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RE-THEORIZING THE FIRM: IN PURSUIT OF WELL-BEING AND SOCIAL JUSTICE

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Summary

This paper re-theorizes the firm from a socio-political perspective to show that a firm is not only an economic, but also a social and political actor. Given multiple global crises, our traditional understanding of the purpose of the firm – the maximization of shareholder value – is increasingly being challenged. This paper shows that the purpose of the firm is rooted in our social life, and hence a notion of well-being and social justice gains significance rather than wealth creation to underscore the role of responsible governance for sustainability in many dimensions – economic, social and environmental. It concludes that the purpose of the firm should go beyond profit maximization in pursuit of well-being of stakeholders and in deliberating global social justice for a sustainable world order.

Keywords: re-theorizing the firm, purpose of the firm, social justice, well-being, stakeholder deliberation, responsible governance.

Introduction

The recent global financial and economic crisis has prompted calls for more regulation of corporations, even a sort of ‘nationalized capitalism’. Moreover, increasing awareness and evidence of climate change due to human activities also demand eco-sensitive regulation and international protocols. Both of the above, together with the still ubiquitous poverty in our post-modern society, are challenging the sustainability of global capitalism in pursuit of wealth creation and profit maximization, and questioning firms’ activities and behaviour in terms of responsibility, accountability and the role of leadership. However, opponents of over-regulation fear that it may lead to nationalism and protectionism and therefore stunt the innovation and free market enterprise and competition that are conducive to economic prosperity. Moreover, they claim that over-regulation imposes a huge cost of compliance on the state and ultimately on society. Against this background, what should be the theoretical underpinning of the firm for responsible governance to achieve sustainability in the economic, social and ecological dimensions?

I begin by clarifying the relationship between the concepts of corporate responsibility and corporate governance. Although many executives agree that corporate responsibility is ‘essential to their business’, there is no singular definition of it (Blowfield and Murray, 2008: 10) but different notions, such as corporate social responsibility (CSR) and corporate citizenship (CC); however, they ‘share in the common belief that companies have a responsibility for the public good—but they emphasize different elements of this’ (Blowfield and Murray, 2008: 13). Corporate governance is mainly related to financial accountability and transparency in relation to how corporations meet, in particular, directors’ fiduciary obligations to shareholders. However, especially due to corruption and malfeasance within corporations, some consider that corporate governance is an essential part of corporate responsibility (see Blowfield and Murray, 2008: 35). Hence, an approach to corporate governance should arguably include corporate responsibility and leadership within its framework in determining how corporations should be organized (including the independence and diversity of the board of directors and executive remunerations) and led (through stakeholder engagement and deliberation for justice), as corporations have responsibilities to meet not only the expectations of shareholders but also of other stakeholders. I adopt this concept of corporate governance in this paper to underscore as well as to broaden its scope to meet expectations and interests of stakeholders including shareholders. I argue that corporations’ legitimacy, public trust and credibility hinge upon responsible governance and leadership. For example, exorbitant bonus payments that create high disparity between executives and the vast majority of employees, political lobbying to

oppose many regulations that are meant for the good of society, corruption, violation of human rights and irresponsible behaviour towards the environment and future generations that affect sustainability in many dimensions – not only economic, but also social and ecological – can all arguably be brought under the scrutiny of responsible governance. Therefore, this paper seeks to re-theorize the firm to strengthen the socio-political dimension of corporate governance, to argue that the purpose of the firm should go beyond profit maximization for shareholders in pursuit of the well-being of broader stakeholders and in deliberating for global social justice.

The credibility of agency theory, which underpins contemporary corporate governance by affirming the maximization of shareholder value as the sole purpose of the firm, is increasingly being challenged. The shareholder value tied to economic value underscores wealth creation. Thereby firms are expected to perform as engines of wealth creation and the agents are expected to maximize shareholder value. Over the last two centuries, and especially today, this ideology of wealth creation has, arguably, shaped many business practices and corporate culture. Regrettably, these have fostered moral hazard among corporations by leading to market and individual executive excesses with the ‘pathological pursuit of profit and power’ (Bakan, 2004). The short-term incentives of managers and executives have led corporations to take excessive risk, mainly for dysfunctional personal gain. They had and still have a propensity to lead to an unsustainable world order undermining corporations’ credibility, public trust, and the legitimacy of shareholder value maximization and free market economies. Hence the debate on an appropriate theory of the firm that underpins responsible governance and virtues of leadership for the sustainability of capitalism is open.

Within corporate responsibility scholarship many other theories have been debated, among which are institutional theory, legitimacy theory and stakeholder theory. ‘Stakeholder theory is increasingly regarded as one of the touchstones of good corporate responsibility management’ (Blowfield and Murray, 2008: 160). A stakeholder approach to corporate responsibility has some merits over shareholder value maximization. However, I argue that it cannot effectively address values of indirect and interdependent stakeholders of future generations and the environment. Nor can it effectively deal with conflicting values, as their power relations are asymmetrical. Moreover, the privatization of social goods and services, undertaken purportedly to increase economic efficiency, tends to amplify inequalities among citizens’ capabilities to pursue their well-being within our problematic social world constituted by human diversity, ethical pluralism and interdependency, not only among the members of our contemporary society but also among generations and species and with the environment. The complexity of interdependency is further increased due to our interdependency with the firms as legal entities without morality. As Bakan (2004: 117) argues, although privatization of services may be effective in certain contexts, it is ‘flawed as a general and long-term solution to society’s problems’, because basing a social and economic system solely on human traits of ‘self-interest and materialistic desire’ is ‘dangerously fundamentalist’; these human traits are ‘parts of who we are, but not all’. Private corporations, unlike public corporations, have a legitimate mandate to operate with profit motive and therefore promote public goods only when it is in their shareholders’ interests. Hence ethics cannot be bracketed off from the goal of economically efficient resource allocation and distribution. I argue that we should be concerned with human conditions rather than human nature per se (Arendt, 1958) and thereby I show that global social justice concerning human conditions gains significance.

The recent literature on corporate responsibility adopts new approaches to the theory of the firm, arguing, for example, that corporations are like citizens (Crane et al., 2008) and political actors (Palazzo and Scherer, 2008). These approaches attempt to justify corporations’ responsibility beyond shareholder value maximization and they challenge our traditional economic and social values. In the light of the current multiple global crises, as well as the questionable ideology of wealth creation, we need to rethink our social and economic values, the relationship between business, society and government, and the purpose of the firm. By rethinking these issues, I argue, we can discover how to strengthen the socio-political dimension of corporate governance to position corporations as not only economic actors, but also responsible socio-political actors. The pertinent issue, I propose, in understanding the value of something is not assigning a particular value to it, but rather the approach to valuation and what kinds of actions and attitudes are called for (see Scanlon, 2000: 99; Nathan, 2010). This paper attempts to do that through an inter-disciplinary approach by adopting some insights from the discipline of political theory to re-theorize

the firm and shows what kind of actions and attitudes are called for with regard to responsible governance and leadership to attain a sustainable world order.

First, this paper argues that the firm's purpose is rooted in our social life in attempting to realize our complex of purposes in the social world. In this respect, I adopt Wilhelm Dilthey's idea of purposive systems and perspective of the social world in terms of intersecting 'cultural systems' and interacting 'external organizations' of society that publicly manifest institutionalized aspects of social life.¹ The activities of the firm intersect a myriad of systems and interact with many organizations and that are not only economic, but also social, political as well as ecological. This understanding can lead us to show that the firm is not only an economic actor, but also a social and political actor.

Second, I argue that our complex of purposes is not about maximizing our wealth but rather about pursuing our well-being, without reducing it to any master value (see Scanlon, 2000; Nathan, 2010). I give an account of well-being as being constituted by carrying out our meaningful activities which are in accord with our ethical convictions, within our social world (Nathan, 2010). However, our social world is problematic due to the basic social facts of human diversity, ethical pluralism and interdependency (Nathan, 2010). Since ethical convictions are formed within one's context, the latter is integral to one's well-being. Hence one's right circumstances of justice gain significance (Dworkin, 2000/2002) and citizens' 'capabilities' to pursue well-being matter (Sen, 1993). As we are interdependent and interact directly or indirectly through corporations, part of 'external organizations' in Dilthey's terms, these are also part of the context. Therefore they are also integral to what I refer to, borrowing Dworkin's terminology, as the 'right circumstances of justice'. Although corporations have differing visions and strategies to carry out their convictions, they too share our common concern for a sustainable world order. In this context, I conclude that corporations have the responsibility to ensure that global social justice for the right circumstances prevails.

Rethinking the Purpose of the Firm

Classical economic theories of the firm argue that the sole purpose of the firm is to maximize profit. Agency theory, which adheres to the above purpose, argues that managers (agents) have an agency relationship with the owners (principals) and that the former are obliged to perform to maximize the return on the invested capital of the latter (Jensen and Meckling, 1976). Besides the issues related to ownership, control and value creation that challenge the agency theory (Blair, 1995; Ghoshal, 2005), there are two problems associated with the above premise. One is that the agents may misrepresent their ability to perform the tasks agreed – 'adverse selection' – and the other is that the agents may not apply themselves to the tasks in the best interests of the principals but perhaps rather to advance their own interests, resulting in moral hazard (Eisenhardt, 1989: 58; cf. Sison, 2008: 3). According to the concept of self-interested individuals, the agents may act in pursuit of their own interests, leading to socially undesirable outcomes (Osterloh and Frey, 2003: 5; cf. Sison, 2008: 37). Besides these additional agency costs, economic theories of the firm advocating profit maximization fail to take into account the firms' activities in other dimensions, such as social and ecological, that create negative externalities. Hence, there is a growing interest among management academics as well as civil society organizations including NGOs in advocating corporate social responsibility as voluntary initiatives; the UN Global Compact programme is one such initiative. However, I argue below that these voluntary initiatives have normative deficiencies in obliging corporations to be responsible societal actors.

Milton Friedman (1970), a Nobel Prize winner in economics, defends the argument that the only social responsibility of the firm is to maximize profit, conforming to the 'basic rules of the society' which are embedded in law and 'ethical custom'. But there are some issues that need to be addressed. First, it is doubtful that the law and ethical custom completely address all the negative externalities within many dimensions – social, ecological and cultural. Second, it is questionable whether firms would voluntarily self-regulate in the absence of such laws and regulations when their sole purpose is supposed to be profit

¹ Note that I am only adopting some relevant parts of Dilthey's work in advancing my arguments; 'despite the important influence he has had on several leading twentieth-century thinkers and the growing attention paid to him in the English-speaking world, Dilthey's work is still not as well-known, nor as well received, nor as accessible as it might be'; his work 'extends over the whole range of human sciences' and although his '*Collected Works* run to nineteen volumes' many works appear as partial or introductory; furthermore, his works are difficult to grasp due to his style of writing – a 'convoluted style' using several abstract idioms (Betanzos in Dilthey 1988, pp. 10-11).

maximization; i.e. the firm is legally licensed to operate to maximize profit to shareholders. That is, even if the firm engages in socially responsible actions and self-regulation, this can only be justified for instrumental reasons of profit maximization.

Notwithstanding these issues, given the recent global financial crisis along with climate change and global poverty, the notion of wealth creation, in terms of shareholders' monetary value, being the ultimate purpose of the firm within global capitalism is questionable. Recent corporate failures show that corporate activities in pursuit of profit maximization in the short run can lead to the demise of the firm in the long run, and hence it is plausible to argue that the purpose of the firm as being to maximize shareholder value, with short-term incentives for managers without taking into account negative externalities, is unsustainable even in the economic dimension, leading to unsustainable capitalism. Hence we must critically evaluate how we should understand the real 'wealth' of society without simply equating it to profit maximization of shareholders. Such an understanding would help us to re-evaluate the purpose of the firm in order to assess the rights and responsibilities that are shared among different corporate actors.

Stakeholder theory, which may perhaps be considered as a complex and complete theory, attempts to show that managers bear a fiduciary relationship not exclusively to shareholders, but to stakeholders (Freeman, 1984: xx, 1998). That is, it acknowledges the stakes of all interested parties – employees, customers, suppliers, competitors, the government and the community, and rejects the notion of sole fiduciary obligation towards shareholders (see Sison, 2008: 75). A stakeholder is considered as 'any group or individual which can affect or is affected by an organization' (Freeman, 1998: 602; quoted in Sison, 2008: 75). Stakeholder theory attempts to take into account the interests of all stakeholders and 'reciprocal relations' and attempts to position the firm as a 'socially embedded institution' (Sison 2008: 76). Hence it can arguably be considered as 'a necessary process in the operationalization of corporate social responsibility' (Matten et al., 2003: 111; cf. Branco and Rodrigues 2007: 5). However, it faces two problems within our problematic social world constituted by three basic social facts – human diversity, ethical pluralism and interdependency. Human diversity – the first basic social fact – is inevitable; we differ in our capabilities including our identities. We also differ in our ethical convictions of what is a good or meaningful life and therefore we live in an ethical plural society – the second basic social fact. And the third basic social fact is that we are interdependent within the social world in many dimensions – economic, social, cultural and ecological. Furthermore, we are interdependent not only among ourselves but also intergenerationally.

The above basic social facts lead to two problems within stakeholder theory. First, it is not clear what values those stakeholders value the most, and whether they may be conflicting. For example, employees, customers, suppliers, civil society and the government as stakeholders of the firm may have interests in ensuring the firm's existence whilst being affected by the firms' activities directly or indirectly. But each of these stakeholders may value different aspects of the firm's existence according to their differing ethical convictions of what is good, which may come into conflict: employees may value their wages and other welfare benefits; the government may value the tax revenue and job creation; customers may value lower prices and higher quality of products and services; and suppliers may value higher prices for their supplies. These values may conflict with the shareholders' value of maximizing profit. Second, stakeholder theory does not effectively address indirect stakeholders such as future generations and the environment, which are interdependent with the other stakeholders.

One may argue that these indirect stakeholders cannot be engaged by the management of a corporation like other direct stakeholders (see Jacobs, 1997). Although many typologies of stakeholders have been proposed (for example, primary versus secondary), most definitions of stakeholders treat them as groups or individuals; hence, by definition, the natural environment is excluded (Branco and Rodrigues, 2007: 7; cf. Buchholz, 2004: 130; Phillips and Reichart, 2000). However, all of these human stakeholders, whether groups or communities or individuals, as well as future generations, are no doubt affected by negative ecological externalities. Due to the limitations of human existence, our human needs inherent in human nature are satisfied from what we inherit from previous generations and shared labour, not solely through the isolated activity of the individual (Dilthey, 1989: 94). Hence, we should be concerned with what we pass on to future generations for the fulfilment of their human needs.² Stakeholders, human groups or

² One may plausibly argue that we cannot know precisely what future generations will need in terms of natural resources. Even so it is arguable that we should leave them fair choices.

individuals, are interdependent directly or indirectly, even if their ethical convictions of a good or meaningful life may differ. Most critically, due to asymmetrical power relations among those stakeholders in many dimensions, they as well as the environment and future generations are vulnerable to any one of the stakeholders' value maximization goal; the power holders among the stakeholders may exert pressure on others to get more consideration in seeking their ends (see Frooman, 1999). Some scholars (Agle et al., 1999; Mitchell et al., 1997) have proposed that not only 'power potential', but also the 'legitimacy and urgency' factors of the stakeholders' claims should be taken into consideration (Scherer et al. 2006: 513; see also Sachs et al., 2009: 33). But, as Frooman (1999) maintains, the power factor *dominates* the other two (Scherer et al., 2006: 513). Hence, within stakeholder theory, these inadequacies of addressing the needs of future generations and our interdependency with the ecological environment and vulnerabilities arising out of asymmetrical power relations among the stakeholders point us to the following key questions: How should we understand the purpose of the firm when its existence is intricately intertwined with varied interests and values of different stakeholders? Is the firm only an economic actor licensed to operate within the economic realm of the private sphere, disregarding externalities in other domains – social, environmental and cultural? And how should we understand governance?

Freeman (1994) argues that we require a *normative core* of ethical principles (see also Donaldson and Preston, 1995). Different scholars have approached this issue with different ethical theories (Garriga and Melé, 2004: 55), but these approaches have led to 'critical distortions' and 'friendly misrepresentations' (Phillips et al., 2003). Despite these normative approaches to stakeholder theory, some scholars (Jones, 1995; McWilliams and Siegel, 2001; Whetten et al., 2002) argue that the 'stakeholder orientation often has been *instrumentalized* for profit maximization' (Scherer et al., 2006: 513); stakeholders' interests that have economic consequences for the firm are recognized (Phillips et al., 2003). Hence, it is arguable there is a normative deficiency in stakeholder theorizing (Walsh, 2005). The problem arises, as I have already pointed out, because the core issue is not what is valuable, but how to value and what actions and attitudes are called for (Scanlon, 2000) in pursuing the purpose of the firm. To this extent, I shall show that the firm is not only an economic, but also a social and political actor.

According to Dilthey, a purpose is grounded in some aspect of human nature, or in the natural articulation of social life, and purposive systems arise through individual interactions to realise a multiplicity of purposes (1989: 94). Hence, it is arguable that purposive systems in our social world arise due to our common purposes that are rooted in our social life. Dilthey shows that we can distinguish two kinds of enduring formations of purposive systems: cultural systems such as language, religion, law, myth, poetry, science and philosophy within society; and the 'external organizations of society' – social organizations – such as the family, state, church (a religious organization), army (a public organization), corporation (a private organization) and associations. The organizations may be deliberately designed and controlled or they may arise gradually and persist (as a state or church) or be transitory and subject to voluntary dissolution (as a holding company), and are responsive to historical conditions in comparison to cultural systems. These myriad of systems intersect in many dimensions – economic, social, political and ecological – and interact with a variety of organizations, and individuals stand at the intersection of these systems in carrying out their activities. Hence, a firm's activities rooted in serving societal purposes and needs that arise from human nature and societal life, including those individuals who set up the firm to realize their purpose of wealth creation, invariably intersect with many systems in many dimensions and interact with other organizations. As these dimensions cut across and overlap both public and private realms and interact with various institutions in both spheres, a neat delineation and dichotomy of public versus private is problematic (see Scherer et al., 2006: 507); hence, separation of the private from the public sphere for firms to operate to maximize profitability without taking account of externalities is untenable.

From the above perspective, even if the firm's purpose may be to create wealth for the shareholders, we cannot ignore that the firm is not only an economic actor, but also a societal one. We cannot separate the economic activities of the firm from the societal activities of stakeholders. The purposes of stakeholders vary; however, it is arguable that the purpose of the firm is rooted in serving the needs of human nature and our societal life. And the shareholders' purpose of making profit from a for-profit firm is a result of meeting the societal purpose of the firm. Putting shareholders' profit as the sole purpose of the firm is like putting the cart before the horse. It cannot go far making profit as a result of meeting the societal purpose

of the firm whilst engaging all relevant stakeholders with various purposes. Furthermore, profit as the sole purpose of the firm and creating wealth for shareholders tied to fiduciary responsibilities of managers may generate incentives for unethical behaviours – such as creative accounting to boost share prices, marketing of unsafe products, unfair wages and working conditions, anti-competitive behaviour, etc. Hence, governance can no longer be based on the premise that the firm is organized to perform only as an economic actor in the private realm for the instrumental reason of profit maximization alone. If so, what should be the normative premise of the firm to derive appropriate governance and leadership norms? I shall show in the following section that this normative premise should be based on our understanding of well-being rather than wealth creation, as activities of the firm intersect with our pursuit of our well-being in many dimensions – economic, social, political as well as ecological. However, I argue that we should understand the structural complexity of well-being without reducing to a master value.

An Account of Well-being and the Normative Context

Theories on well-being differ about the utmost value of well-being; the classical accounts of well-being are inadequate to show what makes someone's life more meaningful as they are mainly concerned with what makes someone's life happy, equating happiness with pleasure.³ They ignore what is meaningful within the whole mental structure in relation to the social world, including intersubjective relations, and take on a reductionist view of well-being. Many contemporary scholars argue against such a reductionist view of well-being (see Parfit, 1984/1987; Dworkin, 2000; Scanlon, 2000). Dworkin cautions that we must suppress the 'reductionist impulse' of what is a good or meaningful life and 'accept not only the complexity but structure within the idea of well-being' (2000: 242). Scanlon also argues that we cannot reduce well-being to a single overarching value of good or solely to the quality of experience. Scanlon emphasises that one's well-being is constituted by many goods, including such things as friendship, personal relations as well as pursuing many worthwhile ends in life. The point is that, for Scanlon, it is not the idea of well-being as a 'master value' that matters, but the various moral reasons one gives for one's pursuit of 'meaningful' or 'worthwhile' ends.

I shall provide an account of well-being based on Dilthey's works on worldview without embracing a reductionist view by taking into consideration Dworkin's as well as Scanlon's accounts of well-being (see Nathan, 2010). The objective is not to develop a theory of well-being but rather to show the complexity of it and its integral part in the context that we live in. People's worldview (*Weltanschauung*) is based on their lived experience (*Erlebnis*) and the ideas of life interacting within their socio-cultural-historical-political-ecological context. As Dilthey argues, 'experience of life' (*Lebenserfahrung*) is 'the coherence of processes through which we explore the values of life and the value of things' (quoted in Ermarth, 1978: 227). Experience of life includes what Dilthey calls 'life-values' (*Lebenswerte*), which 'have general validity which extends beyond the personal subject' (Ermarth, 1978: 229). However, as we differ in our lived experiences and our ideas of life, it is plausible that we differ in our worldviews. Hence our ethical convictions of what is a meaningful or good life – what we may value the most – may differ among us. This is one of the basic social facts, along with others – human diversity in our capabilities (including identities) and interdependency and the fact that we live in an ethically plural society. However, activities are meaningful when they are in accord with our ethical convictions; therefore, an account of well-being, what makes our life good or meaningful, is engaging in activities that are according to our ethical convictions (Nathan, 2010). But, as our ethical convictions are shaped by both ideas of life and lived experience within our context, the context gains normative significance. Hence the question arises: What should be our normative context for us to engage and carry out our activities in accord with our convictions?

In formulating a framework to argue for a normative context of 'right circumstances', I argue that one's right circumstances, not only for one to genuinely endorse one's convictions, but also to pursue one's meaningful activities accordingly and face 'fair challenges', should be tied to social justice. This framework then allows us ask the question: Do we have the 'right circumstances' or 'just society' to genuinely endorse our convictions and face 'fair challenges' to pursue our meaningful activities based on our ethical convictions? As the firm is embedded within society and its activities cut across many spheres – social, political and ecological – the above question leads us to rethink the purpose and the social responsibility of the firm in meeting the right circumstances for all stakeholders to pursue their well-being.

³ There is also a trend towards measuring Gross National Happiness (GNH).

The challenges one faces depend on one's situational context, constituted by socio-historical-cultural-political as well as ecological domains. Our context is also constituted by social organizations (including public and private corporations) and their activities in many spheres – economic, social, political and ecological. This context provides one, using Dworkin's terminology, with a set of 'parameters' and 'limitations'. Some of one's circumstances provide a set of parameters that 'help define what a good performance of living would be', and others act as limitations 'on the degree to which the ideal can be achieved' (2000: 260). Dworkin's main concern is to arrive at a standard of judgement of a good life on the basis of how well one faces challenges in life. The challenges one faces vary according to one's circumstances, which are, as Dworkin notes, complex and include several factors such as health, physical ability, age, material resources, friendships and associations, commitments, family, traditions, race and nationality, etc. To these factors I add our social organizations (including corporations) and their intersecting activities within many spheres. One can treat some of them as parameters and the others as limitations in light of one's context of life (Dworkin, 2000: 260-1). But one cannot count everything as parameters or as limitations without destroying ethics for oneself. As Dworkin points out, we can note that 'many of our parameters are *normative*: they define our *ethical situation* not in terms of our actual situation but in terms of our situation as we suppose it *should be*' (Dworkin, 2000: 261-2; emphases added).

Even if we do the best we can in the circumstances we do face, we do badly measuring our success against the chance we believe we *ought* to have been given, and it is the latter that defines a good life for us (Dworkin, 2000: 262; emphasis added).

If the normative parameters define how the ethical situation should be, then the question is: What normative parameters ought to be given? Dworkin (2000: 262) defines a 'hard parameter' as that without which one is bound to fail, and therefore essential. But it also helps to define one's ethical convictions of a good life. So, which should be the hard or the prime normative parameter?

Dworkin (2000: 263-4) introduces justice as a hard normative parameter and argues that 'a good life is a life suited to the circumstances that justice requires'. It also resolves the puzzling interplay between ethics and morality – between living well versus living a moral life, and the latter is primarily concerned with what is right rather than what is good.

Dworkin's account of well-being allows us to show a normative premise of well-being without succumbing to reductionism, similar to Arendt's (1958) emphasis that we must be concerned with the circumstances of injustice that affect human conditions within the problematic social world, rather than with a universal human nature. Based on this premise, social justice is a prime parameter of the 'right circumstances' because unjust circumstances may prevent individuals from pursuing their well-being, which is, as I have argued, constituted by engaging in meaningful activities in accord with their genuine convictions. There are two issues here that call for social justice. One is that one may engage in activities that are in accord with one's convictions but facing unfair challenges due to unjust conditions, and the other is that one may adapt or be mistaken about one's convictions due to unjust society and social conditioning. These two issues point to how we should understand social justice taking into account that our world is interconnected through globalization along with interdependent social institutions including corporations, the environment as well as future generations globally. We can no longer confine our social world to the local, ignoring global aspects that may lead to an unjust society.

Environmental justice and social justice are two sides of the same coin; ecological degradation affects the social life of communities. For example, deforestation, overfishing and extensive mining, along with the pollution caused by corporate activities, such as the production of toxic waste, certainly affect the well-being of communities that live in and around the areas affected. Moreover, climate change can bring about extreme droughts and floods that may affect people in developing countries who already have a low standard of living and hence restrict their capabilities to pursue their well-being. Corporations may also exploit powerless members of communities – minorities including women and children; for example, in sweatshop operations. Corporations may also exploit weak or failing or corrupt states to their advantage. As Bakan (2004: 111-12) states:

No internal limits, whether moral, ethical, or legal, limit what or whom corporations can exploit to create wealth for themselves and their owners...Over the last century and a half, the corporation has sought and gained rights to exploit most of the world's natural resources and almost all areas of human endeavour.

Admittedly, many transnational corporations (TNCs) have been working to remedy, or at a minimum alleviate, some of those unjust conditions, but we lack a normative premise on which to base the social and political responsibilities of corporations. Hence it is important how we should understand global social justice and whether firms, which are actors not only within economic, but also social, political and ecological spheres, should also deliberate on matters of global social justice. Many corporations engage in lobbying governments, usually to avoid regulation (Bakan, 2004: 102). However, as I argue in the following sections, deliberation for global justice is not about traditional lobbying per se but rather about stakeholder engagement to mitigate common vulnerabilities and ethical concerns of stakeholders. And I conclude that the preconditions for such deliberation may provide us a direction in which to re-design corporate governance and organizational structure as well as to reshape leadership.

Global Social Justice and Responsibilities

Corporate Citizenship (CC) has now become a widely used concept in firm's annual reports and elsewhere, describing their involvement with, and responsibility and contribution to the society in which they operate or the world at large. The idea of CC was popularized with the UN Global Compact (UNGC) initiated by then UN Secretary-General Kofi Annan at the World Economic Forum in 1999 and officially launched in New York in 2000. The UNGC is a ten-principle-based framework that addresses socially responsible business practices in the areas of human rights, labour, the environment and anti-corruption (the latter added in 2004). Although these areas are concerns of social justice, UNGC is a voluntary initiative and responsibilities associated with the concept of CC are neither regulated nor monitored. However, many corporations have voluntarily become members of UNGC and report their initiatives, for example through the Global Reporting Initiative (GRI), which is again a voluntary reporting scheme. Hence there is criticism by civil society organizations (CSOs) that UNGC does not hold corporations accountable in those areas. More than 1,000 companies have been delisted since 2008 for 'failure to meet the Global Compact's mandatory annual reporting requirement, known as the Communication on Progress (COP) policy' (UNGC Bulletin, November 2009). Furthermore, many other areas of corporate governance may be of concern – for example, exorbitant bonus payments for short-term performance that encourage short-sighted high-risk management behaviour, and mobbing and unfair dismissal of employees. Good corporate citizenship within the UNGC context is a kind of metaphor for expecting 'good behaviour' on the part of corporations as citizens of society; there is no normative ground for 'good behaviour' within the classical economic theory of the firm other than maximizing profit within the regulatory framework and local customs. Although the ten principles of the UNGC may be grounded on various normative premises for global social justice, the expectation of voluntary socially responsible CC behaviour within the current economic paradigm can only be justified for instrumental reasons – for example, improving the corporate brand image. Hence critics argue that membership in UNGC is a promotional ploy – 'bluewash' (wrapping it in the blue UN flag; see Waddock, 2005: 185). Given these concerns about CC among CSOs, how should we define the concept of corporate citizenship?

Within the management academic discipline, the concept of CC is not well defined. Matten and Crane (2005: 168-169) show that conventional views of CC are limited and define CC in terms of 'strategic philanthropy' (Carroll, 1991) and with a recent refocus on 'meeting' responsibilities in four aspects: economic, legal, ethical and philanthropic (Carroll 1998). Matten and Crane (2005) argue for an 'extended theoretical conceptualization' of CC. They derive their concept of CC from political theories that argue citizenship entails social, civil and political rights. Social rights enable individual freedom to participate in society whereas civil rights provide freedom from abuses and interferences by third parties (including governments); political rights go beyond 'mere protection of the individual's private sphere and toward his or her active participation in society' (Matten and Crane, 2005: 171). Although corporations are a legal entity, they do not have individual voting rights. However, it is arguable that corporations are 'powerful public actors that have a responsibility to respect individual citizen's rights' (Matten and Crane, 2005: 171; cf. Wood and Logsdon, 2001).

Taking the above as a point of departure, Matten and Crane (2005) argue that corporations, within the context of liberal citizenship, the state and globalization, have a social responsibility in administering citizenship rights in social, civil and political dimensions, taking on the role of 'provider', 'enabler' and 'channel' respectively. Their main argument rests on the premise that globalization has brought about crucial changes and 'corporations enter the area of citizenship in circumstances where traditional government actors fail to be the "counterpart" of citizenship' (Matten and Crane, 2005: 172-173). Although

within a context of globalization, TNCs have 'already assumed state-like roles when and where state agencies fail or are unwilling to contribute to the public good' (Scherer et al. 2006: 508; cf. Matten and Crane, 2005; Scherer and Smid, 2000), there are limitations and legitimacy issues on how and how far corporations can take on state-like roles (Scherer et al., 2006: 515). It is a descriptive account, as Matten and Crane (2005) concede, rather than a normative one (see Oosterhout 2005) and it is debatable whether corporations have legitimacy in administering citizenship rights (Palazzo and Scherer, 2006; see also Wolf, 2005).

Within the political ideology of liberalism, the private versus public dichotomy is maintained and corporations are formed under freedom of association and exit to conduct their economic activities as private actors; matters related to social justice and provision of public goods are the role and responsibility of the state. Hence it is debatable whether corporations have any legitimacy in administering and providing public goods; although the state may privatize the provision of public goods for economic efficiency, it may regulate it. For example, the state may seek to ensure a level of service in remote areas that a private corporation might discard as unprofitable. But that still leaves us questioning: What should be the role and responsibility of corporations in the globalized economy?

Increasingly, responsible behaviour of corporations, in terms of roles and responsibilities, is tied to the understanding of CC (Crane et al., 2008), and global CC for multinational companies (see Newell and Gaffney, 2009). Citizenship within politics is understood as membership in a political community and within liberalism it involves the relationship between rights and duties. However, it is also plausible to argue the importance of citizenship in terms of political participation for the common good, duties, obligations and virtues within a civic or communitarian citizenship (Sison, 2008: 82-4) or within cosmopolitanism (see Newell and Gaffney, 2009; cf. Delanty, 2000). But an approach to realize the common good of citizens may lead to conflicts when the majority's and minorities' interests, norms and ethical convictions differ (see Wood et al., 2006: 42-6). The idea of common good or shared values presumes that all citizens in their specificities within the ethical plural society can agree on the common good or shared values, even though they may have opposing values and concepts of common good that may lead to discontent. Moreover, values may change over time and the meanings of the goods may also change over time, although there may be some continuity, and even differ within different communities (Walzer, 1983). Communitarian citizenship may emphasize existing community norms and relationships, which may be based on the power holders of society – for example, a patriarchal society or a religious society dominated by its religious doctrine. Both liberal and communitarian citizenships are tied to the nation-state and its territorial boundaries; the same is also applicable to civic republicanism. But cosmopolitan citizenship goes beyond the nation-state and its boundaries. Although the idea of cosmopolitan citizenship is appealing as a way of describing what may be our global rights and responsibilities as cosmopolitan citizens, there are challenges to the theoretical underpinning of the ideology, given that we are already citizens of nation-states and we have special obligations and rights as citizens of nation-states (Miller, 2007). The basic social facts of human diversity, ethical pluralism and interdependency have a propensity to lead to conflicts among citizens who are also stakeholders of various organizations and corporations in pursuing their well-being, due to asymmetrical power relations. These asymmetrical power relations in many dimensions are a cause of concern, leading to unjust conditions for the citizens to pursue their well-being in accord with their different ethical convictions. Hence it is important that we deliberate on unjust conditions to bring about a just society. Therefore, I argue that we should take responsibilities and virtues more seriously in order to mitigate our common vulnerabilities and concerns for global social justice within our interconnected socio-economic-ecological world order, instead of emphasizing the common good within the idea of civic republican citizenship (see Honohan, 2002; Nathan, 2010).

Scherer and Palazzo argue that corporations as political actors have political responsibility by 'an explicit participation in public processes of political will-formation' (2007: 1108). Corporations do not replace governments, but 'they participate in public deliberation, define norms and standards...' (Scherer et al., 2006: 507). Their argument is based on the political philosophy of Habermas (1996 & 1998). Its central idea is that the 'state's *raison d'être* does not lie primarily in the protection of equal individual rights but in the guarantee of an inclusive process of opinion- and will- formation in which free and equal citizens reach an understanding on which goals and norms lie in the interest of all' (Habermas, 1998: 241; also quoted in Scherer et al., 2006: 516). Although it is an 'ideal speech situation', the point he emphasizes is

that citizens of the republican polity have concerns over public interests other than pursuing their private interests. However, it is doubtful how the state may ensure that everyone can participate in all public decisions as free and equal citizens. Realizing this problem, Habermas turns towards the 'procedural design of political institutions' and away from individual participation in associations such as NGOs and CSOs, and hence Scherer and Palazzo (2006) consider his conceptual changes to deliberative democracy to be more pragmatic than the idealistic speech situation. This could be achieved by providing a 'stronger link' to existing democratic institutions.

However, there are some challenges with regard to the deliberative model. First, are the platforms for deliberation accessible to the parties and individuals concerned? Second, can these parties and individuals deliberate on contentious issues as free and equal citizens without any power play, not only within a state but globally among the states? Furthermore, it is a concern whether corporations have adequate skills, motivation and legitimacy in political deliberation and whether all stakeholders would participate without fear of retribution. And it is doubtful whether all conflicts could be resolved by referring to some moral grounds that are applicable to all parties and individuals. Although Habermas concedes that normative conflicts may not be solvable referring to a shared background of values and traditions, he argues that communication can be a 'sole source of peaceful interaction and mutual recognition' (Scherer and Palazzo, 2006; Palazzo and Scherer, 2006; cf. Habermas, 2001: 74). But it is not clear how mutual recognition may be achieved when parties and individuals deliberate in their particularities that may be a source of discontent.

The above concerns are arguably valid for corporations as citizens. In addition, there is a concern when corporations are expected to participate in political deliberation only on a voluntary basis. They may choose to participate only for the instrumental benefit of profit maximization as there is no normative force to engage for social benefits. Corporations may deliberate on issues that may lead to an increase in their political power. Furthermore, how should we resolve differences in morality – what is right and wrong and the puzzling interplay between what is right and what is good? In general, what is good is associated with ethics, and what is right is associated with morality. John Rawls (1971/1999), however, asserts the priority of right over good, and his theory of justice is a deontological ethic, whereas theories based on the priority of good over right are teleological (e.g. utilitarianism). Sandel (1998) criticises Rawls' deontological ethic from a communitarian perspective. On the other hand, Kymlicka (1989, Ch. 3) argues that whether what is right takes precedence over what is good is not really the issue. The real issue, he argues, is one of responsibility. To that I shall add that we need to be concerned with 'realized justice'.⁴

We should take responsibilities seriously if we are to seek responsible governance and leadership by firms. It is not that stakeholders' rights do not matter, but as O'Neill (1996: 128) points out, by taking rights seriously, obligation is often treated as the 'subordinate notion', although 'obligations are neither banished nor undercut'. Although by definition a right always carries some obligation, by giving rights serious consideration obligations are often neglected. Moreover, as O'Neill (1996: 129) states, 'unless obligation-bearers are identifiable by right-holders, claims to have rights amount only to rhetoric...'. By taking obligations seriously, one can also identify special obligations that lack counterpart rights (see O'Neill 1996: 136-141), for example social virtues that are conducive to social interaction ensuring that others' social freedom, freedom as non-domination and social recognition, is not undermined (Nathan, 2010). However, responsibility alone cannot lead to realized justice. Firms as political actors should engage in deliberation for social justice towards common ethical concerns in many intersecting dimensions – economic, social and environmental. As mentioned above, it is not value per se that matters, but how to value and what kind of actions and attitudes are called for. Therefore, through stakeholder engagement and deliberation for justice, stakeholders can come up with solutions – i.e. 'moral imagination' (see Maak and Pless, 2006) taking into consideration moral consequences – that no stakeholder can 'reasonably reject'.⁵ For example, TNCs should take responsibility seriously in engaging with stakeholders in deliberating for global social justice for sustainability on the issues of climate change and poverty as their activities intersect within many spheres – economic, social and ecological – and interact with many social organizations globally. However, as I have pointed out, the power holders among stakeholders may

⁴ Sen (2007: 20) introduces, based on the Sanskrit literature on ethics and jurisprudence, *niti* and *nyaya*, both of which stand for justice; *niti* refers to 'organizational propriety and behavioural correctness' and *nyaya* refers to a 'comprehensive concept of realized justice'; i.e. the realization of justice is 'not just a matter of judging institutions and rules, but of judging the societies themselves'.

⁵ I derive this based on the idea of Scanlon's (2000) contractualist framework (see also Nathan, 2010).

dominate other stakeholders, and stakeholders may not be given recognition as equal status partners in their identities. Therefore, we also need to strive to bring about some conditions in which stakeholders can engage on deliberation for justice. I shall, however, not discuss what those minimal and common conditions given the limited space. These conditions may shape our governance structure and responsible leadership.

Conclusion

The firm is embedded in society and its activities cut across many dimensions – social, ecological and cultural – and a neat delineation of public and private spheres is untenable. As our well-being is constituted by engaging in our activities according to our ethical convictions within our socio-political-cultural and ecological context, it is imperative that we strive for just conditions. As the firm is not only an economic but also a socio-political actor, it has a responsibility to deliberate for global social justice for the well-being of its stakeholders. As Zadek (2007: 23) foresees, a fourth generation of civil corporation ‘would go beyond a reshaping of the role of business in society to inventing a new politics.’ And, perhaps, corporations in deliberating for social justice as socio-political actors in pursuit of well-being of stakeholders would reshape the role of business in society to bring about a sustainable world order.

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