

## ORIGINAL ARTICLE

# Corporate power and democracy: A business ethical reflection and research agenda

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**Abstract**

Corporations significantly influence the public and political spheres. In light of this corporate power in society, academics have criticized the lack of legitimization (i.e., the legitimacy gap) and highlighted a potential divergence between corporate resource allocation and the needs and preferences of the public (i.e., the social issues gap). To address these problems, democratizing organizations has been proposed as a potential solution. In line with this, the authors argue that an increase in corporate power outside the economic realm should be counterbalanced by more democratic corporate governance (i.e., an internalization of democracy). While important groundwork exists, academic attention to these topics remains limited. The authors provide an overview of the literature linking corporate power and the claim for democratizing organizations, advocate for legitimization, identify research gaps, and develop a research agenda to inspire and guide future research efforts. The paper's findings suggest the importance of conceptual and empirical research on the micro-, meso-, and macro-levels and the cross-level effects, which is needed to advance this incipient research area. Future research must (1) clearly define corporate power and discuss how democratizing organizations can contribute to more legitimate organizational decisions, (2) unveil novel approaches for more democratic corporate governance, and (3) understand the organizational- and individual-level factors necessary for the successful realization of democratic organizations.

**KEYWORDS**

corporate power, democratizing organizations, legitimacy, political corporate social responsibility (PCSR), stakeholder engagement

## 1 | INTRODUCTION

Corporations<sup>1</sup> significantly influence the public and political spheres through their business activities and the power of their CEOs, founders, and investors. For instance, the negative external effects of corporate activities on people and the planet, the ambivalences of lobbying or corporate donations, and practices concerning data and artificial intelligence are burning issues

connected to multiple grand challenges. Moreover, private businesses are increasingly transcending their traditional role by engaging in non-market strategies such as corporate philanthropy and sociopolitical activism (Hambrick & Wowak, 2021). As corporate power extends to new areas of society, it gains a new quality.

This development raises concerns about the implications for democracy,<sup>2</sup> given the increasing power and significant influence of corporations and their representatives in the public and political

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spheres. The liberal democratic state depends on preconditions it cannot guarantee (Böckenförde, 2021). Thus, democracies require moral foundations and commitments from individual and collective entities to foster and stabilize a democratic culture (Böckenförde, 2021). Notably, the role of corporations in (de-)stabilizing democracies and their democratic responsibilities are highly debated in political theory and business ethics. While some view corporate power as a threat to democracy (e.g., Staats, 2004) and/or acceptable only with a clear primacy of politics (Ulrich, 2008), others emphasize the concept of corporate citizenship and suggest that corporations can serve as a positive force in stabilizing democracies (Crane et al., 2008). Whether corporations are positive or negative forces, which enable or prevent democracies to thrive, becomes particularly challenging when corporations transcend national borders and/or are, in some respects (e.g., financial resources), potentially more powerful than some nation-states (Anderson & Cavanagh, 2000; Crane et al., 2019). This raises the following questions: What are the legitimate uses of corporate power? How can we ensure that corporations positively contribute to democracy?

This sparked a debate in business ethics on how to address and/or balance corporate power. A call for legitimizing corporate power and the new quality of the quasi-political role of private businesses and their representatives has been made repeatedly, especially in critical management and business ethics research (e.g., Anderson, 2017; Bakan, 2020; Crane et al., 2019; Grant, 1997; Scherer & Palazzo, 2011; Wilks, 2013). This article defines legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574).<sup>3</sup> As “depoliticization is not going to happen” (Matten, 2009, p. 571) and extensive regulation of all dimensions of corporate power is unlikely (at least in the near future), multiple solutions for coping with the new quality of the quasi-political role of firms have been discussed in the field, ranging from restricting to accepting the dominance of corporations.

Democratizing corporations is suggested as a third option, to legitimize corporate power and strengthen democracy. Research increasingly focuses on internally legitimizing businesses' new role from the bottom-up (e.g., Anderson, 2017; Crane et al., 2019; Grant, 1997; Scherer & Palazzo, 2011). Thereby, political corporate social responsibility (PCSR) “strives to overcome the absence of democratic legitimacy by proactive moral legitimacy creation” (Schultz & Seele, 2020, p. 10). A basic idea founded in discourse ethics is that organizations can legitimize their decisions by including stakeholder representatives in their decision-making processes. The philosophical underpinning of gaining legitimacy through discourse draws from Habermas' (1981) theory of communicative action. Scherer et al. (2013) applied Habermas' theory to business ethics, arguing that as corporate power increases, more democracy is needed in firms to legitimize their quasi-political role. Democracy in the organizational sphere can be defined “as the form of social cooperation that is appropriate among free

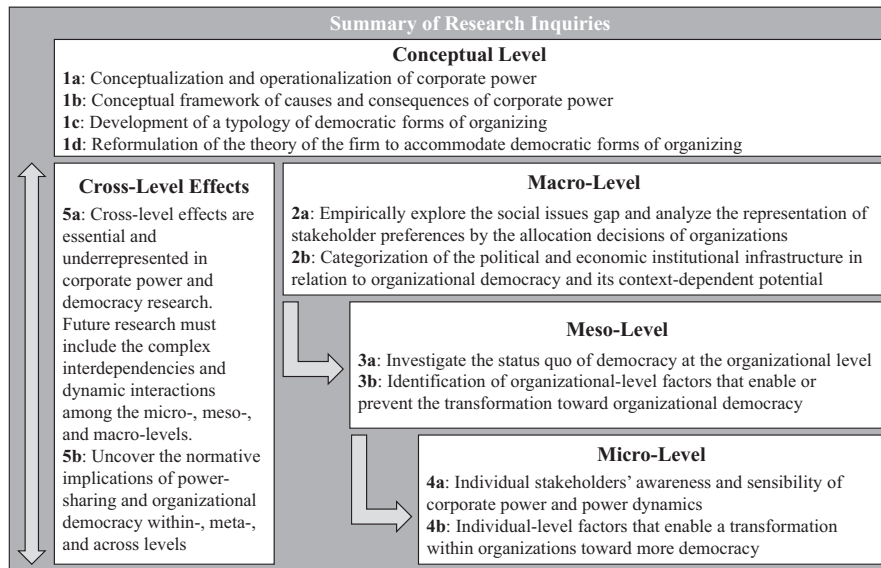
and equal individuals” (Frega, 2021, p. 363). Advocates of participatory corporate governance argue that when corporate power extends into the public and political spheres, internal and/or external stakeholders should be able to participate in the relevant decision-making processes to express their needs, preferences, and concerns. By adopting more participative forms of corporate governance, companies may regain legitimacy. However, many conceptual and empirical research questions on the macro- (societal), meso- (organizational), and micro- (individual) levels, as well as the effects across these levels, remain unanswered (Edinger-Schons et al., 2020; Enderle, 1996).

The paper critically reflects the current stage of existing research and identifies unanswered questions as well as research gaps at the intersection of corporate power and organizational democracy. It highlights how democratizing organizations can balance corporate power and resolve the legitimacy deficits as well as the social issues gap. It moves beyond the state of the art in the emerging research area of corporate power and democracy by integrating these two research fields and developing perspectives for future research.

The main goal of our research is to investigate the argument that democratizing corporate decision-making can legitimize corporate power. Our contribution to the debate is critically examining this argument, disentangling its multiple dimensions, and developing a research agenda regarding the link between corporate power and democracy to evolve this field of research. Our central research questions are: What are the implications of increasing corporate political power on and across the macro-, meso-, and micro-levels? To what extent can democratizing organizations help legitimize corporate power? What are the most important areas for future research concerning the link between corporate power and democratizing organizations? To address these questions, we conducted an interpretative literature review (cf. Suddaby et al., 2017), searching for relevant articles in the most influential international journals in the field of business ethics: *Business Ethics, the Environment and Responsibility*; *Journal of Business Ethics*; *Business Ethics Quarterly*; and *Business & Society*. We used search terms such as corporate power and democracy, democratizing organizations, and organizational/stakeholder/workplace democracy. Later, we extended our search using academic search engines and scientific databases such as Google Scholar, JSTOR, ScienceDirect, and EBSCOhost. We iteratively scanned and selected articles and conducted in-depth text analysis, interpretation, and reflection until we reached theoretical saturation. Thereby, we searched for research inquiries,<sup>4</sup> reflected on our findings from a business ethics perspective, and envisioned potential for future research. Additionally, we confronted and discussed our interim results with peers and practitioners at conferences, colloquia, and forums. Our goal was to reflect, problematize, and challenge assumptions, aiming to provide potential directions for research (Sandberg & Alvesson, 2011).

In the following two sections, we contextualize and define the research areas of corporate power and democratizing organizations to lay the foundation of our research agenda (cf. Table 1). This article aims to inspire and guide future research in this promising field.

TABLE 1 Summary of research inquiries.



## 2 | CORPORATE POWER

Power is an essential component of human interaction (Sturm & Antonakis, 2015) and is “inescapable in organizations” (Fleming & Spicer, 2014, p. 285). The question of power (mis-)use traditionally plays a major role in the field of business ethics. Sturm and Antonakis (2015) defined power as “having the discretion and the means to asymmetrically enforce one’s will over entities” (p. 139). Battilana and Casciaro (2021) emphasized that power is the ability to affect or influence the behavior of other entities through persuasion or coercion, which “derives from control over access to valued resources” (p. 202). As corporations and their representatives have multiple material and immaterial resources, it is unsurprising that a lot of power or at least power potential has accumulated in the economic sphere.

Corporate power unfolds across three levels: the micro- (individual), meso- (organizational), and macro- (societal) levels. As power “is a fundamental force in social relationships and is pervasive throughout various types of interactions” (Sturm & Antonakis, 2015, p. 136), every relationship between individuals has implications concerning power—whether it is shared or centralized, symmetric or asymmetric, balanced or commanding. Moreover, organizations can be understood “as loci of collective action” (Ocasio et al., 2020, p. 305), deploying power in all decisions and non-decisions, practices, and resulting consequences (Lukes, 2005; Ocasio et al., 2020). Thus, corporate power is omnipresent and complex (Ocasio et al., 2020).

The literature has proposed different categorizations of power usage. Fleming and Spicer (2014) developed a framework that identifies four “faces of power (i.e., coercion, manipulation, domination, and subjectification)” and four “sites of power (i.e., power enacted “in,” “through,” “over,” and “against” organizations)” (p. 237). All forms of power differ in degree across a continuum between control (i.e., force, acting against their will) and mild influence (i.e., offer, in

which an entity chooses an option among indifferent alternatives; Brunk, 1979; Grant, 2006; Grant, 2012). Corporate power can originate in different economic entities, such as individuals (i.e., representatives of businesses use their influence), organizations (i.e., corporate policies impact external stakeholders), or business associations (i.e., an employer association affects politics).

This article focuses on corporate political power, that is, power at the intersection of politics and business. It describes the conglomeration of the influence that economic entities have to affect and/or transform the behavior of individual or collective entities or the predominant logic in other systems (i.e., the political or societal sphere). The economization of the life-worlds (i.e., expansion of the economic logic into multiple non-economic spheres) and the borders of economic logic are frequently problematized in the business ethics discipline (e.g., Manzeschke, 2011; Polanyi, 2010; Sandel, 2013; Ulrich, 2008; Wenzlaff, 2019).

Recent developments at the intersection of the political and economic spheres are of particular concern for business ethics and political science, especially from a system-theoretical perspective. Specifically, unchecked corporate power is considered a threat to democracy (Staats, 2004). As corporations are increasingly influential in the global political arena, their power extends well beyond the economic realm (Hillman et al., 2004). For instance, corporations significantly influence the mass media, fund political campaigns, provide public goods through philanthropy, and limit access to resources like land and water for the local population owing to changes in ownership (Klein, 2007; Kress, 2012; McGoey, 2016; Pearce, 2012; Reich, 2006, 2008), or engage in proactive CEO or corporate sociopolitical activism (Hambrick & Wowak, 2021). Corporations have been influencing the political sphere, becoming political actors themselves (Detomasi, 2015; Scherer et al., 2014, 2016).

Current developments concerning corporate power pose two significant problems: a lack of democratic legitimization (i.e., a

legitimacy gap; cf. Crane et al., 2019; Scherer & Palazzo, 2011) and a potential divergence between the allocation of resources determined by the primary decision-makers in companies and the needs and preferences of the general public (i.e., a social issues gap; cf. Simon, 1995). Financial resources are increasingly allocated by corporations to fund, for instance, public goods, although their corporate governance is neither organized democratically (Harrison & Freeman, 2004; Kerr, 2004; Powley et al., 2004) nor has a clear legal foundation for such activities, and consequently, the legitimacy can be questioned (Crane et al., 2004; Edinger-Schons et al., 2020; Scherer et al., 2016). Moreover, how corporations allocate resources may not represent their stakeholders' preferences and wishes (Callahan, 2017; Simon, 1995). Both problems are closely interlinked but not identical. Whereas the first focuses on procedural legitimacy, the second considers the outcome of an allocation decision. Even if the result of an allocation decision meets the needs and preferences of the public, that is, if a social issues gap does not exist, the process may still lack legitimacy. Arguably, "corporate actors need to meet the growing challenges of their legitimacy" (Delventhal, 2020, p. 1).

### 3 | DEMOCRATIZING ORGANIZATIONS

In the previous section, we defined, illustrated, and problematized the increase in corporate power and revealed its normative implications. We now go a step further and focus on the potential solution of democratizing organizations, which is discussed as a means to balance corporate power by empowering stakeholders. The idea of democratizing corporations has been proposed by various theorists (e.g., Ackoff, 1994; Battilana & Casciaro, 2021; Crane et al., 2008; Ferreras, 2017; Frega, 2021; Malleson, 2013; Matten & Crane, 2005; Moriarty, 2014; Scherer et al., 2013; Turnbull, 1994). The international manifesto and movement of democratizing work have recently gained attention in academia and business practice (Ferreras et al., 2022). Thereby, it is frequently argued that democratization will lead to the legitimization of corporate actions (e.g., Anderson, 2017; Crane et al., 2019; Grant, 1997; Scherer & Palazzo, 2011), a claim we will thoroughly investigate.

Multiple arguments for democratizing organizations have been brought forward in academic debate.<sup>5</sup> Most famously, Dahl's (1985) state-firm analogy, stating that "if democracy is justified in governing the state, then it must also be justified in governing economic enterprises" (p. 111), has a long history of reception.<sup>6</sup> Landemore (2022) categorizes the arguments for democratization into intrinsic reasons (e.g., autonomy, dignity, distributive, and social justice) and instrumental reasons (e.g., reducing domination and discrimination, increasing health). In our investigation, we will focus on one particular line of argument: balancing corporate power by democratizing organizations.

From a business ethical perspective, the need to legitimize and balance corporate power becomes a pressing issue in cases where other forces, like political forces, are unable or unwilling to intervene. Democratizing organizations can provide the solution, as Scherer et al. (2013) proposed, that corporations may "re-establish their legitimacy by

internalizing democratic mechanisms within their organizations" (p. 473) to address the democratic deficit that emerges when private corporations engage in public policy. Although this claim is made frequently, it seldom explicitly expresses what "democratic" entails in the economic context. To investigate the potential solution of democratizing organizations, we must define the concept of democracy.

According to Christiano and Bajaj (2022), *democracy* is "a method of collective decision-making characterized by a kind of equality among the participants at an essential stage of the decision-making process" (p. 1). Most initiatives of democratizing organizations use terminologies native to the political sphere, like democracy or citizenship (Frega, 2021). This implies a state-firm analogy and parallel-case argument (Dahl, 1985), which is highly debated (Frega, 2020; Frega et al., 2019; González-Ricoy, 2014; Landemore & Ferreras, 2016) due to its selective focus and shortcomings related to an ideal of (political) democracy. This signifies that democracy in the economic sphere is somehow different from political democracy, although the latter can provide orientation (Frega, 2021). Frega (2021) defined democracy "as the form of social cooperation that is appropriate among free and equal individuals" (p. 363). He considered this broad definition normatively complete as it includes the basic propositions of freedom, equality, and cooperation (Frega, 2021). It is applicable to the context of the firm through elements like power-sharing, collective decision-making, and appropriate ways of treating other individuals (Frega, 2021). We will use Frega's (2021) broad definition as the foundation of our investigation.

A central normative assumption underlying the idea of democratizing organizations is communicative legitimacy (Castelló et al., 2013; Habermas, 1981). This means that by including stakeholders in business decision-making, proponents of organizational democracy seek to enhance moral legitimacy and better align the allocation choices with the needs of stakeholders. Therefore, input legitimacy (e.g., inclusion, procedural fairness, consensual orientation, and transparency) and output legitimacy (e.g., rule coverage, efficacy, and enforcement) are both essential (Mena & Palazzo, 2012). It is important to note that organizational democracy serves not only as a technology of social interaction but also as a tool for legitimization. Hielscher et al. (2014) distinguish between democracy as a "principle for organization" (type I) and a "principle of legitimization" (type II). Both of them are connected such that type I can be the means to realize the goal of type II. Yet, they are also fundamentally different mental models, according to Hielscher et al. (2014). While type I reflects democracy in light of standards and procedures for organizing, type II concerns consensual self-governance and deliberation (Hielscher et al., 2014). Hielscher et al. (2014) argue that type I is overemphasized in organizational democracy research, whereas type II, though underdeveloped, has more potential. Their article highlights this deficit and research gap, shifting the debate toward type II. We build upon this research task and develop a research agenda for balancing corporate power through democratization.

The connecting point between democracy and legitimization is deliberation, which can be defined as the "mutual communication

that involves weighing and reflecting on preferences, values, and interests regarding matters of common concern" (Bächtiger et al., 2018, p. 2). Leading back to Habermas (1981), different forms of deliberation have been the subject of philosophical inquiry by scholars such as Rawls (2003) and Cohen (1989), followed by a far-spread academic debate across multiple disciplines. Dawkins' (2022) varieties of deliberation are crucial for gaining a nuanced understanding of deliberation in the economic sphere. By separating deliberation into two dimensions, namely deliberative behavior and deliberative environment, he distinguishes between unitarist (A: high behavioral and environmental), pluralist (B: high behavioral, low environmental), strategic (C: low behavioral, high environmental) deliberation, and deliberative action (D: low behavioral and low environmental deliberation). While most conceptions of organizational democratic deliberation follow the idealistic classical deliberative democracy approach, Dawkins (2022) provides a space for strategic and instrumental forms of deliberation (D) and a democratic systems perspective (B), even leaving room for deliberative elements in critical and defective deliberative activism (D). This approach provides a full spectrum of deliberation varieties as alternative pathways for organizations to gain legitimization through democratization. While the ideal scenario would be unitarist deliberation (A), Dawkins' (2022) model also offers pragmatic approximations (B+C) for deliberation in the organizational sphere. Conversely, deliberative activism (D) may threaten corporate power as it involves stakeholders delegitimizing corporate actions due to the corporation's lack of deliberative favorability in its behavior and environment.

Based on the problem statement concerning corporate power and the potential solution of democratizing organizations, in the following section, we reflect on the intersection of these research topics, identify relevant gaps and potentials in research (cf. Table 1). We start with the general conceptual deficits and continue the in-depth investigation of the macro- (societies and systems), meso- (organizational), and micro- (individual) levels, and then account for potential cross-level effects.

## 4 | CONCEPTUAL LEVEL

Whereas the debate on corporate power and the demands for democratizing organizations are mounting, the conceptualization and operationalization of the constructs of corporate power and democracy in organizations highlight many gaps in research and tremendous potential for conceptual improvement. While considering recent and potential developments, like technological advancements, increased awareness of the climate crisis, debates concerning supply-chain laws worldwide, and the emergence of new forms of organizing in business practice, it becomes increasingly pertinent to develop concepts and operators related to power and democracy in the economic sphere. Thus, it not only stands that "power represents an important phenomenon for management scholars to more fully understand" (Sturm & Antonakis, 2015, p. 158), but the elements of power and stakeholder empowerment are both essential.

### 4.1 | Conceptualization and measures of corporate power

The first questions we need to ask are: Is the current conceptualization of corporate power sufficient to carry out research related to current issues, and are the measures and operators of corporate power in the academic toolset of our field sufficient to account for the multitude of related research challenges the field is facing? The academic debate provides a clear answer: research still lacks an adequate and widely accepted conceptualization and operationalization of corporate power (Carroll, 2010; Fleming & Spicer, 2014; Grant, 1997; Roach, 2007; Sturm & Antonakis, 2015). As Roach (2007) concluded, "the most difficult problem in assessing the economic and political power of large corporations, and determining whether this power is increasing, is that a commonly-accepted metric of corporate power does not exist" (p. 11). Sturm and Antonakis (2015) commented on the existing concepts and measures that "some of these conceptualizations of power are problematic" (p. 141). Fleming and Spicer (2014) added to that argument, saying that "now more than ever we require rigorous and robust conceptualizations of how organizational power functions" (p. 238).

Several metrics have been used to describe corporate power, that is, either the power of single companies or as it relates to state power in general. To capture the power of specific companies, the most commonly used metrics are annual revenues (1), number of employees (2), and foreign assets (3). An alternative means to describe corporate power beyond individual companies is by looking at the power of private business relative to other forces in society. Some of these measures can be used to estimate whether corporate power, as compared to state power, has increased over time. Such measures include the number (1) and economic size (2) of MNCs, industry concentration ratios (3), and regulating forces and tax burden (4).

However, existing measures of corporate power have certain limitations. For example, it is problematic that corporate power measurements are typically described solely in economic terms, such as the number of employees, market share, profits, or assets, whereas other dimensions are marginalized (Grant, 1997; Roach, 2007). Elements like the division of power, checks, and balances, and the inclusion of stakeholders in corporate governance and decision-making are not accounted for. Thus, such measures of corporate power may be relevant to better understand historical developments and conduct intertemporal comparisons. Still, they are too simplistic and broad to grasp the complexity of corporate power. Measures of corporate power can be considered unsatisfactory, as they do not reflect many facets of corporate power that have emerged owing to new technological developments and innovation. Zuboff (2015) presented a comprehensive analysis of these newer sources of corporate power in the digital age and concluded that new data extraction and analysis possibilities have led to a largely uncontested new expression of corporate power that she called "surveillance capitalism" (p. 75). Pointing to the potential consequences for democracy, Scherer et al. (2016) proposed that "the rising significance of information and communication technology companies has yet to

be explored" (p. 21). Therefore, the need to develop a concept of corporate power fitting the latest developments of the 21st century is clear.

Research inquiry 1a: Conceptualization and operationalization of corporate power.

## 4.2 | Causes and consequences of corporate power

Research must go a step further and ask: What are the causes and consequences of corporate power? Academic papers and textbooks describe corporate power as being on the rise as a result of developments such as the liberalization and deregulation of markets, which implies more liberty and choice of private businesses, privatization of formerly public services, and publicly owned companies, an increasing share of employment by private businesses, and increasing international mobility owing to globalization (e.g., Crane et al., 2019). The last item has received the most attention in the discussion around corporate power, and recent contributions often cite the ability of MNCs to move from one regulatory framework to another. This allows MNCs to shift production and profits across national borders to benefit from the most attractive conditions (low regulation, low tax burden, etc.), potentially causing a "race to the bottom," in which national governments reduce regulation and taxation to attract corporate players. In the first decades of the new millennium, new possibilities for tax avoidance developed with the latest technological capabilities (Contractor, 2016).

Although much has been written about the expanding power of MNCs and the potential causes of these developments, surprisingly, little systematic conceptual, and empirical research has examined their consequences. Matten (2009) stated that "though there is consensus about the economic, and maybe social, role of business, the political dimensions and effects of corporate activity are yet to be embraced as a legitimate field of inquiry in management studies" (p. 573). Barley (2007) argued that this silence of most of the management literature (which Hanlon, 2008, labeled "the denial of politics") is "particularly troubling, given that organizations, in general, and corporations, in particular, now wield inordinate political power" (p. 201). The most recent reviews in the area of management, namely Fleming and Spicer (2014) and Sturm and Antonakis (2015), have noted increasing research interest in the political power of organizations.

Research inquiry 1b: Conceptual framework of causes and consequences of corporate power.

## 4.3 | Conceptualization and operationalization of democratizing organizations

Comprehensive (re-)conceptualization and operationalization of democracy for the economic sphere are essential for future research. Scherer and Palazzo (2011) saw the reconsideration of

corporate governance structures as a central research priority for the future. Organizational-level factors that promote or hinder such developments have been identified as an urgent research task (Scherer et al., 2013, p. 502). Gomez and Korine (2005) presented a historical review of the evolution of corporate governance. They concluded that over two centuries of capitalist development, corporate governance has continuously evolved to integrate more elements of democratic procedures, particularly enfranchisement, the separation of powers, and representation. They proposed that studying corporate governance reforms is a central avenue for future research. Kerr (2004) admitted that in contrast to the foundation of many societies in democratic norms, the hierarchical command-and-control decision-making in many organizations with obvious power and status differentials seems anachronistic and even dysfunctional. The fast-changing business environment and the professionalization of the workforce make adopting democratic values and practices in organizations increasingly attractive (Kerr, 2004). Detomasi (2015) proposed revisiting the "varieties of capitalism" in light of the multinational corporation as a political actor. Several practical examples and case studies illustrate how organizational democracy is practiced and how it benefits the economic outcomes and the overall well-being of the stakeholder network. Nevertheless, there is a lot we do not know, and the potential for a more nuanced understanding is plentiful. Recent contributions have called for research that explores the possibilities of company-internal democratic governance (e.g., Ferreras et al., 2022; Matten, 2009; Scherer & Palazzo, 2011). Dawkins (2014) argued that "operational barometers" of stakeholder engagement are lacking in the literature (p. 283). Future studies should conceptualize different forms of democratic governance in organizations by integrating existing propositions and models in the literature with real-world applications of organizational democracy.

A universal definition and characterization of different types of organizational democracy are still missing. Future research should develop tools to categorize and cluster concrete realizations of democracy in organizations. Fung (2006) provided a starting point with his differentiation of the varieties of participation generally through the scope of participation (1), mode of communication and decision-making (2), and extent of authority (3) (Fung, 2006). Based on these categories, Fung (2006) built a comprehensive three-dimensional model, the "democracy cube," to classify varieties of participation. Categorizations can also be approached based on the normative angle, for instance, by differentiating among legitimacy (I), justice (II), and effectiveness (III) of the process (Fung, 2006) and/or by developing new normative criteria. Factors that may be important are manifold, for instance, represented stakeholder groups, level of freedom and autonomy, power distribution and hierarchy, organization, agenda-setting, decision-making rules, and mode of assembly. A typology of democratic forms of organizing would be beneficial for the evolution of this field.

Research inquiry 1c: Development of a typology of democratic forms of organizing.

#### 4.4 | Reformulation of the theory of the firm

The changing landscape of power distribution at the intersection of politics and the economy necessitates an in-depth reflection on the consequences of the theory of the firm. Scherer and Palazzo (2011) explained that a new theory of the firm is necessary, as its current conceptualization in the economic sciences does not sufficiently address globalization, post-national constellations, and related challenges but continues to rely on the power of nation-states to create and enforce complete “rules of the game.” Traditional theories of the firm do not capture democratic forms of organizing. From a new perspective, the effectiveness of corporate governance and management must be redefined away from the mere maximization of economic efficiency toward considering the capacity to balance various environmental, social, and economic demands and to generate legitimacy (McWilliams & Siegel, 2001; Scherer et al., 2013; Van Buren, 2010; Wood, 1991).

For a long time, corporations have exerted political influence to obtain subsidies, reduced their tax burdens, and shaped public policy. These activities are summarized in a stream of the literature on the so-called “Corporate Political Activity” (CPA), which is defined as corporate attempts to shape government policy in ways that are favorable to the firm (Hillman & Hitt, 1999). Corporations influence governments, for example, through political donations and direct lobbying. Lawton et al. (2013) called for deeper research on CPA because the area “is becoming more complex and requires further synthesis” (p. 86). They noted that research on CPA “has not kept pace with the prevalence of CPA practice in industry or across political systems” (Lawton et al., 2013, p. 87).

Using the terminology of PCSR, Scherer et al. (2016) proposed that business firms can become political actors by engaging in public discourse, influencing collective decisions, and/or providing public goods. Thus, business firms assume enlarged corporate responsibilities and maintain their legitimacy by providing solutions to public issues (Palazzo & Scherer, 2006; Suchman, 1995), complying with changing social expectations, engaging in public deliberations (Palazzo & Scherer, 2006), and submitting their corporate governance to democratic control (Scherer et al., 2013). Over and above CPA and PCSR, some CEOs and companies have recently begun to engage in proactive sociopolitical activism, defined “as a business leader’s personal and public expression of a stance on some matter of current social or political debate, with the primary aims of visibly weighing in on the issue and influencing opinions in the espoused direction” (Hambrick & Wowak, 2021, p. 34). CPA, PCSR, and political activism are resource intensive, and the financial resources involved are allocated through corporations. Recent statistics show that these expenditures are steadily increasing (e.g., Callahan, 2017; Chief Executives for Corporate Purpose, 2016; McGoe, 2016). If this growing volume of corporate money is spent for the provision of public goods in the form of corporate philanthropy, we can speak of a new societal redistribution mechanism that is on the rise and that deserves scrutiny (Reich, 2006, 2011).

Whereas governments are democratically elected, and decisions result from a democratic political process (Friedman, 1970; Scherer et al., 2013), this is not the case for most corporations. A typical research approach has been to draw a clear line between the economic and political spheres and point to external regulatory mechanisms that should hold corporations accountable for their actions. However, there is no complete, powerful, and gapless regulatory framework globally. Further,—as shown above—the borders between economic and political actors have become increasingly blurry over the last few decades. A transformation toward democracy within corporations or as a mediator between firms and societies would imply an innovative extension and potential reconceptualization of democratic societies (Ellerman, 1999; Scherer & Palazzo, 2011). Scherer and Palazzo (2011), as well as Crane et al. (2008), proposed the deliberative model of democracy (Bohman & Rehg, 1997; Cohen & Arato, 1994; Gutmann & Thompson, 1996; Habermas, 1996) as an essential theory that can acknowledge the contribution of both state and non-state actors to global governance, including civil society associations as contributors to the formation of public will. Thus, deliberation could enrich conceptualizations of organizational democracy.<sup>7</sup> This research direction may be highly relevant to (re-) balance the power distribution between corporations and societies.

Research inquiry 1d: Reformulation of the theory of the firm to accommodate democratic forms of organizing.

## 5 | MACRO-LEVEL (SOCIETIES AND SYSTEMS)

The macro-level exhibits significant research gaps, with multiple open questions regarding how democracy is or should be implemented as a leading principle in different economies and companies, how it affects or should affect societies, and how company-internal democracy would affect macro-outcomes (Scherer et al., 2013). From a business ethical perspective, research questions concern “the adjacent responsibilities of corporations as political actors, degrees of transparency and accountability to the public, and ultimately, potential avenues of democratizing the political role of private business” (Matten, 2009, p. 575).

### 5.1 | Social issues gap

Reich et al. (2016) and Callahan (2017) assumed that many people are unaware of the influence of corporations in the public sphere. Simon (1995) first noted a potential social issues gap, implying a situation in which the allocation preferences of corporate actors do not resemble those of the groups of people they should represent. Callahan (2017) emphasized that philanthropy poses a dilemma for democracy, as it has political implications without reflecting the full spectrum of public opinion, and noted that philanthropy threatens civic equality and democracy. Given this new societal redistribution

mechanism and the potential social issues gap, future research should scrutinize these money transfers and find ways allocation decisions can be based on democratic representation. Solving the democratic deficit of the social issue gap in this setting reduces the risk of exploitation of corporate power.

These issues are not limited to corporate philanthropic donations. Researchers have argued that corporations suffer from a legitimacy deficit that affects their overall internal and external resource allocation decisions (e.g., Scherer et al., 2013). A broader research inquiry would involve an empirical analysis of how well the allocation decisions of companies governed in a top-down, command-and-control manner represent the allocation preferences of the stakeholder network. A business ethical problematization implies that researchers should conceptualize how democratic participation can help close the social issues gap.

Research inquiry 2a: Empirically explore the social issues gap and analyze the representation of stakeholder preferences by the allocation decisions of organizations.

## 5.2 | Investigate legal and institutional frameworks

The political and economic institutional infrastructures supporting or inhibiting democratic forms of organizing are very diverse worldwide. While some countries provide mandatory representative rights for some stakeholders (cf. co-determination), other countries' laws prohibit extensive organizational democracy endeavors from being implemented. Hence, the potential for democracy in the economic realm is context-dependent. For instance, it depends on the form of "welfare capitalism" that an economic system pursues with significant differences among liberal, Christian conservative or corporatist, and social-democratic types (Esping-Andersen, 2012). Goodman and Mäkinen (2022) differentiate between four ideal-typical political systems: democratic market economy (1), democratized society (2), privatized society (3), and corporate democracy (4). What seems radical in some contexts is common or at least thinkable in other contexts. Research on corporate power and democracy lacks a comprehensive comparative understanding of the systems that affect its implementability. Future research on corporate power and organizational democracy must provide a comprehensive overview and classification of the existing institutional infrastructure and evaluate its potential. Business ethicists should provide political and economic recommendations to support the development of suitable macroeconomic and political infrastructure that aligns with societies' values.

Research inquiry 2b: Categorization of the political and economic institutional infrastructure in relation to organizational democracy and its context-dependent potential.

## 6 | MESO-LEVEL (ORGANIZATIONS)

We now focus on the organizational level. As "power is such a fundamental part of organizational life that without it they [organizations] would be unable to function" (Fleming & Spicer, 2014, p. 285), the question of legitimate power usage at the meso-level is highly relevant, particularly for business ethics, yet marginalized. To gain legitimacy, corporations must pursue "socially acceptable goals in a socially acceptable manner" (Ashforth & Gibbs, 1990, p. 177). Engaging in dialog can explore different interests and expectations, create opportunities to find common ground, and collectively agree on solutions that lead to acceptance and legitimacy.

### 6.1 | Investigate the status quo

There is an ongoing debate on the state of democratization in organizations. Whereas some researchers have characterized the contemporary era as the age of participative management and leadership (Contractor et al., 2012; Powley et al., 2004), others have claimed that "few contemporary organizations might be viewed as democracies in the political sense" (Harrison & Freeman, 2004, p. 49). Battilana et al. (2018) highlighted the ambivalence by stating that while the 20th century had a vibrant movement toward democratization, particularly in the area of industrial democracy, in the early 21st century, un-democratic "hierarchical forms of organization remain dominant" (p. 257) in business practice and research. Over the past few decades, participatory decision-making has been increasingly applied in organizations, driven by the emergence of trends like "new work" (Bergmann, 2019), agile organizations and self-organization (Laloux, 2014), as well as the increasingly observable joint pursuit of multiple goals, like social, ecological, and financial ones (Battilana et al., 2018). Thus, a particular trend toward democratization can be observed.

Employees "exert substantial influence on tactical and strategic decisions" (Weber et al., 2020, p. 1009) in a growing number of organizations. However, as a rule of thumb, extensive levels of democratization are still mostly found in small or medium-sized enterprises rather than big multinational firms (Matten & Crane, 2005), except in the tech industry. The digital revolution creates new opportunities for participatory decision-making, driving the development of new, more democratic organizational processes and forms. Digital pioneers are typically pioneers in the "future of work" topics, including agility, self-organization, and democratization. A research bias toward the tech industry can be seen. Nevertheless, democratic forms of organization are underrepresented in public awareness and research. This includes research tasks concerning conceptualizing, operationalizing, and implementing organizational democracy.

Research inquiry 3a: Investigate the status quo of democracy at the organizational level.



## 6.2 | Implementation of organizational democracy

The question of how organizations manage their democratic and political responsibilities, especially in light of conflicting internal and external demands, remains inadequately addressed. Empirical studies have not sufficiently explored the implementation of these new forms of corporate governance and the organizational-level factors that enable such a transformation. While multiple case studies exist on functioning models of organizational democracy, they have faced heavy criticism regarding their costs and efficiency. Critics point to problems during the implementation of organizational democracy, such as resistance or extensive resource demands (for an overview of the criticism, see Harrison & Freeman, 2004; Kerr, 2004). For instance, Driver and Thompson (2002) predicted that there “may be a genuine trade-off between efficiency and democracy (...), but one that is considered worthwhile” (p. 121) owing to normative reasons, whereas Thompson (2005) warned against “heavily bureaucratic and time-consuming” processes if the level of corporate democracy is too “excessive” (p. 147).

In contrast, Moriarty (2014) argued that it is a common misconception that stakeholder inclusion is an expensive, time-, and labor-intensive endeavor. The critique concerning the costs and efficiency lacks the bigger picture that multiple channels of participation are already established and invested into by corporations, for example, by establishing and maintaining formal and informal relationships, including communication channels with stakeholders (Moriarty, 2014). Hence, most organizations invest in acquiring stakeholder input and improving stakeholder relations. Accordingly, a natural empirical question arises: Is it more efficient to institutionalize stakeholder relations in the form of stakeholder democracy (Crane et al., 2005; Matten & Crane, 2005)? Future research can examine whether institutionalization lowers the costs of stakeholder engagement processes.

There has been no comprehensive overview of the costs and opportunities for implementing organizational democracy. While many researchers have seen great potential, these hopes may have assumed that participation improves business legitimacy. Hielscher et al. (2014) warned researchers against the mistake of confounding ends with means by assuming this. Research in this area is marginal and lacks a differentiated view of different forms of stakeholder engagement and democracy.

Research inquiry 3b: Identification of organizational-level factors that enable or prevent the transformation toward organizational democracy.

## 7 | MICRO-LEVEL (PEOPLE)

Although the individual is the basis of all democratic systems and decision-making processes, the micro-level is currently not the focus of the PCSR and organizational democracy research (Edinger-Schons et al., 2020). Questions of power at the micro-level have not been

researched sufficiently, either. Analyzing 146 academic PCSR articles, Frynas and Stephens (2015) found “that the individual level of analysis is the least studied and the least theorized level of analysis” (p. 508). Many aspects of individual economic actors remain unclear, such as individuals' awareness of corporate power and power dynamics. Dawkins (2015) argued that “neither market-centered CSR nor the deliberative model of political CSR adequately addresses the specter of power asymmetries and the inevitability of conflict in stakeholder relations” (p. 1). Therefore, mechanisms that address power asymmetries are necessary (Dawkins, 2015).

Future research should also shed light on individual attitudes toward democracy in organizations and their willingness to engage in organizational democracy (Edinger-Schons et al., 2020). Academic attention on the individual factors affecting the transformation of organizations toward more democracy is necessary (Scherer et al., 2013). The factors determining successful collective decision-making are also largely unclear.

Research inquiry 4a: Individual stakeholders' awareness and sensibility of corporate power and power dynamics.

Research inquiry 4b: Individual-level factors that enable a transformation within organizations toward more democracy.

## 8 | CROSS-LEVEL EFFECTS AND META-REFLECTION

Although the differentiation among the macro-, meso-, and micro-levels is helpful in the endeavor to detect research gaps and structure the research agenda, the meta- and cross-level effects are not to be ignored.

### 8.1 | The relevance of cross-level effects

Even though meta- and cross-level effects are essential to better understand corporate power and democracy, they are underrepresented in research. However, cross-level research is promising and has the potential to discover unexpected contributions. For example, Goodman and Mäkinen (2022) found in their multilevel investigation that “corporate democratization at meso-level (...) may actually erode macro-level democratic control of society and the economy” (p. 1). Future research should emphasize the dynamic effects, interactions, and dependencies between the levels and focus on theoretical perspectives that transcend these levels.

A dynamic perspective of corporate power and democratization reflects the process and interdependencies among the levels. Building conceptual models and empirically investigating the interdependencies and interactions among levels will be an essential and ambitious task for future research.

Research inquiry 5a: Cross-level effects are essential and underrepresented in corporate power and democracy research. Future research must include the complex interdependencies and dynamic interactions among the micro-, meso-, and macro-levels.

## 8.2 | Normative implications across levels

The final research gap we want to highlight concerns the core of business ethics: the normative questions and implications brought about through the interface between corporate power and democracy. Thus, the explicit normative reflection of this marginalized topic and a lively debate, particularly at the intersection of these areas related to the normative foundations of institutions, instruments, and processes are essential for the development of this research area. This includes the macro-, meso-, micro-levels, and cross-level effects. Business ethics is predestined to close the complex normative gaps, as the field is specialized to explicitly reflect and tackle normative concerns with implications for business practice.

The participation of multiple stakeholders in organizational decision-making has great ethical potential, as more voices arguably lead to better outcomes from an ethical perspective. However, there is a lack of research on this claim. According to Noland and Phillips (2010), stakeholder engagement is “key to ethical decision-making and firm behavior” (p. 48). Their argument proposes that decisions made through collective discursive interactions among affected groups are more likely to result in more ethically sound and sustainable decisions and actions. Thus, having multiple stakeholders inherently presents diverse viewpoints, leading to more balanced decisions and reduced negative external effects. This argument entails theoretical and empirical assumptions worthy of further investigation. For instance, what attitudes and competencies do stakeholders need to work together constructively? How do individual virtues and vices affect ethical decision-making? Are decisions made in an organizational democracy more sustainable? Do such decisions reduce negative external effects?

Another normative question concerns the relationship between politics and business: How should the systems of politics and business relate to each other? Business ethicist Peter Ulrich (2008) argued that the primacy of politics is indispensable from a regulatory, ethical perspective. Given the current extent of corporate power, discussing and reflecting on the ethical primacy of politics is essential. The manifestation and extent of the primacy of politics open up multiple normative questions, such as: (How) Should corporate power be limited by the rule of law and development of the (social) market economy?

These reflections highlight the importance of ethical considerations for cross-level effects and the necessity for more normative inquiry within these particular areas. Future business ethics research can contribute normative arguments and (ethically sound) practical recommendations on how the intersection of business and politics should be intertwined at all levels and cross levels.

Further, the width and concrete configuration of the understanding of democracy have tremendous normative implications.

Thus, how widely or concretely we define democracy matters for how we enact it. A comprehensive understanding of democracy (Frega, 2021) implies that it concerns all areas of society, including the economic sphere. Following this argument, workplaces should become workplace democracies (Frega, 2021), corporations should become corporate democracies, and industrial democracies should be strengthened. Consequently, democracy in the economic sphere would become a normative objective.

Finally, normative research should also address meta-questions. In some cases, to find solutions, it may be essential to even “step back from particular substantive debates” (Sayre-McCord, 2023 p. 1) and reflect on the bigger picture by addressing meta-ethical questions related to moral semantics (e.g., what is the meaning of business legitimacy?), moral ontology (e.g., what is the moral nature of corporate power?), and moral epistemology (e.g., [how] can organizational democracy develop moral judgments?). In sum, closing these normative research gaps would greatly benefit the field and contribute to academic society and policymakers.

Research Inquiry 5b: Uncover the normative implications of power-sharing and organizational democracy within-, meta-, and across levels.

## 9 | CONCLUSION

We reflected on corporations' increasing power and significant influence in the public and political spheres, along with their lack of democratic legitimization. We discussed democratizing organizations as a potential remedy for the resulting legitimacy deficit and social issues gap. We propose that for future business ethical research endeavors, the topics of corporate power, and organizational democracy should be closely intertwined. As a business ethical rule of thumb, if corporate power extends into the public and political sphere, stakeholders should be able to participate in the respective decision-making processes. Democratizing organizations have the potential to address the legitimacy deficit and the social issues gap. Building on this argument, we identified multiple research gaps and proposed ideas for a more complete academic investigation of the conceptual, macro-, meso-, micro-levels, and cross-level effects (cf. Table 1).

The multitude of the research gaps identified can be interpreted as a sign that the intersection of corporate power and organizational democracy is an underdeveloped, new, and innovative field of research with great potential for future academic work. Conceptual, qualitative, and quantitative-empirical research in this area is urgently necessary. Such research can support practical efforts to implement elements of organizational democracy into business organizations and improve corporate responsibility, sustainability, and legitimacy.

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The authors declare that they have no affiliations with or involvement in any organization or entity that has any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

### DATA AVAILABILITY STATEMENT

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

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### ENDNOTES

<sup>1</sup>We use “corporation” and “corporate” as an umbrella terms for all business organizations.

<sup>2</sup>In our article, we assume a liberal democratic basic order as a given.

<sup>3</sup>For a more nuanced and in-depth reflection on business legitimacy, please refer to the Handbook of Business Legitimacy (Rendtorff, 2020).

<sup>4</sup>In accordance with Sandberg and Alvesson (2011), we used a method of reflection, problematizing, and assumption-challenging searching for research inquiries instead of a gap-spotting strategy.

<sup>5</sup>For an overview of the recent debate, refer to Frega et al. (2019).

<sup>6</sup>For a critical reflection on this argument, confer Frega (2020), Landemore and Ferreras (2016), González-Ricoy (2014).

<sup>7</sup>For a detailed reflection on the “varieties of deliberation” from a business ethical perspective, please refer to Dawkins (2022).

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