Building political capital through corporate social responsibility: a microlevel focus on the role of business leaders

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Abstract

Purpose – *There are no management decisions deprived of ethical or political consequences. Political corporate social responsibility (CSR) has been highlighting this assertion but research at the microlevel on this topic is scarce. This study aims to contribute to the microlevel research by proposing a behavioral framework where leaders' political skills are determinants of engagement in strategic CSR and perceived CSR leverages their ascribed legitimacy to perform a political role outside the boundaries of the organizations.*

Design/methodology/approach – *Building upon political CSR and critical realism theories, this study offers a general review on key political CSR microlevel concepts and examines multiple dimensions of CSR to explain the indirect effect between boards' political skills and political legitimacy.*

Findings – *This research suggests that high politically skilled leaders are associated to more CSR adoption which fosters higher legitimacy to act as political influencers. Among these, CSR activities directed toward community members and employees are seemingly the most successful from a political standpoint.*

Originality/value – *This study proposes a contemporary form of political influence to business leaders that, in contrast with other strategies such as lobbying or financing political campaigns, does not end up damaging corporate image and reputation. Also, this study proposes that not all CSR activities leverage corporate political legitimacy per se, therefore they do need to be differentiated. This study then offers a comprehensive future research agenda, including detailed suggestions for research designs and measurements.*

Keywords Political CSR, Legitimacy, Corporate political activity, Political skill, Leadership

Paper type Research paper

1. Introduction

In the end of last century, Habermas' (1996, 1998) theories of deliberative democracy and discourse ethics established a governance model where political decisions are not an exclusive of politicians. Inspired by this contention, political corporate social responsibility (CSR) scholars then acknowledged corporations as legitimate political actors because of their governance contributions through CSR (Scherer and Palazzo, 2007, 2011). Tightly linked with political CSR topic, corporate political activity (CPA) is a research stream that also views corporate action as intrinsically political (Palazzo and Scherer, 2006). However, whereas political CSR scholarship takes an altruistic approach by exploring how can corporate contributions to political processes foster the common good, investigation on CPA has a self-interest motivation and focus on how corporations can influence regulators and political decision-makers in their favor (Hillman *et al.*, 2004). In corporate business world, CPA usually takes form with the adoption of political strategies, such as lobbying, financial inducements to policymakers and the development of close relationships with

government officials. These purposefully aim to influence political processes that are beneficial to corporations (Hadani *et al.*, 2019).

Although advantageous, these corporate efforts have deserved much criticism by stakeholders. Due to its self-serving nature and for being often isolated from any consideration for society, CPA is viewed as lacking legitimacy to influence political decision-makings (Rasche, 2015; Scherer, 2018; Kamasak *et al.*, 2019). The Habermasian conception of political CSR fits the legitimacy requirement because it departs from the premise that CSR activities, widely viewed as intrinsically altruistic and motivated to foster social betterment, are a powerful source of legitimacy to influence political decisions (Scherer *et al.*, 2016). Overall, this theoretical approach highlights the ability of corporations to fill government gaps through CSR, especially when nation states fail to do so. Increasingly, corporations perform state-like roles by addressing social and environmental problems in the same way as governments should be able to (Joutsenvirta and Vaara, 2015; Palazzo and Scherer, 2006; Scherer and Palazzo, 2007; Scherer *et al.*, 2013; Scherer *et al.*, 2016; Scherer, 2018).

This promising framework has not yet been fully explored in business strategy literature, most probably because it rejects an instrumental motivation to engage with CSR (Dawkins, 2019). Instead, business strategy scholars have been mostly focused on the studying the positive impact of CPA on financial performance when corporations are simultaneously engaged with CSR (Du *et al.*, 2019). In general terms, the explanation underlying these findings lies in CSR being a powerful source of legitimacy and trust (Abdullah and Aziz, 2013; De Roeck and Delobbe, 2012; Fatma *et al.*, 2019; Porter and Kramer, 2002) and therefore perceived as an ethical asset that complements CPA, creating a desirable corporate profile. Ultimately, the convergence of CPA and CSR has been increasingly viewed as important to establish an effective governance system where corporations enhance their political influence while preventing from ethical risks commonly associated to CPA (Liedong *et al.*, 2015).

Despite several calls for integrating CPA with political CSR (Anastasiadis *et al.*, 2018; den Hond *et al.*, 2014; Mellahi *et al.*, 2016; Tortosa-Edo and López-Navarro, 2020), these lines of investigation have been evolving separately without much research bridging them. Thus, we submit that a promising future direction on CPA field should lie in some key political CSR propositions. The Habermasian conception of political CSR deserves special attention for focusing on legitimacy processes, an aspect that has been acknowledged as lacking in CPA (Schultz and Seele, 2020).

Although political CSR has been gaining prominence, this research stream is generally lacking crucial empirical evidence (Frynas and Stephens, 2015; Rasche, 2015; Scherer, 2018; Scherer *et al.*, 2016; Voegtlin and Greenwood, 2016). Most noticeably, literature acknowledges poor contributions at a microlevel (Maak *et al.*, 2016; Scherer, 2018), which creates a significant research gap that would be valuable to CPA as well. Therefore, the current study draws on the Habermasian conception of political CSR to offer a comprehensive framework to CPA literature by approaching CSR as a political activity, i.e. as an activity that might translate into governance contributions, thereby generating legitimacy gains to influence political decisions. Moreover, we do so by relying on a critical realism paradigm, thus assuming that the existence of reality is independent from our knowledge as researchers; instead, our accessibility is rather mediated. Overall, this philosophy of science has been recognized as important to increase understanding on how business and society entities operate together (Wry, 2009).

As political actions are usually managed by business leaders (Sun *et al.*, 2016), we also take the challenge to explore an overlooked explanatory mechanism that might foster corporate political legitimacy through CSR adoption, i.e. leaders' political skills (Maak *et al.*, 2016). Therefore, this study addresses whether leaders' political skills influence

engagement in multiple stakeholder-based CSR activities and how these activities leverage corporate political legitimacy.

The proposed political CSR framework intends to bring novelty and contribute with knowledge to CPA literature. In contrast with previous scholarship, which has been treating CSR only as complementary activity to corporate political behavior, we propose CSR should be interpreted as a political activity – not only for shielding corporations from reputational risks but also because of its benevolence feature that translates into governance contributions. It would also help overcome legitimation issues that are commonly associated with CPA. Lastly, this study intends to offer insights to business leaders and practitioners regarding the importance of political skills in securing political corporate benefits from CSR.

2. Theoretical background

2.1 Corporate political activity: walking on thin ice

For more than 50 years ago, Epstein (1969) had already considered government as a competitive tool to create a more favorable business environment. Thus, corporate attempts to strategically influence political decision-makers are not new and they have been made part of everyday business life. Overall, CPA encompasses corporate efforts to shape government policy in ways that are beneficial, leading to various advantages such as increased market size and power toward different stakeholders (Hillman et al., 2004; Liedong et al., 2020).

Despite the potential benefits, significant are the pitfalls of adopting political strategies. One major pitfall concerns the negative impact on corporate image because of CPA being in some way linked to immoral behavior and corruption (Mantere et al., 2009; Banerjee and Venaik, 2018). Often, corruption bounces back negatively to organizations, as stakeholders refuse to do business with corporations labeled as corrupt (Farah and Newman, 2010). The reputational risks stemming from CPA are becoming even more perilous as political scandals involving corporations are being increasingly exposed (Den Hond et al., 2014; Kamasak et al., 2019).

To prevent from these corporate blows, emphasis has been put on political transparency which has been highly encouraged through lobbying disclosure (Favotto and Kollman, 2019). However, the adoption of corporate political strategies continues being a matter of discussion regarding ethical and social concerns (Kamasak et al., 2019). In general, this scenario reflects a crucial viewpoint held by stakeholders, i.e. that business–government relations lack legitimacy (Rasche, 2015). There is no consensus about what legitimacy stands for, but it is widely defined as emerging from desirable and proper actions within a system of beliefs, norms and values (Suchman, 1995). Therefore, one reasonably presumes that CPA remains illegitimate especially because companies have an undesirable conduct when influencing political and regulatory decisions, essentially motivated by self-interest (Mantere et al., 2009). One key question arises: in a contemporary world, where corporate transparency and ethical behavior are highly demanded, how can corporations gain legitimacy to influence political decisions without damaging their reputation?

2.2 Corporate social responsibility as a political legitimation strategy

During past years, CSR has gone mainstream for being acknowledged as a powerful source of competitive advantage (de Bakker et al., 2020; Turker, 2009; Jha, 2021; Vishwanathan et al., 2020). Likewise, recent literature has been recognizing the political gains of CSR (Mellahi et al., 2016). Overall, CSR complements CPA by creating a favorable corporate image, increases political access and helps establishing political connections (Liedong et al., 2015; Zhao, 2011). CSR also shields corporations from political hazards (Godfrey, 2005). Linked with this view of CSR, political CSR scholarship offers compelling

insights not only for advocating that CSR is political in nature but also for repeatedly using the political legitimacy concept to define the impact of CSR (Schultz and Seele, 2020).

Among various definitions and applications of general theories within political CSR topic, one of the most popular approaches concerns the Habermasian perspective of political CSR (Frynas and Stephens, 2015). This contemporary approach, set by Palazzo and Scherer (2006), is strongly grounded in Habermas' (1996, 1998) theories of deliberative democracy and discourse ethics. In Habermas' view, deliberation is the central process of political legitimacy (Palazzo and Scherer, 2006), thus political roles can be performed by nonpolitical actors as their legitimacy depends on the reasons given by them to assume this role (Sabadoz and Singer, 2017). Tightly linked with political legitimacy is the obedience concept as the latter sustains governmental power (Matheson, 1987; Gleeson, 2000; Coakley, 2011).

Therefore, to gain political legitimacy, i.e. the right to be obeyed and influence political decisions because others approve them (Bernstein and Cashore, 2007), Habermas suggests the integration of an ethical discourse. Alongside with a perception of benevolence, the discourse must be perceived as truthful, sincere, appropriate and intelligible to be validated and promote consensus (Habermas, 1984).

Departing from this theoretical contribution, the Habermasian conception of political CSR advocates that, as CSR activities turn into governance contributions, responsible companies are being increasingly perceived as legitimate to perform a political role. Therefore, Scherer and Palazzo (2011, p. 901) proposed an "extended model of governance with business firms contributing to global regulation and providing public goods", yet the nation state would always remain the dominant institution. From an institutional standpoint, the Habermasian conception of political CSR fits particularly well in libertarian or classical liberal political settings, where strong political and social roles for corporations easily become a political reality (Mäkinen and Kourula, 2012; Mäkinen and Kasanen, 2015). Nonetheless, for entailing a set of "activities where CSR has an intended or unintended political impact or where intended or unintended political impacts on CSR exist" (Frynas and Stephens, 2015, p. 485) and political power toward responsible corporations (Scherer and Palazzo, 2011), recent antiglobalization and protectionist movements (Kobrin, 2017) are promoting a reversal in this trend. Yet, as Curran and Eckhardt (2020) argue, it is likely that organizations will react by increasing their corporate political behavior. Likewise, the idea of a shared political power between governments and corporations to better address social problems has been highly disseminated (Monciardini and Conaldi, 2019). In fact, the Habermasian contention is gaining prominence as governance processes are being reinvented to provide a better governmental response (Kourula et al., 2019).

One corporate intervention of special importance would take place in a post-COVID-19 society as this is the only framework that is self-limited in case of state failure (Scherer and Voegtlin, 2020).

Despite being a promising framework, the Habermasian conception of political CSR is not without criticism. The first critique concerns the presumption that responsible companies fill government gaps through CSR only for altruistic purposes (Palazzo and Scherer, 2006). For rejecting the self-interest instrumental approach that CPA highlights when engaging in political behavior (Whelan, 2012), such political conception has been neglected from a CPA standpoint. Another limitation underlying this political CSR perspective is the contention that the Habermasian principles are limited to political economies where weak boundaries exist between business and government (Mäkinen and Kourula, 2012). Ultimately, in these political settings, such a political phenomenon might damage state authority (Whelan, 2012), contributing to an unstable line between society and business (Djelic and Etchanchu, 2017). Despite limitations, the Habermasian framework accounts for political legitimacy toward corporations, which is a critical aspect that, as stated, is currently lacking

in CPA (Rasche, 2015). We submit that the Habermasian perspective is not incompatible with acknowledging an instrumental motivation as long as the action is perceived as benevolent as well. Based on this view, the current study draws on a conceptual approach to examine the Habermasian political proposition that CSR activities legitimize companies to perform a political role at a microlevel. Although a perceptual-based approach (i.e. social judgment formation) helps understand how individuals conceive corporate legitimacy (Bitektine, 2011; Bitektine and Haack, 2015), it is currently more important to offer a critical realism paradigm as there is a primary need to conceive the perceptive reality of business, i.e. the role that business leaders play in political CSR management (Wry, 2009)

But prior to address the role of business leaders, how are political CSR activities conceived in the extant literature? So far, political CSR scholarship has been emphasizing the impact of multistakeholder CSR initiatives on companies' political legitimation processes (Mena and Palazzo, 2012). However differences among stakeholder groups require further understanding (Ingenhoff and Marschlich, 2019). Based on these contentions, the current study proposes that multiple stakeholder-based CSR activities need to be examined as discrepancies may exist when it comes to leverage corporate political legitimacy.

2.3 Role of C-suite: a general approach

As Cohen (1993, p. 57) states: "organizations do not 'behave' but managers and staff do." Despite previous calls to examine the relation between corporate political actions and individual behavior, a wider focus has been put on the macrolevel of firms (Maak *et al.*, 2016; Scherer, 2018). With the microlevel of political CSR being heavily neglected, the role of business representatives' behavior and ethicality in conducting political endeavors has been overlooked (Scherer, 2018). However, their role is pivotal to understand corporate political behavior as it is often managed and acquired by business leaders who meet the right skills to do so (Hillman, 2005). According to Rehbein and Schuler (2015), enhancing the quality of the personal relationships with key public officials and their staff is important, not only to raise their visibility but also to improve legitimacy in a particular community. As business leaders' ability to open opportunities to network with political institutions and access to a wide range of regulatory and financial resources (Sun *et al.*, 2016) is strongly linked with their individual attributes (Van Zuydam, 2014), the current study intends to examine how extensively business leaders' traits are predictors of political legitimacy gained through CSR. We thus follow Maak *et al.*'s (2016) suggestion to empirically examine boards' political skills, viewed as critical for political CSR management. As proposed, our conceptual framework relies on the political skills identified by Ferris *et al.* (2005), i.e.:

■ social astuteness;

■ interpersonal influence;

■ networking ability; and

■ apparent sincerity.

Accordingly, social astuteness consists of the ability of individuals to thoroughly examine various social situations and interpersonal interactions. Regularly associated with persuasion, interpersonal influence is also an important political skill, referring to the ability of adapting behaviors to each situation with persuasive intent. The authors also highlight networking ability as a skill, which entails the development of friendships and strong coalitions and alliances that are beneficial and ultimately extend individual's reach. Lastly, apparent sincerity concerns the ability to inspire confidence, trust and being perceived by others as authentic, sincere and genuine. This skill is in line with the Habermasian predicate of discourse validity claims that stresses precisely sincerity as a fundamental feature to gather consensus jointly with truth, appropriateness and intelligibility (Scherer and Palazzo, 2007).

By keeping this in mind, what is the actual role of CSR on the relationship between business leaders' political skills and corporate political legitimacy? We postulate that business managers, when perceived as holders of political skills, are more likely to adopt CSR strategically, i.e. as a means to build political legitimacy, which ultimately leverages corporate political legitimacy.

The conceptual framework that guides this study is illustrated in Figure 1. Adding to the proposed framework, the mechanisms of how the legitimization process occurs should be more specifically explained. We contend that boards' political skills help them strategically reach local and state political actors, important figures in society as they define the "rules of the game" in any political economy. Given the importance of sustainable development nowadays, we submit these leaders find in political CSR a favorable strategy to influence politics. Subsequently and in our view, legitimacy is gained because society not only perceives responsible corporations as having political benefits, e.g. through the influence of public policies, but also perceives them as having a responsibility toward society through CSR. Therefore, this balance may leverage political legitimacy.

3. Discussion: how can business leaders build political capital through corporate social responsibility?

Based on previous literature, the current study aims to help answering this question by reflecting the complexity of political CSR, comprehending a twofold nature: that of entailing CSR activities and that of being linked to legitimation processes for operating in the political sphere (Scherer, 2018; Scherer and Palazzo, 2011). By speaking of complexity, there is a need for examining CSR as an umbrella construct as well, that is, as an asset that comprises multiple CSR stakeholder-based activities with differentiated impact on corporate political legitimacy. For this endeavor, the current study relies on the Habermasian conception of political CSR, which claims that responsible corporations are legitimate political actors because of their ability to fill government gaps (Palazzo and Scherer, 2006; Scherer and Palazzo, 2011). Ultimately, this study overlaps with CPA literature for taking CSR as a legitimate political strategy.

At macrolevel, the greatest contribution of the current study lies in the idea that CSR activities need to be differentiated. Previous literature strongly suggests that CSR practices, when perceived as going beyond instrumental motivations, are more appreciated

Figure 1 Proposed framework
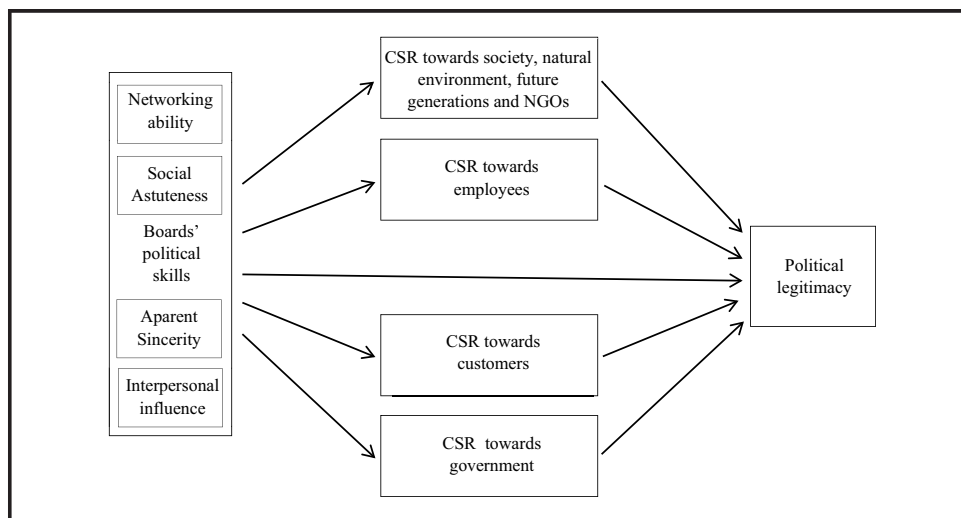
(Baron, 2010). Therefore, they are seemingly more likely to have a positive direct effect on corporate political legitimacy. In this sense, we submit that CSR initiatives directed to society, environment, future generations and nongovernmental organizations are the most consensual sources of political legitimacy. Nevertheless, one must keep in mind that CSR activities directed toward society at large and employees may be purely strategic, through social initiatives such as local workforce training (Porter and Kramer, 2002). However, this might not be true in the eyes of these stakeholders. They may perceive these activities as being less instrumental and if they do so, these actors may legitimize corporations to influence political decisions through CSR. Nevertheless, this aspect needs to be explored in future political CSR empirical studies. This external perceptual-based approach is aligned with literature claiming that responsible companies own a state-like role (Scherer and Palazzo, 2007) because of their ability to handle societal problems in the same way as governments should be able to. Accordingly, we submit that stakeholders more easily legitimize these companies to operate in the political sphere given their benevolent work for community betterment.

Moreover, we postulate that CSR activities developed toward employees should be also perceived as a potential predictor of corporate political legitimacy. We contend that employees want to benefit from these philanthropic activities not only in their workplaces but also at a community level, thus legitimizing responsible companies to be politically accountable.

Conversely, we suggest that the positive relationships established with customers and governments need to be further explored, especially to understand how far they are perceived by stakeholders as intentional, altruistic and beyond legal obligation.

We argue that political legitimacy gained through CSR requires that the perceiver believes it was intentional, altruistic and beyond legal obligation. As pleasing clients and political actors are within the direct interest of the organization, such actions might be taken as self-serving rather than altruistic and the instrumental view of CSR might fall short from social expectations.

At a board level, previous literature supports that political skills play an important role in political endeavors (Maak *et al.*, 2016). We suggest that boards' political skills help them:

- build alliances with political actors;
- make constituency building efforts; and
- deploy information strategy crucial for business activity.

Therefore, we submit that business leaders who have political skills are viewed as more likely to engage in all CSR stakeholder-based activities, because of CSR being a fruitful business strategy that enables to create favorable relationships with public officials.

3.1 Theoretical implications

Again, by drawing on the proposed conceptual framework, we intend to bring to debate that not all CSR activities have the potential to generate political legitimacy, proving that differences on CSR initiatives directed toward multiple groups of stakeholders must be addressed in the political CSR phenomenon (Ingenhoff and Marschlich, 2019). By doing so, we aim to offer insightful theoretical contributions for two lines of research, i.e. political CSR and CPA. Likewise, by relying on previous literature showing the positive relationship between CSR and corporate political legitimacy, we emphasize the crucial need for creating a bridge between political CSR and CPA, especially because legitimacy issues keep on taking a center stage within CPA scholarship (Rasche, 2015).

Lastly, this research intends to aid in our understanding of the role of boards' attributes. We strongly suggest that politically skilled leaders treat CSR as a nonmarket strategy that helps

create networks and exert influence in political endeavors. Political skills also reveal being pivotal to gain political legitimacy. Habermas' (1984) emphasis on ethical discourse, which must be perceived as truthful and sincere to be politically accountable, gains form in corporate business world when business leaders rely on CSR and on their political skills to gain legitimacy to influence political decisions. Accordingly, we claim that business leaders, who own the ability to network and influence others, while being taken as sincere and socially astute have the potential to be successful on enhancing political legitimacy through CSR. The study also empirically supports that boards' political skills are pivotal to understand the political CSR phenomenon (Maak et al., 2016). Indeed, boards' political skills are pivotal to help establish strategies that legitimize corporate political behavior and for this reason they should be considered in future CPA research and practice. We instigate future contributions to the microlevel of analysis of political CSR by exploring whether boards' political skills are predictors of CSR adoption and corporate political legitimacy.

3.2 Managerial implications

The proposed framework provides insightful knowledge contributions for business practice in numerous fronts. First, by suggesting that corporations should not treat CSR only as a complementary activity to CPA. We submit that CSR should rather be taken as a political activity on its own because it is a powerful source of political legitimacy that ultimately helps build a good reputation (Agarwal et al., 2014). Through this knowledge, corporations can take best advantage of this asset that has been widely treated as only economic in nature. Second, this study highlights that CSR is more politically effective when expressing intentions of goodwill that go beyond instrumental motivations. Also, we postulate that political legitimacy is more dependent on the social judgment that stakeholders hold about CSR motivations, rather than on the true motivation itself. Lastly, we suggest practical implications regarding the selection and development of business leaders and their individual attributes. Namely, investment on training for the development of boards' political skills is highly recommended and should take a center stage because of their importance for strategic political management. Also, taking CSR as a political activity and including it in CPA disclosures might be pivotal to prevent corporations from reputational blows arising from other political activities.

3.3 Directions for future research

With corporations increasingly regarded as both economic and political actors, the political interpretations of CSR hold great potential for conceptual and empirical developments (Voegtlin and Greenwood, 2016; Scherer and Voegtlin, 2020). Overall, the role that CSR plays in leveraging corporate political influence has still much to explore. In this regard, we highlight the impact that business leaders have in either CSR engagement or political activity (Liedong et al., 2015; Zhao, 2011). We thus highly encourage future political CSR research to consider a wide range of boards' individual attributes and leadership styles that might foster legitimate and well reputed political influence. Also, at group level, addressing aspects regarding the commission of boards would be interesting.

From another standpoint, the conceptual design of this study may preclude the ability to ascertain a causal nexus from perceived CSR to ascribed political legitimacy. Therefore, we suggest future research to empirically test and extend the proposed framework using different methodologies, especially through experimental and/or longitudinal approaches (Anderson, 2015). Overall, the adoption of diverse research in political CSR research would be equally important, which includes qualitative-based research strategies, as they may offer a closer-to-reality view between CSR activities and attributed political legitimacy.

We also encourage the development of empirical studies addressing this phenomenon in different populations and political contexts. In this regard, one must keep in mind that the

application of the Habermasian framework strongly depends on the institutional conception of business and politics and in the way they shape the ability of various stakeholders to have a political role and to deliberate. Given that liberal political settings are more open to the idea of having political roles for corporations (Mäkinen and Kourula, 2012; Mäkinen and Kasanen, 2015), we suggest future studies that empirically examine ways in which these political institutions shape the ability of companies to perform a political position through CSR. Finally, although transparent and effective disclosures seem to have a positive impact on corporate reputation (Favotto and Kollman, 2019), it would be relevant to explore in future studies practical alternatives to enhance corporate political legitimacy, as ways to lessen negative perceptions arising from corporate political involvement. In particular, the following research question arises: how far lobbying spending disclosures, such as those currently taking place in the European Union through Transparency Register, would be perceived as more legitimate and trustworthy if they included political CSR investments as well?

4. Conclusion

This study attempts to help overcome limitations within CPA and political CSR literatures by conceptually integrating both lines of research. By relying on a critical realism paradigm, this study offers a modest yet relevant contribution supporting the Habermasian perspective of political CSR, while providing a strategic view that also accounts for a board level. In doing so, this study highlights the importance of political skills, a potential predictor of political legitimacy through CSR. Almost like an exchange of benefits, corporations offer governance contributions, whereas stakeholders offset by conferring them the right to hold a political position.

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