

Accountable to Whom? Rethinking the Role of Corporations in Political CSR

Waheed Hussain & Jeffrey Moriarty

Journal of Business Ethics

ISSN 0167-4544

J Bus Ethics

DOI 10.1007/s10551-016-3027-8



Journal of Business Ethics

Volume 133, No. 2
January (II) 2016

Editors in Chief:
Ed Freeman
Michelle Greenwood
Founding Editors:
Alex C. Michalos
Deborah C. Poff
Section Editors:
Accounting
Steven Dellaportas
Business Law
Joshua E. Pery
Case Studies
Loren Falkenberg
Codes of Ethics
Muel Kaptein
Consumer Ethics/Social Responsibility
Scott J. Vitell
Corporate Governance
Alzahr Rashid
Corporate Sustainability
Cory Searcy
Corporate Responsibility: Theoretical/Qualitative Issues
Robert Phillips
Corporate Responsibility: Quantitative Issues
Joelle Vanhamme
Finance
Greg Shaller
Human Resources Management
Harry Van Buren
International Management
Nikola M. Pless, Katsumi Kabshoven
Labour Relations and Worker's Rights
Edmund Byrne
Leadership: Quantitative Issues
Alex Newman
Marketing Ethics
Michael R. Hyman
Philosophical Foundations
Akiyo Jose G. Sison
Religion and Spirituality
Dominic Melé
Small Business, Entrepreneurship and Social Enterprise
Julia Roloff
Special Issues and Supplements
Thomas Maak
Teaching Business Ethics
Cristina Neesham
Value-Based Management
Samuel Natale
ISSN 0167-4544

ORIGINAL ARTICLES

The Sustainability Balanced Scorecard: A Systematic Review of Architectures
E.G. Hansen · S. Schaltegger 193

Entrepreneurial Orientation and Corruption
T. Karmann · R. Mauer · T.C. Flatten · M. Bretzel 223

The Limits of Generosity: Lessons on Ethics, Economy, and Reciprocity in Kafka's *The Metamorphosis*
C. Rhodes · R. Westwood 235

Internalized Moral Identity in Ethical Leadership
R. Skubinn · L. Herzog 249

Ordinary Aristocrats: The Discursive Construction of Philanthropists as Ethical Leaders
H. Liu · C. Baker 261

When CEO Career Horizon Problems Matter for Corporate Social Responsibility: The Moderating Roles of Industry-Level Discretion and Blockholder Ownership
W.-Y. Oh · Y.K. Chang · Z. Cheng 279

Re-thinking Capitalism: What We can Learn from Scholasticism?
D. Melé 293

Corporate Social Responsibility as a Strategic Shield Against Costs of Earnings Management Practices
J. Martínez-Ferrero · S. Banerjee · I.M. García-Sánchez 305

Impact of Islamic Work Ethics on Organizational Citizenship Behaviors and Knowledge-Sharing Behaviors
G. Murtaza · M. Abbas · U. Raja · O. Roques · A. Khalid · R. Mushtaq 325

Continued on back cover

Springer

Springer

Your article is protected by copyright and all rights are held exclusively by Springer Science +Business Media Dordrecht. This e-offprint is for personal use only and shall not be self-archived in electronic repositories. If you wish to self-archive your article, please use the accepted manuscript version for posting on your own website. You may further deposit the accepted manuscript version in any repository, provided it is only made publicly available 12 months after official publication or later and provided acknowledgement is given to the original source of publication and a link is inserted to the published article on Springer's website. The link must be accompanied by the following text: "The final publication is available at link.springer.com".

Accountable to Whom? Rethinking the Role of Corporations in Political CSR

Waheed Hussain¹ · Jeffrey Moriarty²

Received: 1 June 2015 / Accepted: 7 January 2016
© Springer Science+Business Media Dordrecht 2016

Abstract According to Palazzo and Scherer, the changing role of business corporations in society requires that we take new measures to integrate these organizations into society-wide processes of democratic governance. We argue that their model of integration has a fundamental problem. Instead of treating business corporations as agents that must be held accountable to the democratic reasoning of affected parties, it treats corporations as agents who can hold others accountable. In our terminology, it treats business corporations as “supervising authorities” rather than “functionaries.” The result is that Palazzo and Scherer’s model does not actually address the democratic deficit that it is meant to solve. In order to fix the problem, we advocate removing business corporations from any policymaking role in political CSR and limiting participation to political NGOs and other groups that meet the standards we set out for a politically representative organization (PRO).

Keywords Accountability · Corporate social responsibility · Deliberative democracy · Legitimacy · Political CSR

State sovereignty is undermined to the extent that powerful corporations are involved in the exercise of political authority without being legitimated for this and without submitting to the usual responsibilities incumbent on government authorities.

—Jürgen Habermas, *Between Facts and Norms*, pp. 433–434.

In recent years, a new generation of theorists has raised the call for greater democratic accountability for corporations. Unlike previous generations (Archer 1996; Brenkert 1992a; Dahl 1985; Ellerman 1992; Hsieh 2005; McCall 2001; McMahan 1994), who focused on the relationship between businesses and their employees, the arguments of this new generation focus on the changing role of businesses in society. Crane et al. (2008) and Matten and Crane (2005), for example, note that in many developing countries, corporations perform some of the social functions traditionally associated with the state, including protecting human rights and formulating and enforcing commercial regulation (see also Kobrin 2009; Ruggie 2004; Vogel 2010). They argue that this expansion in the scope of corporate activity—the practice of “political CSR”—requires that we consider whether corporations should be subject to greater democratic control. Similarly, in a series of important articles, Palazzo and Scherer (2006), Scherer and Palazzo (2007, 2011), and Scherer et al. (2006) argue that the evolving role of the corporation requires that we take new steps to integrate these organizations into society-wide processes of democratic governance.

In this paper, we examine the new call for democratic accountability for corporations, focusing primarily on the work of Palazzo and Scherer. We accept that the expanding role of the corporation generates a democratic deficit, and that a novel form of democratic accountability based on the ideal of deliberative democracy may be a

✉ Jeffrey Moriarty
jmoriarty@bentley.edu

Waheed Hussain
waheed.hussain@utoronto.ca

¹ Department of Philosophy, University of Toronto, Jackman Humanities Building #509, 170 St. George Street, Toronto, ON M5R 2M8, Canada

² Department of Philosophy, Bentley University, 175 Forest St., AAC 109, Waltham, MA 02452, USA

remedy for it.¹ But Palazzo and Scherer's model for how we should make corporations more democratically accountable suffers from a fundamental problem: it allows corporations to participate in governance arrangements in a policymaking capacity, in much the same way as private citizens and political groups do. Allowing corporations to participate in this capacity violates a fundamental aspect of the ideal of deliberative democracy. As a result, Palazzo and Scherer's normative model does not actually address the problem it was meant to solve. Although we criticize Palazzo and Scherer, we mean for our engagement with their project to be constructive, pushing the call for democratic accountability forward in a new way.

The Ideal of Deliberative Democracy

The central normative ideal in Palazzo and Scherer's work is deliberative democracy, so we begin with a review of some of the key features of this ideal. It is important to proceed carefully here. We argue that Palazzo and Scherer's model of accountability for corporations, while ostensibly based on the ideal of deliberative democracy, actually betrays a central aspect of the ideal. In order to see the problem clearly, it is important to have a precise understanding of the underlying normative concern.

In the most general terms, democracy is a normative ideal that requires that society should be governed collectively by all of its members, not just by some dictator, bureaucracy, or privileged elite. Deliberative democracy is a more specific interpretation of this abstract ideal. According to this interpretation, democracy requires that social activity that affects important issues of public concern must be regulated by the free, unforced, rational deliberation of citizens. Many theorists have developed this core idea (e.g., Beitz 1989; Cohen 1989; Gutmann and Thompson 2004; Habermas 1996; Rawls 1993), but our

¹ Both of these claims might be challenged. With respect to the first one, it might be denied that the new role of corporations creates a democratic deficit. As long as there is a legitimate state functioning in the background, it might be thought why is it a problem for democracy if corporations provide public goods and engage in self-regulation? With respect to the second claim, it might be denied that deliberative democracy is a promising way to remedy this deficit. Deliberation presupposes a level of knowledge and rationality that many citizens may not have. These challenges are important. If they succeed, then they cast doubt on, respectively, the necessity of a democratic response to political CSR, and the value of a democratic response to political CSR that is deliberative. We do not pursue these challenges here, as doing so would take us far outside of the scope of this paper (but see Hussain and Moriarty 2014). Moreover, we think that these challenges can be rebutted. We focus on developing our own (different) challenge to Palazzo and Scherer's model of democratic accountability for corporations.

discussion will focus mainly on the most significant and well-known account of deliberative democracy, which is Habermas's.

For our purposes in this paper, we can understand Habermas's conception of deliberative democracy in terms of two fundamental assertions. The first has to do with the justification of authoritative legal norms in a community.

A1 A legal norm is justified when it would be the object of a free, unforced consensus among the competent members of a political community, if members deliberated under ideal conditions about what norms to adopt and if members could only appeal to relevant considerations (see Habermas 1996, pp. 104–111).²

In order to appreciate the force of A1, it is helpful to contrast deliberation with the bargaining activity that is characteristic of market life. In a typical contractual negotiation, parties each pursue their own private self-interest, and they strategically make offers and threats to get counterparties to accept their most preferred proposal. A deliberation is a very different activity. In an ideal deliberation, interaction proceeds in argumentative form, where parties introduce proposals and offer various forms of information, reasoning, and argument in support of or in opposition to the proposal. Parties do not make offers or threats, but appeal only to the force of the better argument to move others to accept a proposal. Moreover, in an ideal deliberation, all participants are equal, in the sense that they have an equal opportunity to be heard, to introduce topics, to make contributions to the discussion, and so on. The deliberation is inclusive in the sense that "all those who are possibly affected by the decisions [must] have equal chances to enter and take part" (Habermas 1996, p. 305). Parties are not bound by any pre-deliberative commitment to some doctrine or ideal, beyond the idea of free deliberation itself. And finally, participants in an ideal deliberation aim at a rationally motivated consensus among all participants, not just an agreement among the members of some subgroup or faction (Habermas 1996; Cohen 1989).

According to A1, the concept of an ideal deliberation is central to the justification of legal norms. A legal norm *N* in a certain community *C* is justified when an ideal deliberation among the relevant members of *C* would reach a consensus on adopting *N* as an authoritative legal norm for their association.

² Relevant considerations include moral considerations, considerations stemming from a shared political identity, and considerations connected with a fair compromise between different views. For the sake of simplicity, we leave aside Habermas's view that the legislature in a constitutional democracy should function as an arena in which representatives can authoritatively reach fair compromises between competing social interests.

The second basic assertion in Habermas's account concerns the proper structure for social institutions. The central idea is that all those institutions that structure the process that generates authoritative legal norms in a community must be designed so that the process approximates the ideal deliberation described in A1.

A2 Society's political institutions (both formal and informal) should define a legislative process that takes the form of a deliberation among all competent members of the community, where the actual process of deliberation approximates the ideal deliberation described in A1 (see Habermas 1996, pp. 304–308).

The reasoning behind A2 is relatively straightforward. Habermas argues that the actual process that generates authoritative legal norms in a community should generate norms that satisfy the standard of justification articulated in A1. Moreover, the process should give people good reason to believe that the norms it generates are justified. What kind of process would satisfy both of these demands? His answer is: a process that approximates the ideal deliberation described in A1. It follows that the institutions of political life in a community should be structured to create conditions in which authoritative legal norms emerge out of a process of open-ended deliberation, in which all possibly affected parties have an equal chance to enter and take part in the process, where only the force of the better argument moves people to accept a proposal, and so on. Put more simply, social institutions should be designed so that society is governed by the free, unforced, rational deliberation of its members.³

One issue that Habermas does not explicitly address, but which is essential for understanding the reasoning behind Palazzo and Scherer's argument, has to do with the proper domain or jurisdiction for deliberative governance. What aspects of social life should be regulated in terms of legal norms that are justified through a process that satisfies the standard set out in A2? Habermas himself does not address the issue clearly, so we follow Cohen (1989) in holding that the ideal of deliberative democracy requires that any social activity that affects the common good of the community should be subject to deliberative governance. For example, human activities that have an impact on climate change or financial stability affect the interests of everyone in society,

³ In saying that society should be governed by the free, unforced deliberation of its "members" we are assuming that, in most cases, the parties who may be affected by an authoritative legal norm will be members of the society. But to avoid confusion, we want to be explicit about participation. At the most basic level, Habermas thinks that participation in institutionally defined forms of deliberation is determined by the "all affected principle" (see our discussion of this principle in "What Role Should Corporations Play?" section). So on his account, deliberative democracy requires that society should be governed by free, unforced, rational deliberation among all those who are possibly affected by society's authoritative legal norms.

so these are activities that involve issues of common concern and must be regulated in terms of authoritative legal norms that have been generated through a process of free, unforced, rational deliberation among citizens. We believe that Habermas himself would endorse this view: after all, it is hard to imagine that the ideal of deliberative self-governance could be compatible with limiting the scope of this governance to tangential and insignificant features of social life.

Putting the pieces together, you can think of a society that lives up to the ideal of deliberative democracy in the following way. When issues of common concern arise (e.g., how to deal with climate change or mass unemployment), citizens will discuss these issues in the public forum. They will present information and evidence, and propose different ways of addressing the problem. They will make arguments for or against these different proposals, counting only on the force of the better argument to convince one another that some particular course of action is the right way to deal with the issue (Gutmann and Thompson 2004; Habermas 1984, 1989). When the deliberation reaches some degree of consensus or when time pressures require a definitive response, the formal democratic process in the legislature will bring the deliberation to a resolution, selecting one proposal or another as the authoritative response and encoding that proposal in the law. At that point, social resources will be mobilized through state agencies to implement the laws and policies that have been generated through the process. In this way, society will be governed by the free, unforced, rational deliberation of its members.⁴

Democratic Accountability

Deliberative democracy is the central normative ideal in Palazzo and Scherer's project. A key concept for our purposes, however, is *democratic accountability*.

According to Habermas's theory (see A2 above), social institutions must be designed so that the process that generates authoritative legal norms in society approximates the ideal deliberation described in A1. Political officials in a community have the power to shape its authoritative legal norms, so in order to satisfy A2, the institutional order must be structured so as to ensure that these officials exercise

⁴ Various features of social life may need to be altered to achieve these goals (Cohen 1989; Mansbridge 1999). For example, to ensure that all citizens can participate in the deliberative process, it may be necessary to restructure ownership rights in the mass media so that everyone has adequate access to newspapers, television, the internet, and other channels of communication. It may be necessary to enact limits on work hours to ensure that citizens have the time to read newspapers, think about important public issues, and participate in public debate. It may further be necessary for citizens to have access to adequate resources, so that they can engage with each other in deliberation as equals rather than as dependents.

their powers in ways that are sensitive to the information, arguments, and opinions that emerge out of free, unforced, rational deliberation in the public sphere. The danger, however, is that instead of making decisions that are sensitive to a democratically formed public opinion, political officials will make decisions that simply serve the interests of some privileged segment of the population or make decisions that serve their own personal self-interest.

Democratic accountability is one institutional strategy for ensuring that people in positions of authority make decisions that are consistent with the evolving state of deliberative reasoning in the public sphere. We define democratic accountability as follows:

Democratic Accountability An official is democratically accountable when the relevant members of the public can remove the official from office or otherwise impose serious costs on the official if he or she acts in ways that are inconsistent with their felt interests, concerns, and ideas.

To illustrate, consider the case of legislators. Legislators have the authority to make and change the laws, and there is a standing danger that they will exercise their authority in ways that serve the interests of privileged segments of the population or in ways that serve their own self-interest. One way to address the danger is through free and fair elections. When legislators are accountable to citizens at regular intervals, they have a powerful incentive to make decisions that are consistent with the felt interests and concerns of the wider public. If a legislator makes a decision that is not sensitive to the evolving state of public opinion, then that legislator faces the prospect of losing the election, thereby losing her office. Democratic accountability helps ensure that legislators will make decisions that are sensitive to the broad outlines of public opinion, as it evolves in free and open discussion in the public sphere.

Realizing the ideal of deliberative democracy requires democratic accountability first and foremost at the state level. Legal rules and public policies structure social life, and in order for society to be governed by the free, unforced, rational deliberation of its members, these rules and policies must be sensitive to the evolving opinions of citizens. Making administrative officials and legislative representatives accountable to the public is an essential step to ensuring that these authorities will make decisions about public policies and legal rules that are sensitive to the deliberations of the wider public.

Habermas himself recognizes the importance of democratic accountability when he considers different mechanisms that would ensure that state agencies operate in ways that are sensitive to the ongoing process of free, unforced, rational deliberation in the public sphere. He says:

the principle that social power should be blocked from directly seizing administrative power finds expression in the principle of democratic accountability that occupants of political offices have vis-à-vis voters and parliaments. Representatives must periodically stand for reelection; the responsibility of the incumbent Administration and its members for their own decisions and for those of subordinate officials corresponds to the oversight and impeachment powers enjoyed by parliamentary bodies (Habermas 1996, p. 175).

The central idea might be put this way. Democratic accountability can be achieved through institutional structures that make administrative officials answerable to citizens. These structures make officials answerable in a two-stage process: first, administrative officials are answerable to the representatives of citizens who have the power to remove these officials through impeachment; second, representatives themselves are accountable to citizens through free and fair elections. This two-stage system of democratic accountability helps ensure that administrative officials will not exercise their authority in ways that serve the interests of certain privileged clients (i.e., “social power,” which includes powerful business interests). Making officials answerable to the public is a way to pressure them to make decisions that are sensitive to the free, unforced, rational deliberation of citizens.

The Changing Role of the Corporation in Society: Political CSR

With these background ideas in place, we can turn now to the core of Palazzo and Scherer’s argument. The argument begins with a certain conventional view about the division of institutional responsibilities in society. According to what we will call the *standard view*, the role of the state and its various agencies is to shape legal and regulatory environment in society so that the pursuit of profit by business corporations will advance the common good. The state is a “public actor” in the sense that it must take the interests of everyone into account when it carries out the tasks associated with shaping the framework (Brenkert 1992b). The state, in turn, stands above various private actors, including business corporations, who are permitted to focus primarily on their own welfare. From now on, we will refer to the complex set of activities that constitute the role of the state in the standard view as *public functions*, that is, as functions that are assigned to a public actor.

Many observers now agree that states and corporations around the world conform less and less to the division of

labor described in the standard view. On the one hand, states are less willing or able to make rules that direct business activity towards the common good. For example, globalization has led to a situation in which states are less able to regulate multinational corporations effectively because corporations can move between jurisdictions to avoid unfavorable labor and environmental regulations (Doh 2005; Scherer and Palazzo 2011). On the other hand, corporations are becoming increasingly involved in performing various public functions, not only in weak or failed political systems, but also in ostensibly well-functioning ones. To name just a few of these functions, business corporations provide public goods (Ruggie 2004); protect and satisfy people's citizenship rights (Cragg 2000; Crane et al. 2008; Matten and Crane 2005); exert significant influence in processes that generate rules and regulations that are binding on citizens, firms, and governments (Kobrin 2009; Vogel 2010); and play an important role in promoting international peace (Fort and Schipani 2004).⁵ These activities have been described as instances of "political CSR," since they are examples of socially responsible (or pro-social) behavior by corporations, where the behavior in question has a political character (Frynas and Stephens 2015; Scherer and Palazzo 2007, 2011).

The ideal of deliberative democracy says that society should be governed by the free, unforced, rational deliberation of citizens. In the normal case, democratic accountability at the state level ensures that society will be governed by the deliberation of its members: the legal and regulatory environment structures important social activities, so by making administrative officials accountable to the public, democratic accountability at the state level ensures that social activity is regulated by public deliberation in the right way. But what happens when the state is not in a position to shape social activity? What happens when private actors increasingly perform state functions? If the state is no longer the central role in shaping human activities that affect issues of common concern, then deliberative democracy says that democratic accountability at the state level is no longer sufficient. Under these conditions, anyone who is in the position of performing state regulatory functions or anyone who is in the position of acting in ways that significantly affect issues of common concern must be subject to a form of democratic accountability. It follows that an adequate institutional framework for deliberative democracy will extend democratic accountability from the state to those private actors that

perform public functions or engage in activities that significantly affect issues of common concern.

Here is an illustration. Suppose that an oil company operating in a small province in a developing country starts adjudicating disputes, making health and sanitation policies, and enforcing the basic rights of individuals. Society would not be governed by the deliberations of citizens if this private actor were free to do whatever it wants. After all, the oil company would be in a position to unilaterally determine what basic rights and freedoms people enjoy in society, what rules they live by, and how they will address issues of common concern (e.g., public health and sanitation). In order to ensure that society is governed by the deliberations of its members, this private actor must be subject, in some way, to the free, unforced, rational deliberation of citizens. In other words, the ideal of deliberative democracy requires democratic accountability, not just from a formally constituted state, but also from any private actors who may step into perform various public functions in society.

It is for this reason that Palazzo and Scherer argue that the expanded role of the corporation has implications for how firms are managed and operated. Since corporations increasingly perform public functions in society, these organizations are effectively operating in a state-like fashion and should be subject to the kind of democratic accountability that is required for states: "[i]f corporations assume responsibility for state functions and generate global rules," they say, "then it becomes obvious that it is necessary to *control* corporations just as the democratic state needs to be controlled by its citizens" (Scherer et al. 2006, p. 517, emphasis in original).

A New Form of Democratic Accountability

As business corporations increasingly perform public functions in society, the ideal of deliberative democracy requires that these organizations must be subject to a form of democratic accountability. But what form of democratic accountability is appropriate for these organizations? In this section, we describe Palazzo and Scherer's answer to this question. Again, our goal is to show that Palazzo and Scherer's model of democratic accountability for business corporations does not actually live up to the ideal of deliberative democracy and to show how the model can be repaired.

One possible model for democratic accountability for the corporation is the electoral model that we use for legislators. Imagine, for instance, that we identified all of the business corporations in society that perform significant public functions. Imagine further that we adopted a regime in which the CEOs of these corporations would have to

⁵ This is a list of functions that states legitimately perform, not a list of functions they actually perform. In addition to these legitimate functions, states perform other illegitimate functions, such as suppressing the free speech of their own citizens, and invading other states without just cause.

stand periodically for reelection in a free and fair national electoral process. Under such an arrangement, the CEOs of these major corporations would not be able to simply ignore the evolving state of democratically formed public opinion in the community. Each CEO would find that she must pursue policies that are broadly consistent with public opinion in order to remain in office. Over the long run, this electoral system would help ensure that corporate policies change in ways that are consistent with the evolving opinions reached through free, unforced, rational deliberation in the public sphere.

Palazzo and Scherer do not consider the electoral model of democratic accountability, and it would be interesting to know why they reject it (if they do). Perhaps, democratic accountability of this sort carries too high a price in terms of economic efficiency, or it is too radical given contemporary ideas about property rights and the private nature of the corporation (cf. McMahon 2013). We ourselves are not advocating the electoral model, but thinking about it helps clarify the purpose that Palazzo and Scherer's model of accountability is supposed to serve.

The point of the model of democratic accountability that Palazzo and Scherer advocate is to ensure that corporate activity that affects issues of common concern in the community is regulated by the free, unforced, rational deliberation of citizens. But instead of using elections to ensure that corporate activity conforms to evolving public opinion, the model uses a multi-stakeholder deliberative process to do so. A multi-stakeholder deliberative process is one in which a business corporation has regular contact with certain individuals and groups to discuss the normative dimensions of its business operations. The individuals and groups involved will include citizens, NGOs, and government agencies.

According to Palazzo and Scherer, the multi-stakeholder deliberative process should work in the following way. Someone—a corporate official, an NGO, a government agency—will bring some aspect of the corporation's activities to the attention of participants. The various participating individuals and organizations, including the corporation itself, will then present different standards and principles that might regulate this aspect of the corporation's activities. Participants will make arguments for or against these various standards and principles. The dialog will unfold as a "complex communicative process of accountability where... limits [on corporate behavior] are defined and redefined in a continuous process of deliberative discourse" (Palazzo and Scherer 2006, p. 82). All of the parties must be willing to take the arguments presented by the others seriously, and they must all cooperate to try and determine which standards and principles should govern the corporation's behavior. Finally, the corporation must be prepared to alter its behavior and follow the standards and principles that are supported by the

balance of good arguments (Palazzo and Scherer 2006, p. 73).

Four features of Palazzo and Scherer's model of democratic accountability should be noted.

- (a) The model is meant to be normative, not just descriptive. Actual governance processes in the world may deviate from the model in various ways. For instance, corporations in actual CSR arrangements may not conform to established principles and standards, or the parties involved may not listen to one another's arguments. But the point of the model is not to describe what we actually see in the world, but rather to explain how democratic processes *should* work. The model is normative in the sense that it is meant to tell us how to reform and revise existing governance arrangements so that these arrangements can perform their appropriate social function. It is no objection to Palazzo and Scherer's model to observe that corporations do not want to behave this way or do not actually behave this way.
- (b) Democratic accountability, on Palazzo and Scherer's model, does not involve everyone in society directly, but it does involve everyone indirectly. The governance process they describe only involves a limited number of citizens, NGOs, and government agencies. But all of these participants are themselves also participants in a larger national discussion about issues of common concern. As such, participating individuals and groups are influenced by information, reasoning, and argument in the wider community. So democratic accountability for corporations, as Palazzo and Scherer envision it, involves the whole community in an indirect way: the process effectively integrates the corporation into the wider process of free, unforced, rational deliberation in the community as a whole (Scherer and Palazzo 2007, p. 1108).
- (c) State officials play an important background role in Palazzo and Scherer's model, guaranteeing "the transparency of discourse, the monitoring and enforcement of corporate compliance, the comparability of information and standards, and the access of less powerful actors to deliberation" (Scherer and Palazzo 2007, pp. 1112–1113). Thus, the state does not always participate directly in the governance process, but it plays an important supporting role, ensuring that deliberations are carried out appropriately and that corporations comply with the results.⁶

⁶ Since corporations may engage in political activity across national boundaries, we might ask: which states should play these roles? The state that is the "home" of the corporation, or the state that is its "host"? Or some other state? These are good questions, and Palazzo

- (d) Finally, once the governance process is up and running, business corporations can legitimately perform various public functions in society because the governance process ensures that the corporation's activities are still governed, in the right way, by the deliberation of citizens. According to Palazzo and Scherer, the legitimacy of corporate activity will in this case be "regarded as the result of [the] process of public deliberation" (2006, p. 80).

Importantly, Palazzo and Scherer's model of democratic accountability does not require that *every instance* of corporate activity should be subject to democratic review. If it did, democratic accountability would be hopelessly inefficient (Boatright 2004; Hansmann 1996). Instead, Palazzo and Scherer say, "the deliberative concept... follows the *principled priority of systematic routine* as advocated by Habermas" (Scherer and Palazzo 2007, p. 1111, emphasis in original). The default position is that corporations can act according to their own internal decision-making procedures, including their systematic pursuit of profit. But when there is "a public discourse on the legitimacy of a given issue" (Scherer and Palazzo 2007, p. 1111), that is, when the public becomes concerned about some aspect of the corporation's activities, then the normal routine must stop and deliberation must commence.

Perhaps, the most instructive illustration Palazzo and Scherer offer for their normative model of democratic accountability involves the Forest Stewardship Council (FSC) (Scherer and Palazzo 2007). Forests are an essential component of the ecosystem, and the ideal of deliberative democracy requires that the free, unforced, rational deliberation of citizens should govern how we manage these resources. At some point in the past, democratic accountability at the state level might have been sufficient to ensure that public deliberation governed this aspect of social life, but this is no longer realistic in today's world (Palazzo and Scherer 2006; cf. Kobrin 2009). Since corporations play a leading role in managing forests, whether through their influence on governmental rule-making or through their own internal forest management policies, Palazzo and Scherer say that deliberative democracy requires that corporate activities must be subject to democratic review.

The FSC is an umbrella organization that brings together NGOs, government agencies, and forest management companies to discuss and establish principles of sound forest

management. Participants in the FSC General Assembly deliberate about these principles, offering complex arguments and evidence in support of different proposals and eventually endorsing a set of principles and standards. Companies that participate are subject to a review in which third parties assess how well the company complies with the principles and standards outlined by the FSC.⁷ Through this process of review, on the one hand, and deliberative standard-setting, on the other, corporations that participate in the FSC are subjected to a form of democratic accountability. Democratic accountability is not pointed *inward*, making the corporations involved more accountable to their employees or other stakeholders (Moriarty 2014). It is rather pointed *outward*, making these corporations more sensitive to the encompassing democratic deliberation in society about forestry issues. As Palazzo and Scherer put it, in participating in the FSC, corporations do not "invite stakeholders into their internal decision-making processes," but rather move themselves out into "the political processes of public policy making" (Scherer and Palazzo 2007, p. 1110).

To recap: deliberative democracy requires that the free, unforced, rational deliberation of citizens should govern important issues of common concern in society. The state was traditionally the primary mechanism through which deliberation would direct the course of social life. But Palazzo and Scherer argue that the role of the corporation in society has changed, so that these organizations increasingly perform public functions in society and the role of the state has correspondingly diminished. In order to maintain governance by the deliberation of citizens, corporations that perform public functions or engage in activities that affect the common good must be subject to the deliberation of citizens. Palazzo and Scherer's model is a blueprint for a new form of democratic accountability for these organizations.

What Role Should Corporations Play?

We turn now to what we see as the major problem in Palazzo and Scherer's normative model of democratic accountability. To explain the problem, we introduce a crucial distinction that Palazzo and Scherer do not discuss, one that is largely absent in the literature.

In any system of accountability, we can distinguish between (a) the agents who are accountable and (b) the parties to whom these agents are accountable. Call this the distinction between *functionaries* and *supervising authorities*. Different systems of accountability put different people in the role of functionaries and supervising authorities. For example, in a school system, the principal

Footnote 6 continued

and Scherer do not supply answers to them. As a first approximation, we might suppose that they would give the same answer to this question as they give to the question of who should participate in deliberation about a decision. So, if all parties affected by a decision should have a right to participate in deliberating about it, then all states affected by a decision have a right, or perhaps a duty, to regulate the deliberation about it. Nothing in our paper hangs on how these questions are answered, however, so we set them aside.

⁷ For a description of the FSC's governance system, see <http://www.fsc.org/governance.html>.

is a functionary and the members of the school board are supervising authorities. The principal is accountable to the board because she has to explain and justify her conduct to board members and because they can remove or sanction her if she does not live up to their expectations. In a democratic political system, legislators are functionaries and citizens are supervising authorities. Legislators are accountable to citizens and must answer to them in periodic elections.

Palazzo and Scherer's normative model of multi-stakeholder governance is meant to be a system of democratic accountability, and it clearly puts business corporations in the position of functionaries. We can see this in various aspects of the model. For example, according to the model, the activities of the business corporation form the main subject matter for deliberation. Participants monitor the activities of business corporations and formulate principles and standards to govern these activities. The model also requires business corporations to explain and justify their activities to participants, and it requires companies to revise their activities so as to conform to the standards and principles supported by the balance of good arguments (Palazzo and Scherer 2006, p. 73).

Palazzo and Scherer's model puts corporations in the position of functionaries, but a key feature of their model is that *it also puts business corporations in the position of supervising authorities*. Consider that, on their model, corporations participate in deliberative arrangements in much the same way as other social organizations do (Scherer and Palazzo 2007, 2011). For example, the FSC is an organization that Palazzo and Scherer hold up as an exemplar. Business corporations participate in the FSC general assembly alongside aboriginal tribes, government agencies, environmental groups, and other non-governmental organizations (NGOs). *All of these groups propose standards for sound forest management practices, state their reasons for and against various proposals, and vote to adopt or reject these proposals*. In this way, the FSC puts business corporations not only in the position of functionaries, but also in the position of voting members of the deliberative bodies. This illustrates how, on Palazzo and Scherer's model, business corporations are not only in the position of a functionary that is accountable, but also in the position of a supervising authority to whom the functionary is accountable.

We take issue with this second feature of Palazzo and Scherer's normative model. It makes sense for corporations to participate in multi-stakeholder governance arrangements as functionaries. But we think that they should not participate in these arrangements as supervising authorities. Otherwise put, corporations should not participate in a policymaking capacity. Insofar as Palazzo and Scherer's system is meant to be a system of *democratic* accountability, corporations should be required simply to conform

to the standard and policies endorsed by supervising authorities, viz., citizens, NGOs, and government agencies.⁸

Understanding the Issue

To get a handle on what is at issue here, consider a very simple argument. Palazzo and Scherer believe that corporations that perform public functions in society should be democratically accountable. The structure of their argument might seem to imply straightforwardly that business corporations should not participate in multi-stakeholder governance arrangements as supervising authorities. The reason is that these arrangements are supposed to make the corporation accountable to the free, unforced, rational deliberation of citizens, not to make the corporation accountable *to itself*.

The issue, however, is not so simple. Consider that the President of the United States is accountable to the people in regular elections. But the President is also a citizen, a member of the public, so he is entitled to vote in regular elections, even in elections where he is also a candidate. This illustrates how an agent can occupy more than one role in a system of democratic accountability. If agents can occupy more than one role, this raises the possibility that a business corporation could play the role of a functionary *and* the role of a supervising authority in a system of democratic accountability. So in order to determine whether the corporation can participate as a supervising authority in multi-stakeholder governance arrangements, we have to ask whether the corporation counts as a member of the community in the relevant sense.

Palazzo and Scherer do not directly address the question of who counts as a member of the community, but Habermas, whose work informs their views, does. Habermas says that deliberative democracy requires that "all of those who

⁸ Other writers, including Edward and Willmott (2008) and Moog et al. (2015) have criticized the FSC in connection with Palazzo and Scherer's model of democratic accountability for corporations. But our criticism is novel. Edward and Willmott claim that the FSC gives too much weight to the voices of "certification bodies and commercial clients" and not enough weight to the voices of "local communities and indigenous people" (p. 420). We are claiming that institutions like the FSC should not give *any* weight to corporate voices in policymaking, at least insofar as they are understood as supervising authorities. Put another way, Edward and Willmott think that the FSC does not live up to the model of democratic accountability described by Palazzo and Scherer. We believe the model itself is flawed. Moog, Spicer, and Böhm argue that the effectiveness of the FSC (and other multi-stakeholder initiatives, or MSIs) is "significantly limited by the broader political and economic context in which they operate" (p. 471), and has failed to achieve its ultimate goals "of reducing deforestation and forest degradation (p. 484). They do not challenge, as we do, the role that corporations play in the FSC and other MSIs, only the value of the outcomes achieved by these initiatives.

are possibly *affected* by the decisions [of a community must] have equal chances to enter and take part” in the deliberative process (Habermas 1996, p. 305, emphasis added; see also Dahl 1989; Goodin 2007; Whelan 1983). Let us call this the “all affected” principle. Since Palazzo and Scherer endorse Habermas’s version of deliberative democracy, we will suppose that they also accept this principle.

The “all affected” principle might appear to imply that corporations should be able to participate as supervising authorities in multi-stakeholder governance processes. In the case of the FSC, the forest management companies involved would clearly be affected by any decisions that the community takes with respect to forest management practices. So if these companies are affected, then it may seem to follow from the “all affected” principle that these companies have a claim to participate in social deliberation about forestry issues. But this does not in fact follow.

To say that “all affected” by a decision should be able to participate in making it is to say, more precisely, that all those whose *interests* may be affected by a decision should be able to participate in making it. For example, soils and rivers are surely affected by decisions about what standards to adopt for forest management, but no one would suggest that soils and rivers should be allowed to participate in making these policies. The reason is not simply that soils and rivers cannot speak: the deeper reason is that soils and rivers lack *interests*. A minimal condition for having interests is being sentient, and soils and rivers are not sentient (Singer 1974/2012). The same holds true for corporations. Business corporations are not sentient and therefore do not have interests. To be sure, individual human beings have interests, and the individual human beings who are stakeholders in a corporation have interests. These individual human beings—e.g., shareholders, workers, and managers—may have a claim to participate in social deliberation, but any talk of the interests of corporations only makes sense as a proxy for the interests of individual human beings who have stakes in a corporation.

Many readers may accept that the business corporation does not have a direct claim to participate in social deliberation about issues of public concern. But these readers may reply that the corporation has an indirect claim to participate. Clearly the “all affected” principle would say that shareholders, workers, and managers have a claim to participate in social deliberation about issues of public concern, and therefore that democratic accountability must involve accountability to shareholders, workers, and managers. One might then argue that the corporation has a claim to participate in social deliberations insofar as it speaks *on behalf* of these groups. In effect, the reply goes, democratic accountability involves accountability to corporations because corporations act as the representatives of shareholders, workers, and managers in social deliberation.

This response brings into focus the central issue, namely *representation*. If business corporations have a claim to participate in multi-stakeholder governance processes as supervising authorities, their claim does not stem from the fact that they themselves are affected parties in the morally relevant sense. Their claim stems rather from the fact that they act as political representatives of the affected parties. So the question is that can a corporation claim to act as the political representative of shareholders, workers, and managers (and possibly other stakeholders) in social deliberation?

Politically Representative Organizations (PROs)

We will use the term *politically representative organization* (PRO) to refer to an organization that can legitimately represent a group of citizens in social deliberation. Intuitively, some organizations have a claim to speak on behalf of their members in social deliberation. This includes, for example, political parties, such as the Tories in the UK and the Greens in Germany, as well as many NGOs, such as Greenpeace, The Sierra Club, and The National Rifle Association (NRA). Again intuitively, many organizations do *not* have a claim to speak on behalf of their members in social deliberation. This includes basketball teams, rock bands, college fraternities, combat units, book-of-the-month clubs, and so on.⁹ In order to decide whether a business corporation can participate in social deliberation and, by extension, participate as a supervising authority in political CSR, we need to formulate a clearer conception of what makes a social organization a PRO.

We claim that a social organization qualifies as a PRO when it satisfies two conditions:

C1: Citizens must make decisions about joining, remaining in, or leaving the organization based in large part on the degree to which the organization’s expressed objectives match up with their own social and political commitments.

C2: The formal and informal practices of democratic decision-making in society must assign the organization a certain role to play in the overall political process.

The two conditions, C1 and C2, are mutually reinforcing. The fact that an organization has a recognized role to play

⁹ We agree with Baur and Palazzo, who recognize that only *legitimate* groups in society—those who are civil, engage in argument, and make good faith efforts to reach agreement—should be permitted to participate in social deliberation (Baur 2011; Baur and Palazzo 2011; see also Baur and Arenas 2014). But we think that there are further conditions that should restrict whether an organization can participate in social deliberation.

in the institutionally defined decision-making process makes it reasonable for citizens to join or leave the organization based on their political views; and the fact that citizens join and leave these organizations based on their political views makes it appropriate for social institutions to give these organizations certain roles to play in the political process.

To illustrate the first condition, consider the case of a political party in the United States. In most cases, citizens make decisions about joining, remaining in, or leaving a political party with the party's political objectives in mind. When citizens join a party, they do so because they understand the main elements of the party's platform and they want to participate in a shared effort to present and defend this point of view. If the party's platform veers too far from their own values, they will consider whether to remain in the party or to try to change its platform from within.

Now consider the second condition. Focus again on the case of a political party. The United States has a complex set of institutions and practices that structure the process of democratic decision-making. These include the procedures set out in the Constitution, the traditions of the Senate and House, and the various elements of the electoral process. Political parties have a recognized role to play in this system. They enable like-minded citizens to formulate broad political platforms, and then to advocate for these platforms in arenas for social deliberation and decision-making (Beitz 1989; Cohen 1989). For example, the Republican Party and the Democratic Party allow like-minded citizens, on the right and left of the political spectrum, respectively, to formulate political platforms consisting of policies that cover a wide range of issues, and to advocate for those policies in the social deliberations that attend elections at various levels of government.

Political parties play a role in the formal political institutions of the U.S.: their role is recognized in the law and in judicial precedent. But the democratic decision-making process is not limited to formal political institutions. Some political parties may not have a legally recognized role to play in the legislative process, but these parties may nonetheless have an important and widely recognized role to play in the informal practices of political coordination and advocacy in society. For example, the African National Congress (ANC) was for many years banned from the formal democratic process in South Africa. But the party nonetheless played an important role in political coordination and advocacy among Black South Africans. Even the white minority that ruled South Africa under apartheid recognized the importance of the ANC in the political process. The second of our two conditions, C2, recognizes that a social organization whose participation in formal political institutions is blocked, for one reason or

another, can still count as a PRO because of the recognized role that it plays in the informal political process.

Social organizations that satisfy the two conditions have a special claim to representing the views of citizens in social deliberation. These organizations have a *social purpose*, and that purpose is precisely to serve as a vehicle for citizens to present their political views in social deliberation. This social purpose derives from two mutually reinforcing facts. First, citizens join or leave these organizations based on whether their social commitments are in line with the organizations' commitments. Second, these organizations have a distinctive status and distinctive powers in the decision-making process. It makes sense for these organizations to play a substantive role in political decision-making because they represent the views of like-minded citizens. At the same time, it makes sense for citizens to join or leave these organizations based on their personal political commitments because these organizations have a certain role to play in the political process.

Political parties are perhaps the paradigmatic PROs. But other organizations in society meet the two conditions we set out, and so also qualify as PROs. Among these are many of the "NGOs, movements, [and] civil society networks" that Scherer and Palazzo say should be included in social deliberations (Scherer and Palazzo 2007, p. 1107).

To elaborate, recall that condition C1 says that for an organization to qualify as a PRO, people must make decisions about joining, remaining in, and leaving the organization based in large part on how well the organization's expressed objectives match up with their social and political commitments. The NGOs that we have highlighted satisfy this condition. Citizens typically understand the role that organizations such as the NRA play in the American political system as vehicles for political expression. In light of this role, they make decisions about joining, remaining in, or leaving these organizations with a view to how well the organization's agenda fits with their own values. If, at a certain point, a member of the NRA no longer supports the gun rights agenda of the organization, then she will reevaluate her membership in it. She may decide to try to change the NRA's agenda from within or to leave the organization altogether.

The second condition, C2, says that, to be a PRO, the organization must have a recognized role to play in social institutions and practices of democratic decision-making. Many NGOs satisfy this condition as well. Unlike national political parties, whose platforms are broad and cover many different policy questions, political NGOs focus on specific issues. But these NGOs still play vital roles in social deliberation and decision-making. For example, a political NGO such as Greenpeace has a distinctive environmental agenda, and it argues for this agenda in public debate,

debate within political parties, and in public hearings with various governmental and quasi-governmental agencies.

Now compare the status of organizations like Greenpeace with the status of organizations like amateur basketball teams (and rock bands, combat units, college fraternities, etc.). Unlike Greenpeace, amateur basketball teams do not satisfy the two conditions for being a PRO. First, over time, people join, remain in, and leave a basketball team for basketball-related reasons—for example, based on how tall they are, their skill-level, how well they play together, and so on. Second, basketball teams are not assigned a distinctive role in the formal or informal practices of democratic decision-making in society. It follows that organizations such as amateur basketball teams are not PROs, and so cannot legitimately represent their members in social deliberation.

Of course, as people come and go on a basketball team for basketball-related reasons, it is possible that the members of the team at any particular point in time may also share a certain outlook on the environment and endorse a similar environmental agenda. Just as the players on the team may, through no intentional choice, have the same color eyes, they may also have the same environmental views. But the fact that the players on the team have the same environmental commitments does not qualify the team or the team leadership to speak on behalf of its players in social deliberation about environmental issues. This is because it is not part of the *social purpose* of the basketball team to serve as a vehicle of political expression: on the one hand, the basketball team does not have a recognized role to play in the institutions and practices of political decision-making, and on the other, citizens do not join, remain in, or leave the team based on their political views.¹⁰ Indeed, over time, we can expect the coincidence of environmental views among the players on the basketball team to dissipate. But we can expect the coincidence of environmental views among the members of Greenpeace to persist because everyone recognizes that this is a fundamental part of the organization's social purpose.

¹⁰ A complication is that people tend to associate with others who are like themselves. Thus, if a person were faced with a choice of joining two basketball teams, one whose members shared his political views, and another whose members did not—but which were otherwise identical—he would probably choose the former. We do not believe that this poses a serious threat to our claim, however. The main reasons that people join and leave, e.g., basketball teams are basketball related. Non-basketball-related considerations—political preferences, musical tastes, religious identities, and so on—play a role only at the margins. The same is true, we will see, of corporations. Faced with a choice of joining one firm or another, a person may give preference to a firm whose employees share her political (or musical or religious) views over one whose employees do not. But these considerations will be secondary to whether the person is willing and able to perform the tasks the job requires. The same is true from the firm's side: job-related-reasons will dominate non-job-related reasons in its decision to extend an offer of employment or not.

Are Business Corporations PROs?

We have set out two conditions that organizations must satisfy in order to constitute PROs. Moreover, we have identified several types of organizations that are PROs and several types that are not. The question now is, are business corporations PROs? We argue that, in general, they are not.

Consider that there are many different institutions and practices in an advanced liberal democracy. Most relevantly, there are the institutions and practices of democratic decision-making, on the one hand, and the institutions and practices of a market economy, on the other (Anderson 1993; Cohen 1989; Habermas 1996; Hussain 2012). The business corporation has a recognized role to play in our market institutions. Its role is to convert less-valued inputs (e.g., flour, water, and yeast) into more-valued outputs (e.g., beer) (Boatright 1994; Jensen 2002). Since corporations in a market economy compete with one another to provide outputs to consumers, they have an incentive to convert inputs into outputs efficiently. A corporation that is inefficient may be competed out of business by its rivals. A further feature of the corporation, connected with its role in the competitive market system, is that people typically make decisions about joining, remaining in, or leaving it (whether as workers, managers, or shareholders) mainly on the basis of their economic self-interest. This is explained partly by the interests of those who join, and partly by the interests of those who invite them to join: market pressures require corporations to extend invitations to workers and managers, for example, mainly on the basis of economic considerations.¹¹

Now imagine a hypothetical, publicly traded software company C. Workers and managers join, remain in, or leave C mainly because of salary and labor considerations, and shareholders buy, hold, or sell shares in C mainly because of financial returns. It is possible that, at a certain point, all of those who participate in C will share a certain set of views about, say, the environment. This parallels the way that players on a basketball team, who come together for basketball-related reasons, may by accident also share certain environmental commitments at a certain time. But even if the various participants in C share these same views about the environment, this does not give C a claim to represent workers, managers, and shareholders in social deliberation about the environment. The reason is simply that it is not part of the social purpose of the business

¹¹ In saying 'mainly' here, we acknowledge the possibility that workers, managers, and shareholders participate in the corporation *in part* because of non-economic interests, e.g., because they endorse the corporations' values or certain non-economic aspects of its mission statement (see, e.g., Meyer and Allen 1997). We thank an anonymous reviewer for stressing this point.

corporation to represent the views of participants in social deliberation. That is, C is not a PRO.

Reflection on the two conditions set out above brings this point into sharper relief. First, as a business corporation, C does not play a role in our institutions and practices of democratic decision-making. The basic purpose that C serves in society is economic: C creates value for society by converting inputs into outputs in a competitive market. This makes C different from a political party or an NGO, whose purpose is to help articulate a point of view and defend it in social decision-making. Moreover, there is a good reason why C does not have a recognized role to play in democratic decision-making. A business corporation that is committed to making profits in the market cannot easily articulate and defend political viewpoints that may be unpopular or lead to policies that would lower profits in the long run. *The economic purposes of a business corporation are often at odds with the political purposes that would be characteristic of a political party, NGO, or other such organization.*

Second, given the economic purposes of a business corporation, C's workers, managers, and shareholders are unlikely to share political outlooks. If they do, the coincidence in their outlooks will be like the coincidence in the political outlooks of the members of a basketball team, viz., just an accident. Over time, there is little reason to think that the participants in C will continue to share views on political issues, because workers, managers, and shareholders do not associate with one another in C for the purposes of advancing certain political views. Since C does not have a recognized role to play in the political decision-making process, citizens have no reason to treat C as a vehicle for political representation, and so no reason to join and leave C on the basis of their political views.

It might be objected that workers, managers, and shareholders that associate together in C are likely to have shared economic interests, which may in turn lead to shared political views. For example, insofar as they have a shared interest in the success of the software company, they may also have a shared interest in more stringent forms of intellectual property or more lenient standards for depictions of sex and violence in video games. But the relationship here is weak. People who work or invest in a software company may also favor open ownership models that spur development in poor countries, or they may be religious conservatives who want to clean up the smut in our culture. There is little reason to assume that people's political views are necessarily tied to their economic interests. More importantly, we all have an interest in a system that does not assume that our political views are closely tied to our economic interests, since this gives us greater freedom both to choose the jobs that we want and to

express the political views that we believe in (see Hussain 2013).

We want to emphasize that workers, managers, and shareholders have legitimate points of view that should be represented in social deliberation. We are not suggesting that their voices should not be heard. Our contention is simply that the business corporation is not the proper organization to represent these individuals in social deliberation. When it comes to social decisions that affect the software industry, C's workers may have their views and interests represented by a labor union or various civil rights NGOs. Similarly, C's shareholders may have their views and interests represented by a chamber of commerce or various pro-growth NGOs. These other social organizations, due to their nature, structure, and social function, are the appropriate vehicles for representing the political views of their participants in social deliberation.

We have argued that it is a mistake for Palazzo and Scherer to give business corporations the same role in social deliberation as "NGOs, movements, or civil society networks" (Scherer and Palazzo 2007, p. 1107). The ideal of deliberative democracy requires democratic accountability for the business corporation, but what it requires is democratic accountability to the public, viz., citizens and the PROs who represent them. Deliberative democracy does not require, and is in fact inconsistent with, accountability to profit seeking corporations. Nonetheless, we do not think that business corporations should be completely excluded from policymaking in political CSR.

Business corporations can participate in multi-stakeholder governance processes as technical experts. Consider how decision-making might work in an ideal deliberative democracy. Suppose that citizens (or their representatives) are deliberating with one another about how best to address the problem of urban sprawl in their community. They present various proposals and discuss their merits. But a thorough assessment of the merits and demerits of these proposals requires knowledge that citizens themselves may lack. To remedy this, citizens may call on experts in urban planning, sociology, economics, and transportation to provide them with the best available theories about why sprawl occurs and what can be done about it. They may also call on government officials from other countries to come and testify about their experiences with urban sprawl, explaining which approaches worked in their countries and which ones did not. Corporations may also be called on as experts. Citizen deliberators will want to have a sense of the likely impact certain zoning decisions will have on corporations' actions, e.g., to open or close stores in a certain neighborhoods. This is information that is surely valuable to citizens, and corporations themselves are the experts in this area.

In sum, business corporations can participate in political CSR as technical experts, presenting evidence and explaining the likely consequences of various decisions. But they should not participate as voting representatives. Business corporations are not themselves either members of the public or political representatives, so they cannot act as supervising authorities in multi-stakeholder governance processes.¹²

The Bottom Line and Some Objections

You might boil down our critique of Palazzo and Scherer's model of democratic accountability as follows. Everyone would agree that allowing corporations to vote in national elections would be undemocratic. Most everyone would agree that allowing corporations to influence the political process through campaign contributions or lobbying activities is also undemocratic. In both cases, the reason these forms of political participation are undemocratic is because corporations are not themselves members of the public or legitimate participants in the political process. But if corporate influence in the political process is undemocratic at the state level, then *it is equally undemocratic in the type of multi-stakeholder governance process described by Palazzo and Scherer*. To allow corporations to participate as supervising authorities in these democratic accountability systems is to simply reproduce the democratic deficit that we see at the state level in accountability mechanisms at the level of civil society.

We want now to consider a few objections to our argument. Some might agree with us that business corporations are not PROs, but question whether NGOs like the NRA and Greenpeace are truly representative organizations (Rubenstein 2013). Business corporations face a principal-agent problem, insofar as executives may pursue their own interests at the expense of the interests of shareholders. But NGOs face a similar problem: the leadership of an NGO may pursue its own interests in ways that do not adequately represent or advance the political views of its members. Moreover, many NGOs are actually sham

¹² It might be objected that we could allow for business corporations to play a role in the governance processes described by Palazzo and Scherer as supervising authorities, so long as we take adequate measures to neutralize the asymmetric power that these organizations have with respect to the other parties. Note that our criticism does not appeal to the idea of power differentials. The key point is that business corporations are embedded in market competition, so they are under constant pressure to make profits. This creates a constant pressure to make arguments in support of policies that would generate higher profits, rather arguments in support of policies that would advance the common good. So the problem is that business corporations lack the proper motivation to participate in governance process as a supervising authority.

organizations that serve as fronts for economic interest groups that pretend to engage in social deliberation, when actually they produce misleading or false information to promote policies that serve their own interests.¹³

We certainly agree that there are political NGOs that should not participate in public deliberation for various reasons, including those mentioned. We are not claiming that *every* political NGO is a PRO in our sense. Our point is rather that NGOs as a *type* are the right kind of organization to participate in social deliberation. You might think of it this way: even if you removed all of the agency issues in business corporations and political NGOs in our society, and you got rid of all of the sham and otherwise illegitimate organizations, there would still be a principled reason to treat business corporations differently from political NGOs. The reason is that business corporations, as a type, are not the right kind of organization to participate in social deliberation, while political NGOs are.

Some will wonder who decides which NGOs will participate in governance processes of the sort described by Palazzo and Scherer. After all, corporations and business interests will have one set of views about which NGOs should participate, and various social interests will have another set of views. Here it is important to distinguish between two different questions: (1) Who decides which organizations participate? And (2) what is the right standard for choosing organizations to participate? Our focus has been on the second question. The two conditions we outline for what constitutes a PRO are meant to provide a standard for deciding what types of organizations should participate in governance processes and what types should not. This still leaves open the question of who will apply and enforce this standard. Scherer and Palazzo (2007, pp. 1112–1113) themselves suggest that political officials will play a background role in policing governance arrangements, and we agree with them that courts and political authorities may have to play a role in deciding which organizations count as PROs. But *any* system of accountability requires that we make these sorts of decisions: even a democratic election would be impossible without someone (e.g., a judge, an election official, past generations of voters) making decisions about who is a citizen.

Some will argue that corporations should participate in governance arrangements because they have a duty to help

¹³ The other "side" of this problem, as it were, is that some legitimate interests may not be represented by NGOs. So even if all legitimate NGOs participate in deliberation, not all voices may be heard. More generally, we acknowledge that hard questions must be asked about who should participate in deliberative processes (Banerjee 2014; Baur and Palazzo 2011). We leave these questions for future research. Our focus in this paper is on who should *not* participate in them, viz., corporations, because they are not PROs.

solve social problems such as environmental pollution, both because they have the resources to contribute to a solution and because their activities often play a role in creating the problem in the first place. We agree that corporations have a duty to help solve social problems. But the key question is how should corporations contribute to solving these problems? We argue that they should do so mainly by complying with the standards and principles that citizens and PROs agree on in governance arrangements designed to regulate political CSR, i.e., by acting as functionaries who are accountable to society. Corporations can also contribute by making their technical expertise available to deliberators. But corporations should not contribute as supervising authorities in governance arrangements, since that would simply reproduce the democratic deficit that we see at the level of the state in accountability mechanisms in civil society.

Finally, we accept that business corporations in the world today will sometimes participate in governance arrangements as a kind of practical concession. In the case of the FSC, for example, the organization would not be effective as a rule-making body today if it did not allow forest management companies to play an equal role in the standard-setting process. It is only through this involvement that corporations come to develop the right kind of motivation to support the standard-setting process and to respect the standards that the process generates. But if this practical necessity were removed, and if there were a way of making sure that corporations respected the standard-setting process without allowing them to participate as supervising authorities, then deliberative democracy would require that we remove the corporation from it. As a matter of principle, business corporations should participate in governance arrangements as organizations that are accountable to the wider public. Again, democratic accountability is not accountability to business corporations, but accountability to the free, unforced, rational deliberations of citizens and their representatives. Corporations, we have stressed, are neither citizens nor representatives.

Conclusion

Many people agree that as business corporations increasingly perform functions that were traditionally performed by the state, a democratic deficit has emerged in society. If corporations perform public functions, many writers argue that these organizations should be subject to greater democratic accountability. Palazzo and Scherer offer a model of democratic accountability for corporations which is meant to address this problem. We have argued that their model suffers from a fundamental failing: it mistakenly

treats the corporation as if it were a political organization that could take part in social deliberation. In allowing corporations to shape how we address important issues of common concern, the model effectively reproduces the democratic deficit that it was meant to solve.

To be clear, we are not arguing that society must return to the traditional liberal arrangement, in which the state is the only organization that performs public functions in society. We agree with Palazzo and Scherer that other organizations, including business corporations, may perform public functions. Our point is that organizations that perform public functions must be subject to an *appropriate* form of democratic accountability. Palazzo and Scherer's model of multi-stakeholder governance does not provide the right kind of accountability. We need to modify their model so that corporations play a clearly subordinate role in the process: instead of equal deliberators and voters, corporations should serve as technical advisors, providing information and support to the relevant members of the public, viz., citizens and their representatives.

We have focused in this paper on the role of corporations in multi-stakeholder governance processes designed to address the democratic deficit caused by political CSR. We have argued that the role assigned to corporations in this process should be fundamentally altered: corporations should not play the role of supervising authorities. This opens up important questions for future research. Perhaps, the most important question is that who exactly should participate in these governance processes aimed at democratic accountability? We have argued that participating organizations should be PROs. Moreover, participating organizations must be willing to make and listen to arguments framed in terms of the common good. Others have also done important work in this area (see Baur 2011; Baur and Palazzo 2011; see also Baur and Arenas 2014). But many details need to be filled in.

In many cases, there are individuals who have a legitimate claim to participate in democratic accountability systems, but face significant obstacles to effective participation.¹⁴ For example, in some cases, a very large number of people are affected by corporate activities, but these individuals are dispersed in a way that makes it hard to coordinate any effective representation. Similarly, poor or marginalized groups may be affected but lack the resources to organize effectively. There is a danger, then, that these voices will not be heard in democratic accountability mechanisms that oversee political CSR. But any accountability mechanism that deserves the label "democratic" must involve a wide range of participants. To make progress on the question of who should participate in democratic accountability mechanisms as supervising

¹⁴ We thank an anonymous referee for this point.

authorities, further research should investigate the precise nature of the democratic deficit caused by political CSR and which parties lack an adequate voice in the deliberative process.¹⁵

References

- Anderson, E. (1993). *Value in ethics and economics*. Cambridge, MA: Harvard University Press.
- Archer, R. (1996). The philosophical case for economic democracy. In U. Pagano & B. Rowthorn (Eds.), *Democracy and efficiency in the economic enterprise* (pp. 13–35). New York: Routledge.
- Banerjee, S. B. (2014). A critical perspective on corporate social responsibility: Towards a global governance framework. *Critical Perspectives on International Business*, 10(1/2), 84–95.
- Baur, D. (2011). *NGOs as legitimate partners of corporations: A political conceptualization*. Dordrecht: Springer.
- Baur, D., & Arenas, D. (2014). The value of unregulated business–NGO interaction: A deliberative perspective. *Business and Society*, 53(2), 157–186.
- Baur, D., & Palazzo, G. (2011). The moral legitimacy of NGOs as partners of corporations. *Business Ethics Quarterly*, 21(4), 579–604.
- Beitz, C. R. (1989). *Political equality: An essay in democratic theory*. Princeton, NJ: Princeton University Press.
- Boatright, J. R. (1994). Fiduciary duties and the shareholder–management relation: Or, what’s so special about shareholders? *Business Ethics Quarterly*, 4(4), 393–407.
- Boatright, J. R. (2004). Employee governance and the ownership of the firm. *Business Ethics Quarterly*, 14(1), 1–21.
- Brenkert, G. G. (1992a). Freedom, participation, and corporations: The issue of corporate (economic) democracy. *Business Ethics Quarterly*, 2(3), 251–269.
- Brenkert, G. G. (1992b). Private corporations and public welfare. *Public Affairs Quarterly*, 6(2), 155–168.
- Cohen, J. (1989). Deliberation and democratic legitimacy. In A. Hamlin & P. Pettit (Eds.), *The good polity: Normative analysis of the state* (pp. 17–34). New York: Blackwell.
- Cragg, W. (2000). Human rights and business ethics: Fashioning a new social contract. *Journal of Business Ethics*, 27(1/2), 205–214.
- Crane, A., Matten, D., & Moon, J. (2008). *Corporations and citizenship*. New York: Cambridge University Press.
- Dahl, R. A. (1985). *A preface to economic democracy*. Berkeley, CA: University of California Press.
- Dahl, R. A. (1989). *Democracy and its critics*. New Haven: Yale University Press.
- Doh, J. P. (2005). Offshore outsourcing: Implications for international business and strategic management theory and practice. *Journal of Management Studies*, 42(3), 695–703.
- Edward, P., & Willmott, H. (2008). Structures, identities, and politics: Bringing corporate citizenship into the corporation. In A. G. Scherer & G. Palazzo (Eds.), *Handbook of research on global corporate citizenship* (pp. 405–429). Northampton, MA: Edward Elgar.
- Ellerman, D. P. (1992). *Property and contract in economics: The case for economic democracy*. Cambridge, MA: Blackwell.
- Fort, T. L., & Schipani, C. A. (2004). *The role of business in fostering peaceful societies*. New York: Cambridge University Press.
- Frynas, J. G., & Stephens, S. (2015). Political corporate social responsibility: Reviewing theories and setting new agendas. *International Journal of Management Reviews*, 17(4), 483–509.
- Goodin, R. E. (2007). Enfranchising all affected interests and its alternatives. *Philosophy & Public Affairs*, 35(1), 40–68.
- Gutmann, A., & Thompson, D. F. (2004). *Why deliberative democracy?*. Princeton, NJ: Princeton University Press.
- Habermas, J. (1984). *The theory of communicative action*. Boston: Beacon Press.
- Habermas, J. (1989). *The structural transformation of the public sphere: An inquiry into a category of bourgeois society*. Cambridge, MA: MIT Press.
- Habermas, J. (1996). *Between facts and norms: Contributions to a discourse theory of law and democracy* (W. Rehg, Trans.). Cambridge, MA: MIT Press.
- Hansmann, H. (1996). *The ownership of enterprise*. Cambridge, MA: Harvard University Press.
- Hsieh, N.-H. (2005). Rawlsian justice and workplace republicanism. *Social Theory & Practice*, 31(1), 115–142.
- Hussain, W. (2012). Is ethical consumerism an impermissible form of vigilantism? *Philosophy & Public Affairs*, 40(2), 111–143.
- Hussain, W. (2013, August 17). [Review of the book *Public Capitalism: The Political Authority of Corporate Executives*, by C. McMahon]. *Notre Dame Philosophical Reviews*. Retrieved from <https://ndpr.nd.edu/news/41657-public-capitalism-the-political-authority-of-corporate-executives/>.
- Hussain, W., & Moriarty, J. (2014). Corporations, the democratic deficit, and voting. *Georgetown Journal of Law & Public Policy*, 12(special issue), 429–450.
- Jensen, M. C. (2002). Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly*, 12(2), 235–256.
- Kobrin, S. J. (2009). Private political authority and public responsibility: Transnational politics, transnational firms, and human rights. *Business Ethics Quarterly*, 19(3), 349–374.
- Mansbridge, J. (1999). Everyday talk in the deliberative system. In S. Macedo (Ed.), *Deliberative politics: Essays on democracy and disagreement* (pp. 211–239). New York: Oxford University Press.
- Matten, D., & Crane, A. (2005). Corporate citizenship: Toward an extended theoretical conceptualization. *Academy of Management Review*, 30(1), 166–179.
- McCall, J. J. (2001). Employee voice in corporate governance: A defense of strong participation rights. *Business Ethics Quarterly*, 11(1), 195–213.
- McMahon, C. (1994). *Authority and democracy: A general theory of government and management*. Princeton, NJ: Princeton University Press.
- McMahon, C. (2013). *Public capitalism: The political authority of corporate executives*. Philadelphia, PA: University of Pennsylvania Press.
- Meyer, J. P., & Allen, N. J. (1997). *Commitment in the workplace: Theory, research, and application*. Thousand Oaks, CA: Sage.
- Moog, S., Spicer, A., & Böhm, S. (2015). The politics of multi-stakeholder initiatives: The crisis of the Forest Stewardship Council. *Journal of Business Ethics*, 128(3), 469–493.
- Moriarty, J. (2014). Stakeholder theory and stakeholder democracy: An excavation and defense. *Business and Society*, 53(6), 820–852.
- Palazzo, G., & Scherer, A. G. (2006). Corporate legitimacy as deliberation: A communicative framework. *Journal of Business Ethics*, 66(1), 71–88.
- Rawls, J. (1993). *Political liberalism*. New York: Columbia University Press.

¹⁵ This paper is equally the work of both authors. For helpful comments on it, we thank two anonymous reviewers for the *Journal of Business Ethics*.

- Rubenstein, J. C. (2013). The misuse of power, not bad representation: Why it is beside the point that no one elected Oxfam. *Journal of Political Philosophy*, 22(2), 204–230.
- Ruggie, J. G. (2004). Reconstituting the global public domain: Issues, actors, and practices. *European Journal of International Relations*, 10(4), 499–531.
- Scherer, A. G., & Palazzo, G. (2007). Toward a political conception of corporate responsibility: Business and society seen from a Habermasian perspective. *Academy of Management Review*, 32(4), 1096–1120.
- Scherer, A. G., & Palazzo, G. (2011). The new political role of business in a globalized world: A review of a new perspective on CSR and its implications for the firm, governance, and democracy. *Journal of Management Studies*, 48(4), 899–931.
- Scherer, A. G., Palazzo, G., & Baumann, D. (2006). Global rules and private actors: Toward a new role of the transnational corporation in global governance. *Business Ethics Quarterly*, 16(4), 505–532.
- Singer, P. (1974/2012). All animals are equal. In D. Schmidtz & E. Willott (Eds.), *Environmental ethics: What really matters, what really works* (pp. 49–59). New York: Oxford University Press.
- Vogel, D. (2010). The private regulation of global corporate conduct: Achievements and limitations. *Business and Society*, 49(1), 68–87.
- Whelan, F. G. (1983). Prologue: Democratic theory and the boundary problem. In J. R. Pennock & J. W. Chapman (Eds.), *Liberal democracy* (pp. 13–47). New York: New York University Press.