THIRD WAY CR AND THIRD WORLD CR: IN WHAT WAY SHOULD RESPONSIBLE CORPORATIONS SERVE THE WORLD?

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Abstract

This paper distinguishes norms for corporate responsibility in developed and developing countries. In the former, corporate responsibility should reflect "Third Way" values of restoring individual responsibility and social relationship, and these can be achieved through stakeholder engagement. Since stakeholder engagement often presumes an adequate level of individual rights and rule-governed behaviour, it is incompatible with the current political and cultural characteristics of developing countries. This paper suggests that the end of CR initiatives in developing countries is to promote stakeholder rights and good governance, while the means is through stakeholder empowerment.

From Third Way Politics to Corporate Responsibility

The definition of corporate responsibility (CR) is still unclear (McWilliams, Siegel, and Wright 2006) if not problematic (van Marrewijk 2003; Henderson 2001). It is even more challenging to spell out the types of initiative or programme that would meet the criteria of a responsible corporation, given that socio-political environments and the expectations of the wider society can be very diverse. The increasingly global reach of today's businesses highlights the need for CR practitioners to work on principles that help them to apply and adjust their initiatives or programmes to the societal setting. This paper explores this subject by comparing the normative social roles of business in developed countries, where the notion of CR originated, with those in the Third World, where the same notion is gaining an unprecedented popularity among multinational corporations and local businesses.

If the responsibility of a corporation is underpinned by socio-political environments, a discussion of CR in developed countries can begin with a closer look at the "Third Way," a contemporary socio-political movement designed to deal with the dilemmas of post-industrial societies. The movement has been often associated with the governments of the United States, Germany, and the United Kingdom, whose former or present leaders have claimed it to be the central tenets of public

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policies. The key Third Way social theorist, Anthony Giddens, frequently referred to as "Blair's guru," claims that Third Way politics stands in the tradition of social democratic revisionism that stretches back to Eduard Bernstein and Karl Kautsky (Giddens 2003). Like other influential theses, the Third Way has been subjected to different interpretations and critiques (Dahrendorf 1999; Faux 1999; Ryan 1999), and it has wide implications across politics, public services, welfare, healthcare, the criminal justice system, education, housing, and even leisure. This paper will focus only on those ideas that have CR implications, which are nevertheless central to Third Way discussions. As Mouzelis (2001) remarks, Gidden's version of the Third Way concentrates on the problem of the humanisation of capitalism, which is not far from CR's ends.

One of the main Third Way values is "no rights without responsibility," arguably as a remedy to the chronic problem of dependency created by the welfare state. Giddens (1998; 2000) stresses the need for reform "where there is moral hazard," and Third Way politics must make individuals responsible for the consequences of what they do. For the government, this idea is translated into "debureaucratisation" and decentralisation—downward and upward—through local direct democracy, election referenda, citizens' juries, and other means of "direct contact with citizens" and "decision-making to lower levels." This will make the state more responsive to the needs of citizens but at the same time put more responsibilities back onto the latter.

For individuals, it means not only more civic obligations in public life but also more choices in personal life—Giddens repeatedly stresses the importance of free choice because it favours an attitude of responsibility. For instance, in England, the idea is manifested in a series of policies that enhance the scope of choice for the users of local government services (Bailey 2006). Individuals are increasingly expected to make personal decisions in public services (e.g., schooling for children) by planning, understanding, and designing services for themselves. In doing so, they must calculate the outcomes of their actions and be held responsible for them. For corporations, there will be more incentives for CR and philanthropy, so that businesses share government's responsibilities to stretch the welfare society "above and below" the state. Scientific and technological decisions (e.g., environmental impact), once dominated by the experts, will be "democratised"—where the corporations will need to shoulder more responsibility for their judgment. Practical measures to achieve these include multinational, internet, and eco-taxations.

On the other hand, corporations may expect deregulation in areas which presently are highly regulated, such as a more "flexible labour market." Giddens calls this a *new mix economy*, a synergy between market dynamism and public interests, between regulation and deregulation. To ensure community continuity and social cohesion, higher individual responsibility must be accompanied by reciprocal relationships and the cultivation of social capital through the creation of trust-based networks and actively negotiated collaboration (Giddens 2000). For instance, separate research will be replaced by "networked ventures." There will be more involvement of nongovernmental organisations (NGOs) in social performance monitoring of government projects, and more partnerships between the public and private sectors in the delivery of public goods and services.

If Third Way politics involves "democratisation of democracy" (Giddens 2000: 70), Third Way CR should mean "democratisation of corporate governance". Echoing the decentralisation of the state, corporations have started to promote "decision-making to lower levels" and "direct contact with customers, employees, minor shareholders, NGOs and local communities." CR initiatives in affluent societies have reflected the need for greater transparency and diversity in marketing and production, where informed consumer choice has become a prime force. For instance, "responsible corporations" begin to tell consumers that their products are free from pollutions, sweatshop labour, or animal testing. If we examine such initiatives through the Third Way lens, offering "greener products" alongside with conventional products means not only that customers have more scope for informed choices, but also more personal responsibility—every consumer has to decide whether she or he is willing to contribute to CR by choosing the "greener" product that often comes with a higher price.

Besides consumers, other groups who are non-traditional decision makers in business are playing greater roles in CR initiatives. For examples, employees are expected to be whistle blowers against unethical business practices through an employee ethics hotline (Weaver, Treviño, and Cochran 1999). Suppliers are increasingly asked to work hand-in-hand with corporations to achieve their social goals, such as eliminating child labour (Donaldson 1996). Minor shareholders are beginning to send their representatives and activists to monitor boardroom performance. Even members of communities are appointed to judge bidding for social projects (PFI Net 2006). There is as yet no conceptual framework in the corporate responsibility literature to describe or justify this unique nature of Third Way CR initiatives, but the notion of *stakeholder engagement* can shed some light here.

Stakeholder Engagement: Responsibility and Relationship

The concept of stakeholder, despite variations in terminology, was evident in the early development of the CR literature. The *Social Responsibility of the Businessman* by H. R. Bowen (1953) argues that businessmen have an obligation to make decisions that reflect the objectives and values of the wider society. Davis (1973) defines CR as the firm's consideration of and response to issues beyond the narrow economic, technical, and legal requirements of the firm. These issues include what we now call "external issues" or "constituencies." Jones (1980) suggests that corporations have an obligation to constituent groups in society other than shareholders, whom we now call stakeholders. Freeman (1984) popularises the classic definition of stakeholders, which include any group or individual who can affect or is affected by the achievement of the organisation's objectives. This definition includes customers, employees, investors, suppliers, local communities, physical environment, and arguably competitors. The importance of shareholders, who are one of the stakeholder groups by definition, is not denied by the stakeholder view of the firm, but the view suggests that the survival of a firm and continuity of corporate success must also depend largely on other stakeholders. Instead of immediate profits to shareholders, managers are advised to consider all stakeholders for sustainable long-term value creation for the firm (Andriof et al. 2002).

When firms see their activities through constituency concepts, stakeholder thinking becomes part of their understanding of corporate responsibility. A responsible corporation is one that goes beyond mere compliance with the law, or meeting its fiduciary obligation to shareholders, or even "doing good" through philanthropy, to recognise that its day-to-day operating practices affect stakeholders, and it is "in those impacts where responsibility lies" (Andriof et al. 2002: 10). Corporate citizenship is about understanding and managing an organisation's influences on, and relationships with, the rest of society in a way that minimises the negative and maximises the positive (Marsden and Andriof 1998). Waddock and Graves (1997) define CR as the way in which the company operationalises its treatment of stakeholders. Frederick (1994) even proposes to replace corporate social responsibility with the term "corporate social responsiveness," or CSR2, to reflect the trend in the 1980s in which corporations competed to set up cross-boundary units to respond to "external issues" surrounding stakeholders, including issue management, community relations, media relations, customer relations, investor relations, and corporate communication. "Stakeholder management" became a buzzword among both practitioners and academics who were thinking about how to operationalise the firm's treatment of stakeholders. However, the idea of stakeholder management has been criticised by later scholars as being one-sided, corporate-centric, and as treating stakeholders as if they are subjects to be "managed." Andriof et al. (2002) state that corporations cannot actually manage the stakeholders themselves, but only their relationships with stakeholders, and therefore suggest replacing the term, along with its implications, with *stakeholder engagement*.

Engagement is characterised by a two-way process that creates continuous interaction, mutual respect, dialogue, and change. Andriof and Waddock (2002) define stakeholder engagement and partnerships as trust-based collaborations between individuals and/or social institutions with different objectives that can only be achieved together. Effective engagement requires a better understanding of dynamics and expectations that are fundamental to living, acting, and working in a network of collaborative relationships. Stakeholder engagement, according to Andriof and Waddock (2002), integrates stakeholder thinking with ideas from CR and strategic relationships. Their thesis highlights milestones along the path to a stakeholder view of the firm: from Freeman's (1984) original conceptualisation of a "spoke-and-wheel" linkage between stakeholders and corporation, through the dominance of stakeholder management, which was corporate-centric and viewed stakeholders in competitive if not adversary terms, to the emergence of stakeholder engagement, which embraces strategic networking and collaborative strategies and views stakeholders as allies. This paper attempts to extend their thesis to an understanding of the interplay between rights and responsibility, as well as between rules and relationships, in the context of CR.

Rights and Responsibilities

The emergence of early corporate responsibility movements was, to a certain extent, a reaction to the increasing recognition of consumers' and workers' rights. Throughout the 1960s, consumers, employees, and community groups in developed countries launched demonstrations, lawsuits, boycotts, protest marches, and lobby groups to demand that corporations take more responsibility for product safety, environmental conservation, labour rights, workplace ethics, and social investment in the communities in which they operate. Aside from a handful of corporations that embarked on CR on altruistic grounds, most corporations were driven into the rank of responsible corporations by market forces, new legislation, and sometimes lawsuits. The rights of stakeholders—consumers, employees and community groups—began to be recognised and protected, and continued to increase over the following decades. The NGOs that champion these rights movements, alongside with other civil society movements, have become so influential in Western European, Northern American, and other post-industrial societies that some scholars compare them to the power of the nation-state and religion (Mazlish and Buultjens 1993). In fact, leading Third Way theorists such as Giddens (2000) think that the influence of the civil society should be limited and restrained to create a more balanced relationship between the state (government), the market (businesses), and civil society (community stakeholders), whence his call for "no rights without responsibilities."

Stakeholder engagement is an ostensible answer to this call within the CR movement. Since engagement is a two-way process, corporate responsibility must be paralleled by stakeholder responsibility. In fact, some of the cases described by Andriof et al. (2002), in their book, *Unfolding Stakeholder Thinking*, demonstrate how firms and stakeholders share power and responsibility to influence the profit potential of the firm and transfer the benefits of the firm's success to society through CR programmes.

An ethical question to be asked is, "should stakeholders be held responsible for CR?" It can be answered in two ways. First, according to the most widely used definition, stakeholders include any group or individual who is affected by or *can affect* the achievement of the organisation's objectives (Freeman 1984). If the responsibility of a corporation lies in "the impact of its day-to-day operating practices that affect stakeholders" (Andriof et al. 2002: 10), then in return the stakeholders have their own responsibilities, which consist in the impact of their actions on the achievement of the organisation's objectives. For instance, if the objective is environment conservation and the stakeholder is a customer, the responsibility would arise in the action of "choosing between a greener product and a conventional product."

Second, since stakeholders have secured more rights through a series of CR movements since the 1960s, these increased rights should command higher responsibilities from them. This is especially true if the corporations have fulfilled many of their responsibilities to the stakeholders. For instance, an ethical employee should not leave an employer who has invested heavily in her welfare (such as building a childcare centre) or skills (such as sponsoring an MBA programme) on short notice simply for a better pay. Using the above example, Bowie (1991: 603) comments that:

> We speak of the obligation of the firm to employees, customers, and local community. However, this way of speaking tends to give a one sided emphasis to the moral obligations of the corporation. . . . I argued that Kant's third formulation of the categorical imperative best captures the moral relations that exist among corporate stakeholders. Kant would view a corporation as a moral community in which all of the stakeholders would both create the rules that govern them and be bound to one another by these same rules. Moral relations are reciprocal.

Before Bowie's comment brings us to the next section of this paper, we should conclude that, based on the definitive and historical analysis above, stakeholders in developed countries should be held to greater responsibility for CR initiatives. We summarise the current section in Figure 1. The vertical axis of the graph indicates the level of stakeholders' rights, while the horizontal axis measures the level of stakeholders' responsibilities. CR practices that maximise both rights and responsibilities of corporate stakeholders are represented by the box at the top right. The existing levels of stakeholders' rights and responsibilities in Third Way societies fall within the box at the top left. Since stakeholders already possess high levels of rights, the means to maximising both rights and responsibilities is to increase the responsibilities of stakeholders. Horizontal movement from left to right can be driven by stakeholder engagement.

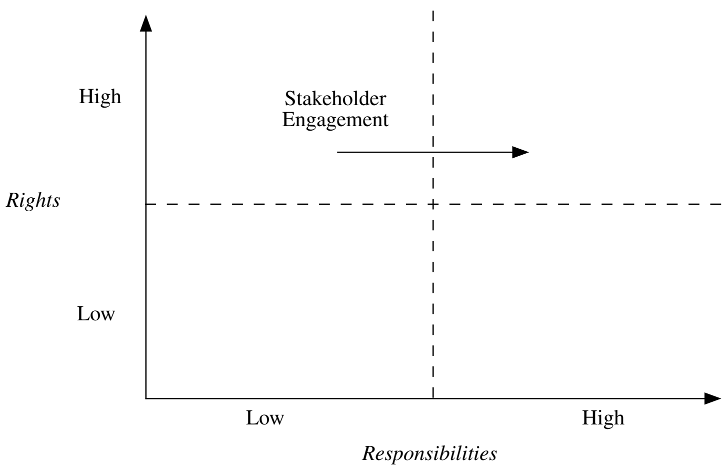

Fig. 1. The desirable evolution of stakeholder rights and responsibilities in developed countries.

Rules and Relationships

Stakeholder engagement is defined as trust-based collaboration (Andriof and Waddock 2002). Mayer, Davis, and Schoorman (1995) have identified the three factors of trustworthiness as integrity, benevolence, and ability. Lovett, Simmons, and Kali (1999) point out that it is the concept of benevolence that has been lacking in the traditional Western model of business dealings. For instance, the mutual obligations of a supplier and a customer are reflected, in their entirety, in an impersonal contract stated in universalistic terms. According to Hooker (1998; 2003), such *rule-governed behaviours* are rooted in the Western culture and have an intimate connection with negotiation, honouring of contracts, attitudes toward authority, and other management issues in the more developed Western countries. They are contrasted with the *relationship-governed cultures* in the East and most other developing countries.

Andriof and Waddock (2002) believe that stakeholder engagement can facilitate shared values, norms, and interdependence among stakeholders and can result in less regulated partnering. Because engagement is a two-way process, the values and norms of the corporations and the stakeholders are learned by each other. The engagement process enables both the corporation and the stakeholders to gradually build dependency on resources controlled by the other, and they must rely on each other to share the costs and benefits of their activities. Such interdependence incorporates deeper personal commitment among the participants.

In CR programmes, stakeholder engagement provides a solution that is complementary to coordination through formal, legal contracts based on law, or through hierarchy and internal bureaucracy, for achieving socially desirable objectives. Bowie, as mentioned earlier, points out the importance of reciprocal obligations in developing a "truly comprehensive theory of corporate social responsibility" (1991: 605). Andriof and Waddock (2002) also emphasise the role of reciprocity and social capital, which encapsulate resources embedded in stakeholder relationships and represent an important outcome of navigating social risk by connecting processes with stakeholders. Their views are congruent with those of the Third Way theorists who argue that higher individual responsibility must be accompanied by reciprocal relationships, the cultivation of social capital, and synergy between regulation and deregulation in a "new mix economy" (Giddens 1998).

Establishing the normative argument for promoting stakeholder relationships will not be as straightforward as in the earlier case of promoting responsibilities. There have been controversies surrounding the ethical question of a relationship-governed culture. The exercise of *guanxi*—the networks of informal relationships and exchanges of favours that dominate business activity throughout China and East Asia—has been both strongly condemned and strongly defended (Tsang 1998; Lovett, Simmons, and Kali 1999; Dunfee and Warren 2001). Dunfee and Warren (2001) state that the ethics of *guanxi* depends on the intentions surrounding its use and its particular impact. Their argument follows the growing emphasis in business ethics on the context of actions (Donaldson and Dunfee 1999). If this emphasis is adopted in the context of CR, promoting stakeholder relationships through engagement will pass this normative test, because the intention is to achieve the objectives of CR programmes, and the impact of such programmes is often socially desirable. To illustrate this point we will use a scenario that takes place in a developed country with highly complex corporation-stakeholder relationships, a strong presence of rule-based culture, and socially desirable objectives.

The Private Finance Initiative (PFI) is a public-private-partnership scheme widely used in the United Kingdom to involve the private sector in the provision of public services. Corporations, mainly from the construction, banking, facility management, information technology, and healthcare sectors, commit themselves for a considerable period, usually 15–30 years, to build and maintain public infrastructures and services such as hospitals, schools, prisons, roads, and bridges. The partnership is bound by a commercial contract that specifies the responsibilities of the corporations towards the stakeholders, who include the local government, employees (nurses, teachers, prison officers etc), service users, and the local communities. According to researchers (Asenova and Beck 2003; Hood 2003), local governments are often placed in a disadvantageous position compared to the private corporations due to the complexity of such contracts and their inexperience. Many aspects of great importance to stakeholders have been overlooked when the local governments commit themselves to these contracts, and requests to rectify them have been rejected by the private sector because they would constitute "non-compliance" with the original contracts. Overemphasis on contractual responsibilities, or a "compliance culture" (Hood 2003:65), has meant that the social outcomes of these public goods are not maximised, and the PFI initiative has been strongly criticised. The Scottish government has reacted by calling for a stronger emphasis on management and relational issues (Scottish Executive 2002). Official statements on PFI have begun to call for more stakeholder engagement at various stages of

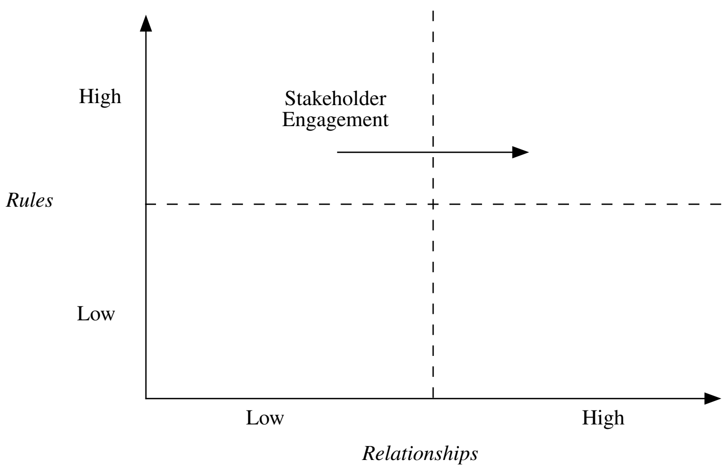

Fig. 2. The desirable evolution of rules vs. relationships in the corporate-stakeholder interactions of developed countries.

decision making, but unfortunately these calls have not been sufficiently reflected in policies and operating procedures (Foo and Asenova 2006).

Figure 2 shows the desirable direction of CR programmes in Third Way societies. The vertical axis of the graph indicates the level of rule-governed behaviour, while the horizontal axis measures the level of relationship-governed behaviour. The top right box represents maximised both rules and relationships. In Third Way societies where corporation-stakeholder interactions have already been governed by high level of rules, the means to increase the relationships of corporate stakeholders is through engagement.

Corporate Responsibility in the Third World: Stakeholder Empowerment

The idea of CR is being spread rapidly to the Third World through the global reach of multinational corporations and the far-reaching influence of international activists and NGOs (often headquartered in developed countries). While it is argued here that CR in developed countries is characterised by stakeholder engagement, should its practitioners and activists replicate the same kind of CR programmes in the Third World? This question will be addressed by returning to the analysis of rights vs. responsibility and rules vs. relationships.

Responsibilities and Rights

The consumers' and workers' rights movements that took place in post-industrial countries in the 1960s have not been echoed to the same extent in the Third World. The phrase *caveat emptor* ("let the buyer beware")—once popular in the West prior to the1960s—still reflects the harsh reality of the Third World. If products are unsafe, it is up to the customers to take responsibility. For instance, while consumers in the EU have protective mechanisms such as OLAF (The European Anti-Fraud Office) and RAPEX (Rapid Alert System for non-food consumer products) against counterfeit goods and unsafe products, including imports from China (European Commission 2006), Chinese consumers must take extra precautions on their own to avoid falling victim to irresponsible firms in their own country. For example, according to news reports (BBC 2004), thousands of Chinese infants died after consuming fake milk powder manufactured in the country. The problem is compounded by the malleability of Third World consumers who are poorly educated and have inadequate access to information (Ho, Vermeer, and Zhao 2006).

Similarly, employees in the Third World, as a factor of production, can be exploited by a firm as long as it does not violate any codified law. Many workers are still expected to take responsibility for their own safety and health, even though such risks may not be properly made known to them. An example given by Donaldson (1996) is Nigerian workers who unload poisonous materials but are not provided with safety appliances and are not told about the contents. Other factors of production share the same fate. Manufacturers can exploit the physical environment for production, often at the expense of the local communities that depend on the natural resources for a living. Communities in Third World countries also often become victims of toxic wastes and pollution.

Let us recall the definitions of CR. A responsible corporation is one that recognises that its day-to-day operating practices affect stakeholders, and it is "in those impacts where responsibility lies" (Andriof et al. 2002: 10). The general aim of CR is to minimise the negative impacts and maximise the positive ones (Marsden and Andriof 1998). In Third Way CR, corporations engage stakeholders to share the responsibility for achieving these aims. In the Third World, however, the situation is different. In fact, the above examples illustrate three different cases. First, stakeholders have many fewer rights than their counterparts in developed countries but bear much greater responsibility for minimising the negative impacts themselves (Case I). Second, many stakeholders do not have the freedom to escape such impacts (Case II). Third, some stakeholders are not even aware of the impacts (Case III). The responsibility of corporations would vary under these different cases.

In Case I, the stakeholders have many fewer rights but much greater responsibility to minimise the negative impacts. In this case, responsible corporations should grant the stakeholders more rights while assuming more responsibility. Corporations should launch their CR activities voluntarily and proactively, or else they will be pressed by the stakeholders to reform. This is a stage very similar to the conditions in developed countries before the 1960s. The aim of CR is to increase the immediate, direct, and specific rights of stakeholders; its means will include establishing safer and better working conditions, conforming to higher standards of product safety and quality, and meeting environmental guidelines and community needs. These CR programmes can often occur within individual corporations.

In Case II, stakeholders do not have the freedom to escape from the negative impacts of business due to lack of economic opportunity and political rights. Although stakeholders are well aware of the negative impacts, they do not have the economic means to boycott unsafe products, to resign from irresponsible employers, or to lobby against industrial hazards in the community. From an ethical viewpoint, stakeholders should not shoulder greater responsibility for socially desirable objectives under such circumstances—if there is no freedom to exit, there is no responsibility (Hamilton and Knouse 2001). The aim of CR is to bring this freedom to the stakeholders. This is often achieved by broadening the economic and political rights of stakeholders, strengthening the background institutions (De George 1993), and removing the other "sources of unfreedom" such as poverty, poor health, and tyranny (Sen 1999: 3). The means of CR include creating job opportunities; setting industry-wide quality, safety and environmental standards; improving job training; and providing other elements of the stakeholder "capability set" that would increase their freedom of action (Sen 1999). These CR initiatives often involve collective measures of responsible businesses and collaborations with local governments.

In Case III, stakeholders are not even aware of the negative impacts of business operations, due to poor access to information and education. This is in addition to the various forms of deprivation in Case II. The ignorance of stakeholders of their rights means that the corporations have even heavier responsibility. Donaldson (1996) pointed out that whenever there is a right, there is not only a duty for corporations to avoid depriving people of the right directly, but sometimes a duty to protect people from its deprivation. In this case, since the deprivation is caused by stakeholder ignorance, the aims of CR should be stretched further to cover rights to education and information. The means include funding, planning, implementation, monitoring, and evaluating schools, educational programmes, and information and communication facilitates in the communities where the corporation operates.

As a conclusion, in contrast to Third Way CR, the aim of CR in the Third World is to increase the *rights* of stakeholders: their rights as employees, customers and communities; other fundamental rights that protect these rights, including wider economic and political access; and the right to know their rights, including access to education and information.

On the last point, readers may be prompted to recall the traditional concept of corporate philanthropy or charity. Many businesses donate part of their profits to a wide range of good causes, including some of the above-mentioned educational programmes, schools, and information and communication facilities. However, a sharp distinction should be drawn between philanthropy and Third World CR by acknowledging the special role of stakeholders in the latter. While philanthropy often benefits any disadvantaged group, Third Way CR focuses on groups or individuals who are affected by or can affect the achievement of the organisation's objective (Freeman 1984). While charity aims at promoting the general well-being of the society, the ends of Third World CR are long-term value maximisation for businesses (as defined by the stakeholder view of the firm). While corporate philanthropy has come under harsh criticism for diverting businesses from their core objectives (Levitt 1958), Third World CR can be justified on the ground that stakeholders can affect the achievement of the organisation's objective (Freeman 1984).

On the other hand, despite the stakeholder focus, Third World CR must be distinguished from stakeholder engagement. While engagement is a two-way process, Third World CR relies heavily on the initiative of the corporations. In engagement, corporations tend to view stakeholders as allies (Andriof and Waddock 2002), but in Third World CR, the stakeholders tend to be beneficiaries at the receiving end, at least for a considerable period of time. Most importantly, while an engagement process delegates greater responsibility to the stakeholders, Third World CR must deliver more rights to the stakeholders, who are already overwhelmed with responsibilities. CR programmes are unlikely to succeed in the Third World if a stakeholder engagement approach is adopted. For instance, greener products will probably fail in the Third World market because economically deprived customers cannot afford to pay a higher price for them. Ethics hotlines will be underutilised because employees do not have adequate education and training to report ethical problems.

Stakeholder Empowerment

This paper proposes to use the term *stakeholder empowerment* as the means of Third World CR. This term has been used in other fields, such as water management (Serageldin 1995), evaluation (Papineau and Kiely 1996), and healthcare (Hill, Fraser, and Cotton 1998), before David Birch of Deakin University, Australia, brought it into the field of CR (Birch 2001). The word *empowerment* has often been used by psychologists to refer to a stage at which individuals come to understand the socio-political dimensions of their problems before they can eventually address these problems. In the Third World, this would mean a stage at which stakeholders learn their rights as employees, customers, and communities before they eventually exercise these rights and influence corporations in the achievement of socially desirable objectives. The person-in-environment or person-in-society conceptual framework adopted by empowerment theorists (Carr 2003) is congruent with the business-in-environment or business-in-society conceptual framework of stakeholder theorists. Different ideas of empowerment also correspond to the three different cases in the Third World discussed earlier.

The somewhat ideal scenario in which the empowerment process is initiated and sustained primarily by those who seek power, relegating others to secondary helping roles (Simon 1990), is applicable to the advanced Third World stage (Case I) at which the stakeholders are actively pressing for their rights, and the corporations merely help by acceding to their demands. More often, corporations must strengthen background institutions and remove sources of unfreedom (Case II) so that the stakeholders have an increased ability to exercise control over their resources and environment (Zimmerman 1995; Kaminski et al. 2000).

Finally, Gutierrez (1995) emphasises that fundamental change in a person's consciousness is a necessary impetus for engaging in empowering social action,

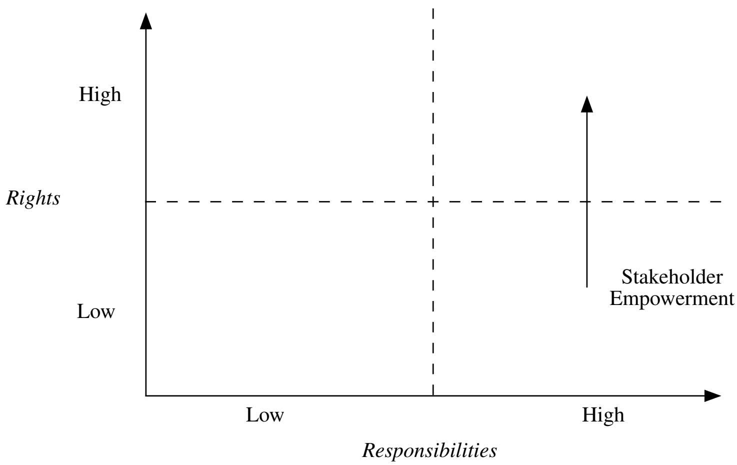

Fig. 3. The desirable evolution of stakeholder rights and responsibilities in Third World countries.

which points to Case III, in which CR must be stretched further to cover stakeholder rights to education and information. Therefore, stakeholder empowerment can be tentatively defined here as a *process* in which corporations facilitate rights *consciousness* of employees, customers, communities, and other stakeholders, strengthen the *socioeconomic and political institutions* that support these rights, and eventually *delegate the rights* to the stakeholders.

Figure 3 shows the desirable direction of CR programme in Third World societies. The top right box represents the maximization of stakeholder rights and responsibilities, while the existing levels of rights and responsibilities in the Third World fall within the bottom right box. Since stakeholders already bear a high level of responsibility, the means to maximise both rights and responsibilities is to increase their rights. The upward movement can be driven by stakeholder empowerment.

Relationships and Rules

A distinction was drawn earlier between the rule-governed culture prevalent in developed countries in the West and the relationship-governed culture of many Third World countries (Hooker 1998; 2003). Similarly, relationships have dictated much of the way corporations and stakeholders deal with each other in the Third World. Well-known examples include Indian corporations that explicitly state their preference to recruit children of existing staff over more qualified, unrelated applicants (Donaldson 1996) and Southeast Asian firms that decide job promotion by an employee's relationship with or loyalty to the owner of the business rather than professional performance (Chen 1995). Much research has also focused on the relationship-centric or *guanxi*-based interaction between Chinese corporations and their customers, suppliers, and government officials (Tsang 1998; Lovett, Simmons, and Kali 1999; Dunfee and Warren 2001).

The implication for CR in this context is not straightforward because the morality of relationship-governed culture is still a subject of much debate. In the Indian case, Donaldson (1996) would probably acknowledge that the practice is in tension with the values of Western corporations but is not fully impermissible. In the Southeast Asian case, Chen (1995) would regard the practice as problematic for the local stakeholders, because many talented employees are suffocated, the corporation itself is unable to achieve growth, and the whole Southeast Asian community is restricted from interethnic trade collaboration. However, reactions to *guanxi* have been mixed, and no normative conclusion has been drawn (Tsang 1998; Lovett, Simmons, and Kali 1999; Dunfee and Warren 2001). What is increasingly recognised is the need to limit the use of relationship-governed culture and balance it with rules and better governance. Overuse of relationships and weak corporate governance have frequently been cited as one of the causes behind the financial crisis of 1996–1997 in East Asia (Lovett, Simmons, and Kali 1999; Harvey and Roper 1999) and the general rampage of bribery, rent-seeking, cronyism, and other unethical business practices in developing economies (Gomez and Jomo 1999).

Therefore, the responsibility of corporations in these countries is to promote rule-governed behaviour among their stakeholders. This is a cause that even critics of CR and stakeholder theory like Levitt (1958), Friedman (1970) and Jensen (2002) have little reason to reject, because the foundation of "an open and free market," to which they hold firmly, must be built upon rule-governed behaviour among corporate stakeholders. The lack of rule-governed behaviour and the overuse of *guanxi* can violate the rights of competitors, reward unproductive sectors of society, distort the capital market, destroy economic predictability, hamper growth, reduce foreign direct investment, and even corrupt the ethical framework of business (De George 1993; Donaldson 1996; Lovett, Simmons, and Kali 1999; Donaldson and Dunfee 1999).

Rule-governed culture is unlikely to be achieved through stakeholder engagement. A programme to engage every member of the society can only work in a society that already honours justice and fairness. If Third Way CR programmes are introduced immediately to the Third World, they will be subjected to greater misuse by the stakeholders. For instance, ethics hotlines may become a tool for employees to launch personal attacks and accusations. A community member who acts as a judge in social project bidding may take advantage of the relationship with bidders for personal gains. A CR project manager may resolve disputes through authority (rather than rules) when the stakeholders fail to agree on resource allocation based on what is fair, rational, or efficient, due to poor education and reasoning capability.

However, rule-governed behaviour can be promoted gradually through *stakeholder empowerment*, in which corporations facilitate the rights-consciousness of stakeholders by broadening their access to education and information. A more educated and better-informed population is more capable of reasoning. Laws and rules are believed to be based on reason, and education therefore provides fertile ground for rule-governed behaviour. Behaviour among less-educated or less-informed populations tends to be governed by superstition, authority, and relationship.

Through empowerment, corporations strengthen socioeconomic and political institutions that protect the rights of stakeholders by broadening their access to the job market, skills training, safety and environmental standards, health care, and participation in politics. Rule-governed behaviour has little room to grow under harsh living conditions, because stakeholders may be forced by economic deprivation into illegal and unethical activities. The solution to the problem of bribery in the Third World, according to Donaldson (1996), lies not at the level of individuals but the country's background institutions. A lack of political rights can also encourage cronyism, rent-seeking, and other undesirable products of relationship-based cultures. Stakeholder empowerment helps to remove these "sources of unfreedom" and allow stakeholders to live and act according to values and laws that they have reason to cherish (Sen 1999). Therefore many business ethicists now agree that corporations should help develop and enforce just background institutions in countries they operate in (De George 1993; Hamilton and Knouse 2001). It should be added that CR in this case means carrying out the constructive programmes discussed above, and *not* carrying out certain activities that are destructive to background institutions, such as making payments to avoid environmental or safety regulations, or bribing government bureaucrats to obtain operating licenses.

Figure 4 shows the desirable direction of CR programmes in Third Way societies. The top right box represents maximisation of both rules and relationships. In Third World societies where corporation-stakeholder interactions are already governed by high level of relationships, the means to increase the rules-governed interactions between corporate stakeholders is through empowerment.

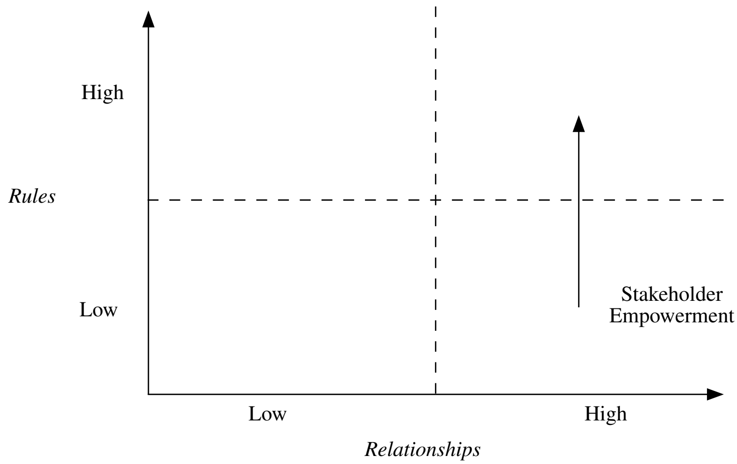

Fig. 4. The desirable evolution of rules vs. relationships in Third World corporate-stakeholder interactions.

Concluding Remarks

Giddens's call for "no rights without responsibility" has received much criticism even within the circle of Third Way thinkers. Etzioni (1999: 29) calls it "a grave moral error" and suggests that rights are legitimate and unconditional, regardless of whether an individual has fulfilled his or her responsibilities. The normative imperative for stakeholder engagement or Third Way CR presented in this paper is to follow the later argument by demanding higher responsibility from stakeholders while not simultaneously denying or reducing their rights. The level of rights that Third Way stakeholders have secured should remain theirs unconditionally. For instance, if customers do not take up their new responsibility to contribute to product design, it does not throw them back to *caveat emptor*. Similarly, stakeholder engagement or Third World CR as developed in this paper does not excuse stakeholders from their responsibility while enhancing their rights. If employees do not utilise their new rights to work safety provisions (e.g., by collecting free safety equipment from the employer), they are not freed from the responsibility to take safety precautions at work. The same goes for the rules- and relationship-governed behaviours—gain on one side is not conditional on, or at the expense of, the other.

For the sake of clarity, this paper has used the terms *Third Way* and *Third World* as if they are mutually exclusive. In reality they are not. The recent growth of emerging and transitional economies has blurred this line further in many indicators of development, but distinctions can still be drawn when focusing on stakeholder rights and behaviour. Even with this focus, the level of development of a particular society should not be defined in absolute terms, but instead across a broad and dynamic spectrum of variations and exceptions within different sectors of the society. Neither should this paper be generalised to reinforce political or cultural stereotypes of rights, responsibility, rules, and relationships. CR practitioners must carefully assess the characteristics of the stakeholders they are dealing with before deciding on the ends of CR or choosing means that involve engagement, empowerment, or their combination. In the same way that public health promoters run prevention initiatives that encompass both collaboration and empowerment (Parker et al. 2001), there are instances which CR programmes can incorporate both engagement and empowerment, as long as the practitioners understand and consistently apply the principles at work.

This paper discusses mainly the normative dimension of CR in different settings. The strategic implications—why corporations would perform better financially if adopting Third Way or Third World CR programmes in the right setting—are not explained here. The empirical question of how much stakeholder engagement or empowerment is practiced in a particular CR programme, firm, or country, also requires substantial data collection and analysis in future studies.

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