empirical accessibility for Clarkson. His data from more than fifty case studies were better explained by the concepts and models of stakeholder management, based on the work of Freeman (1984), than by the slightly earlier models based on normative notions (Preston, 1975; Carroll, 1979).

Ann Svendsen and her colleagues at the Centre for Innovation in Management in Vancouver have also reported about the quality of stakeholder relationships. They collected substantial evidence that links the quality of stakeholder relationships to competitive advantage and business success (Svendsen, 1998; Svendsen, Boutilier, Abbott, & Wheeler, 2002). Such evidence demonstrates that strategic management of private sector firms could become more effective and efficient, if managerial efforts would regard various stakeholders' concerns and invest in the development of good relationships. Shareholders will benefit long-term if other legitimate interests in the firm do not fall by the wayside (Scholl, 2001). Business has to deal with other constituencies than its owners for its prosperity, if not for its survival.

Taking a look at the relationships of a corporation will help to better understand the policies and practices of its social responsibilities. This focus on relationships becomes much more significant when the modern-day version of a socially responsible corporation is considered. According to the Dutch Social and Economic Council (SER, 2000), a socially responsible corporation is defined by two key elements:

- Maintaining a relationship with the various stakeholders. This relationship is based on transparency and dialogue and responds to legitimate demands from society.
- Consciously targeting business activities at value creation in three dimensions—Profit, People, Planet—and hence at contributing to society's prosperity in the longer term (SER, 2000, p. 86).

It is interesting to note that both key elements, taken separately, represent earlier paradigm shifts in the recent history of CSR. Just like the "stakeholder approach" was triggered by Edward Freeman's *Strategic management* (1984), the "triple bottom line" is associated with John Elkington's landmark study, *Cannibals with forks* (1997). The crux to a proper understanding of CSR, we argued elsewhere (Maessen, Van Seters, & Van Rijckevorsel, 2007), lies not in the distinction between these two elements, nor in merely combining them, but rather in the recognition of their intrinsic relationship: a comprehensive approach to value creation crucially depends on effective relationships with stakeholders—and vice versa. This idea of the interconnectedness of value creation and stakeholder relationships underlies what we proposed to call a relational approach to CSR (ibid.). The focus of a relational approach to CSR is not primarily on the company, but rather on the relationships between a company and its stakeholders, a practical representation of society. It thus regards the organisation as part of a larger network, and the quality of the network relationships will benefit the corporation as well as its stakeholders.

CIRCLES OF STAKEHOLDERS

Let us have a closer look at these stakeholders and the relationships they have with a particular corporation. Clarkson (1995, p. 106), for instance, closely follows Freeman and defines stakeholders as "persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future." Next, he makes the distinction between primary and secondary stakeholders. Primary stakeholders are defined as "a group, without whose continuing participation the corporation cannot survive as a going concern." The other or secondary stakeholders are subsequently distinguished from these primary stakeholder groups because they are "not involved in transactions with the corporation, but have the capacity to mobilize public opinion in favour of, or in opposition to, a corporation's performance" (ibid.). It can thus be empirically established by the number of contacts and the institutionalised character of such contacts that not all stakeholders are involved with the company to the same degree. Some relationships are clearly more important for a particular firm than others. In fact, the institutionalised character of these relationships—e.g., contracts or other legal obligations, regular meetings, client panels, responsible issue managers, financial commitment, or the exchange of money—can be seen as a good indicator of the present status of a particular relationship and of the amount of corporate attention it should receive.

Allowing, in principal, for more than a binary distinction between primary and secondary stakeholders, we have suggested "the level of involvement" or "the relative distance" of a stakeholder group to a particular firm as a label for describing the underlying dimension; we also have suggested the representation of a number of concentric circles around the corporation to depict different categories of stakeholders and their relative distance to the firm (Maessen et al., 2007). Building on the original theory of Freeman (1984), the idea of circles of stakeholders visualises that the various groups of stakeholders are not related in the same way to a corporation, but have different levels of involvement.

Of course, such a circle representation for the level of involvement of stakeholders will be different for different corporations, or at different moments in time. Extra circles may be added if and when needed to give an adequate representation of a specific situation. Moreover, circle representations should not be applied exclusively to corporations. Other entities may be placed in the middle of the concentric circles in order to illustrate that any particular organisation is always under the influence of a number of other organisations: every organisation can indeed be construed as part of a larger network. Additionally, it is important to note that other relational aspects could be relevant in a particular context. For instance, more closely related stakeholders, like customers, employees, or shareholders, might be under the influence of stakeholders at a larger distance, like consumer interest groups, trade unions, or social responsible investment agencies. Finally, it can be pointed out that a representation of stakeholders by concentric circles is a useful model to express the dynamics of the relationship between a company and its stakeholders by envisaging how a stakeholder may move from one circle to the next when the level of involvement is increasing or decreasing.

Based on earlier investigations, we proposed a generic classification model for the level of involvement using three circles to represent three major categories of stakeholders (Maessen et al., 2007). The involvement of a first category of stakeholders—the company's primary interest groups—is based on structured, economic relationships and long-term commitment based on formal contracts. Both sides have a stake in the continuity and prosperity of the company and violating these relationships may thus have important implications for both sides. Shareholders and employees are likely candidates for this first category. The involvement of a second category of stakeholders is based on relationships that may have been established by means of temporary agreements, but also by branding or advertising. In contrast to the company's primary interest groups, the continuity of these relationships has to be reestablished time and again. While the first category of stakeholders will be investing in the firm, it is the firm that will need to invest in the second category. Clients, business partners, and suppliers are likely candidates for this second category.

Finally, the third category of stakeholders at an even greater distance is assumed to have much more ambivalent feelings toward the continuity of the company, or may have no feelings yet about the company whatsoever. Any third party with a potential interest in the company's operations or products might be placed in that group: neighbours, government agencies, and nongovernmental organisations are the most likely candidates for this third category. Under conditions of globalisation, however, with corporations operating on a global scale, more and more people will affect or will be affected and one may even wonder if any groups can be excluded from this third category—groups that could be called non-stakeholders. In a rapidly changing environment this third category of stakeholders, therefore, is by far the most interesting category; it allows most for making strategic choices. For instance, a company may decide to establish a regular contact with a representational group of people from the local community, maybe even based on formal agreements, with the aim to settle a potential conflict or avoid expensive legal battles. As soon as both parties start investing in this relationship, the mutual benefits are likely to become larger—as was illustrated earlier with the emerging relationship between the World Bank and civil society (World Bank, 2015). That particular group of stakeholders could be visually represented as involved in an inward movement, starting from one of the outer circles.

THE DYNAMICS OF STAKEHOLDER RELATIONSHIPS

Traditionally, within the corporate sector NGOs were seen as entities exclusively focused on social reform—as businesses were seen as entities exclusively focused on making money. NGOs and businesses seemed to live on different planets, conducting their respective affairs in completely different ways. Also, the corporate sector saw NGOs predominantly as a nuisance, best to be kept at a safe distance. In recent years, that stereotype image is gradually changing. Today, NGOs are recognized by corporations, at least in parts of the corporate world, as a vital source of knowledge and strategic information. They may help to find new pathways in the open and unsettled situations in which corporations find themselves all the time. It was stipulated above that companies seek to strengthen the ties with NGOs more and more by developing strategic partnerships. Within the corporate sector indeed it has been recognized now that

NGOs are no longer seen as of only peripheral interest for business. Many corporations these days are interested to draw at least some of these NGOs into their inner circle (Beloe, Elkington, Fry Hester, & Newell, 2003).

Hart and Sharma (2004) take this line of argument one step further when they point out that the work on stakeholder management until recently has focused almost exclusively on investors, employees, customers, suppliers, the government regulators, and NGOs. Only groups that are salient, presently known to be in a position to affect the firm, and ready to do so, have been able to draw the manager's attention. In other words—following the terminology introduced by Mitchell, Agle, and Wood (1997)—only groups whose claims are considered powerful, urgent, and legitimate have been the subject of the work on business–stakeholder relations. "Current approaches to stakeholder engagement are based on either resource dependence or on moral arguments for managing stakeholders to achieve cost reduction, differentiation, or legitimacy in *existing* businesses" (Hart & Sharma, 2004, p. 9, emphasis added). Such strategies may indeed have helped to gain the firm competitive advantages in the form of customer loyalty, supplier relationships, lower employee turnover, and improved reputation. But they also indicate that Freeman's urge to be ready for the *un*expected has not been actively pursued yet.

With irony, Hart and Sharma (2004) observe that Freeman's strategic management model will only become sensitive to *future* developments by paying attention to those stakeholders who are affected or may be affected in due course, but are *presently* not in a position to influence the firm and therefore do not get the management's attention. It is by gaining access to those stakeholders that are considered extreme or *on the fringe* of the firm's current operations that the firm will better understand future change and learn to deal with the uncertainty of constantly evolving knowledge. Hart and Sharma (2004, p. 10) distinguish fringe or peripheral stakeholders from the visible and well-known core-stakeholders, which, incidentally, is a class that also includes the well-established NGOs in their opinion. Fringe stakeholders are typically invisible to the firm and are placed, therefore, in the outer ring of the three-circle model outlined above. They are disconnected because they are remote, weak, poor, disinterested, isolated, non-legitimate, or even non-human. Engaging in a two-way dialogue with some of these fringe stakeholder groups extends the firm outside its present boundaries. The learning processes involved offer the possibility to understand the complex and evolving issues that may potentially affect the firm's future competitive advantage. The creation of the Grameen Bank in Bangladesh more than twenty years ago by Muhammad Yunus is cited by Hart and Sharma (2004) as an excellent example of the kind of learning processes that are taking place when engaging in such a two-way dialogue. This business concept was developed as a direct result of Yunus' personal experiences with poor people in rural villages in Bangladesh. Much to his surprise, and contrary to the predominant stereotype of most bankers regarding the laziness and lack of competence of the poor, by travelling through their villages Yunus experienced that these poor people knew exactly how they wanted to move forward. However, they badly needed access to modest amounts of credit to launch or expand their small enterprises. The Grameen Bank was set up to serve these needs and has been very successful in doing so (Bornstein, 1997).

Exploring these uncharted territories populated by the firm's fringe stakeholders can be very promising. The world's most exciting, and fastest growing market is to be found with the billions of poor people at the bottom of the pyramid, even though the mainstream consumer industry is still predominantly targeted at the top (Prahalad, 2005; Hart, 2005). The corporate sector could be the catalyst for a truly sustainable force of global development and for improving health and safety of the poor—in theory at least—if only more attention would be given to the question of *who* to produce for and *what*. There is no principled or inherent conflict between making the world a better place for the underprivileged and achieving economic prosperity for all, within the constraints of our natural resources. It will take a lot of well-organised support from locally active actors and many unusual partners to turn these promises into a feasible business model. Paradoxically, without the business community the prospect for sustainable development might be bleaker (Kandachar & Halme, 2008).

ENGAGING STAKEHOLDERS FROM BEYOND

Some commentators still maintain that social responsibility programmes are bad for both business and society; CSR, they argue, is no more than a fig leaf (Salls, 2004, quoting Matthew Bishop, American business editor of *The Economist*). That does not necessarily imply that companies not taking an ethical stand will act socially irresponsibly. CSR might even morally licence CSiR, as was pointed out above following Ormiston and Wong (2013). Moreover, pressures put on businesses by NGOs may simply have the opposite effect of what is intended. Companies may decide to pull their factories out of poor countries rather than operate below standards acceptable in the Western world. Alternatively, CSR programmes may not even be initiated in the best interest of the company or shareholders, but only as a strategy to pacify NGOs—even though there is no guarantee that cooperating with NGOs buys a company any long-term reputation protection (Salls, 2004). This point of view nicely echoes one of the more popular themes within the NGO community: all this CSR is no more than green wash, confirming the stereotypical antagonism between business and NGOs. However, while this may provide a clear, normative beacon, it is not a very accurate image of what is actually happening in the world today.

Therefore, it is not surprising that other commentators, illuminating a more practical perspective, are pointing in the opposite direction. In January 1999, UN Secretary-General Kofi Annan warned his audience at the World Economic Forum in Davos, Switzerland, that globalisation would be only as sustainable as the social pillars on which it rests. Annan explicitly called upon companies to widen their social responsibilities and enter into a Global Compact with the UN for the endorsement of universally accepted principles (Annan, 1999). In January 2004, again addressing the World Economic Forum in Davos, Annan pointed to the deterioration of the global security climate because of international terrorism and the reaction of international politics: "In just a few short years, the prevailing atmosphere has shifted from a belief in the near-inevitability of globalisation to deep uncertainty about the very survival of our global order. This is a challenge for the UN. But it obliges the business community, too, to ask how it can help put things right" (Annan, 2004).

At the time of Kofi Annan's invitation, more and more companies recognized the need to collaborate and partner with governments and with civil society and labour organisations. More than ever before they felt that business was affected by various social, political, and economic challenges. Now, about fifteen years after its inception, the UN Global Compact has become the largest voluntary corporate responsibility initiative in the world with over 12,000 corporate participants and other stakeholders from over 145 countries. The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten principles in the areas of human rights, labour, environment, and anti-corruption. It has grown to become a critical platform for the UN to engage effectively with enlightened global business. The UN Global Compact is committed to voluntarism, as a complement to regulation. By drawing on partnership, learning, and dialogue the initiative has been shaped to provide collaborative solutions to the most fundamental challenges facing both business and society. Business, as a primary driver of globalisation, thus helps to ensure that markets, commerce, technology, and finance advance in ways that benefit economies and societies everywhere (The Global Compact, 2015).

We are living in what some have termed a VUCA world: Volatile, Uncertain, Complex, and Ambiguous (Bennett & Lemoine, 2014). Never before have we seen such a rapid increase of the global population, radical shifts in power, and pressures on our natural resources. Since the role of national governments has been gradually scaled back around the turn of the 21st century, they experience difficulties or appear to lack the ability to cooperate in addressing even the most urgent global challenges. Multilateralism is in decline, just when the world needs it most. Meanwhile, expectations of corporate responsibility have increased, requiring firms to organise a more responsive way of corporate governance to get by in this VUCA world. Learning to deal with social and environmental problems is now crucial for continuing to do business. The corporate sector is as much in need of resolving global problems and maintaining our global order as anyone else. Since the role of national governments was scaled back, expectations of corporate responsibility have increased, requiring firms to organise a more responsive way of corporate governance. Learning to deal with social and environmental problems is crucial for continuing to do business.

As the progressive development of globalisation is forcing companies to face the challenges of a changing social environment, these companies increasingly realize that CSR is not just an extra burden but can be of direct economic value too. For major tracts of industry and commerce, the sustainable development agenda is already becoming a competitive and strategic issue (Elkington, 1997; Beloe, Elkington, Prakash-Mani, Thorpe, & Zollinger, 2004). Even though the prime responsibility of a company is to generate profits, companies can at the same time contribute to social and environmental objectives through integrating CSR as a strategic investment into their core business strategy, their management instruments, and their operations. There is a growing body of literature exploring these new territories (Demirag, 2005; Churie-Kallhauge, Sjöstedt, & Corell, 2005; Petschow, Rosenau, & Von Weizsäcker, 2005; Waddell, 2005, 2011). It pictures a new image of corporations serving their customer base while dealing effectively with some of those global challenges at the same time. This vision was strongly expressed recently by Unilever's CEO Paul Polman, when he explained his motives for the 2010 Unilever Sustainable Living Plan to an audience of politicians, business people, and civil society representatives: "Capitalism has lifted many people out of poverty, but we have not yet figured out how to do this without incurring enormous levels of public and private debt, over-consumerism, and leaving too many behind. We need to develop a more equitable and sustainable form of capitalism in which business sees itself, first, as part of society not separate from it; second, the focus is on the long term, not on quarterly earnings; and, third, the needs of citizens and communities carry the same weight as shareholders" (Polman, 2013, p. 6).

We may conclude that it will benefit both the firm and its stakeholders to look after stakeholders' relationships and the legitimate interests these relationships represent. In a world where everyone can be seen as a potential stakeholder, the firm's long-term survival is limited most severely by lack of knowledge about those stakeholders that are not actually visible yet. Of all possible stakeholders, the ones beyond the present periphery of the firm—the ones not *en vogue*—are the most valuable for future developments. As the world is flattening and the newly found power for individuals to collaborate globally is discovered, making contact with those stakeholders and learning about their worlds, wishes, and needs has become a reality. That is why truly responsive corporate governance will seek to engage with those stakeholders from beyond.

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