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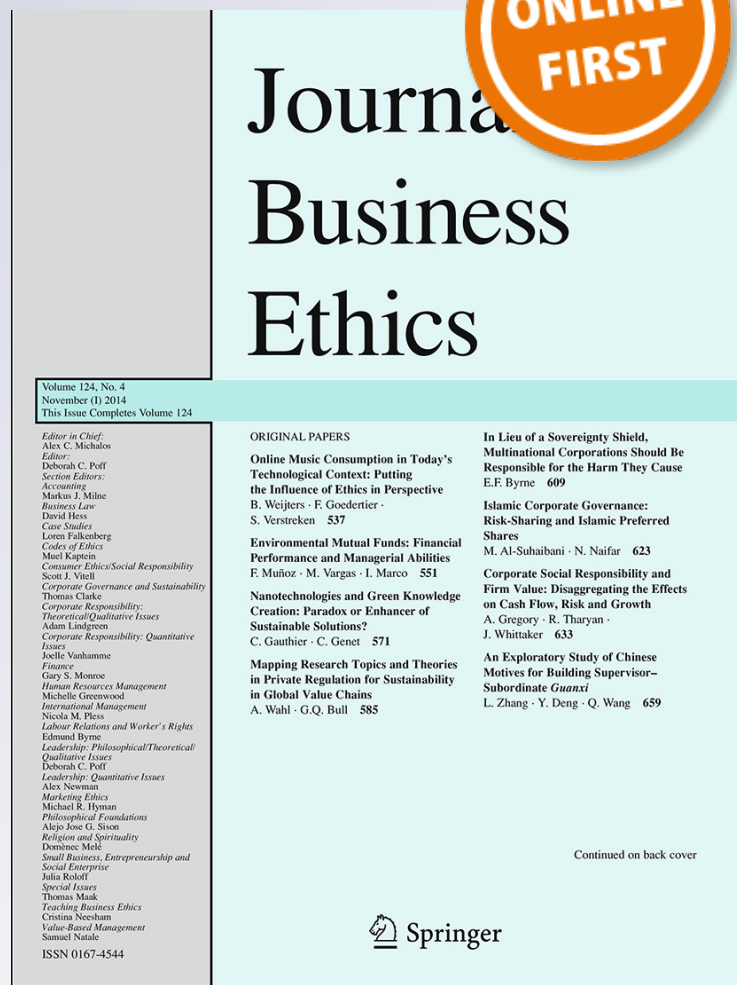
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Journal of Business Ethics

ISSN 0167-4544

J Bus Ethics

DOI 10.1007/s10551-014-2419-x



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# Boundaries Between Business and Politics: A Study on the Division of Moral Labor

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Received: 5 June 2014 / Accepted: 6 October 2014  
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**Abstract** The dominant framing of the political corporate social responsibility (CSR) discussion challenges the traditional economic conception of the firm and aims to produce a paradigm shift in CSR studies wherein the traditional, apolitical view of corporations' roles in society is replaced by the political conception of CSR. In this paper, we show how the major framing of the political CSR discussion calls for a redirection to take international hard legal and moral regulations, as well as the need for the boundaries between business and politics into account.

**Keywords** Division of moral labor · Globalization · Political corporate social responsibility · Political philosophy · John Rawls

## Introduction

The recent 'political turn' in corporate social responsibility (CSR) studies<sup>1</sup> channels more and more academic attention to the ways in which business firms, as major economic actors in globalizing societies, extend their activities beyond the traditional economic spheres of society into the political realm. This rapidly swelling research branch (for reviews see Whelan 2012; Mäkinen and Kourula 2012)

goes a long way toward addressing the crucial and urgent political and socio-economic governance issues of contemporary capitalist societies. In this paper, we focus on the writings of Andreas Scherer and Guido Palazzo, as they have importantly contributed to the formation of political CSR and framed it as the major challenge to classical liberal<sup>2</sup> business–society relations and the neoclassical conception of the business firm.

The purpose of this paper is to examine whether the political CSR discussion could benefit from closer scrutiny of the so-called moral division of labor between the public and the private sector. We find that more focus is needed in political CSR on examining the relationship between business and politics as boundaries—as well as the lack of them—hold important ethical implications. We suggest that in a globalizing world, international institutions could be a suitable means of making the ethically relevant boundaries between business and politics clearer and more robust.

Our study addresses political CSR primarily as a position of political theory and as an academic paradigm trying to challenge the mainstream, instrumental understanding of CSR, (Orlitzky et al. 2003; Margolis and Walsh 2003; Vogel 2005) and its background political theory. In this sense, our approach extends the political science and sociological CSR studies (Mark-Ungericht and Weiskopf

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<sup>1</sup> In this paper, we understand CSR to be an umbrella term for the academic debate and business practice that addresses the existence and management of business firms' social responsibilities (see Matten and Moon 2008; Lindgreen et al. 2012).

<sup>2</sup> In this paper, terms such as "liberal" and "republican" refer to the schools of thought in political philosophy. Thus, our use of these terms is different from everyday political language in the USA where "liberal" often refers to the "leftist" and "republican" to "right wing" political positions.

2007; Kinderman 2012), approaching CSR primarily as an issue of political and socio-economic processes and discourses. Since some major aims of political CSR are at the level of political theory (as we argue in this study), our political philosophical approach is needed to complement the historical and institutional perspectives of these political science and sociological CSR studies when assessing political CSR's potential to produce a paradigm shift in CSR studies.

The major framing of the recent political CSR discussions (Scherer and Palazzo 2007, 2008, 2011; Scherer et al. 2006, 2009—see also Matten and Crane 2005; Crane et al. 2008; Dubbink 2004; Kobrin 2001) challenges the traditional economic conception of the business firm and the related instrumental conception of CSR (e.g., Friedman 1962, 1970; Jensen 2002, 2008; Sundaram and Inkpen 2004; Mackey et al. 2007; Porter and Kramer 2006, 2011). According to the traditional economic view of CSR, economically, business firms should orientate their CSR activities, as well as their other operations, within the regulatory framework provided by the institutions of the state. As Scherer et al. (2006, p. 508) note “the position of mainstream neoclassical economics is based on a distinct theory of society and a strict division of labor between the private and public domains: business firms should focus on profit seeking, while the state's role is to take care of issues of public concern.”

For the main architects of the political CSR discussion, the traditional economic and apolitical view of business firms is based on the old-fashioned, classical liberal division of responsibilities between the political and economic spheres of society that does not hold any more for the contemporary global economy (Scherer et al. 2006; Scherer and Palazzo 2007, 2011; see also Crane and Matten 2004; Matten and Crane 2005; Crane et al. 2008). In the classical liberal system of the division of moral labor, the regulatory powers of the state should be separated from private business interests. The particular form of state suggested by classical liberalism has the limited functions of protecting people and their private property, enforcing voluntary contracts, promoting competition, providing a monetary system, and minimizing externalities. Within this institutional framework, the task of private firms is to focus on the economic issues and on the efficient management of their business operations (Friedman 1962; Jensen 2002, 2008). According to Scherer et al. (2006), “the division of labor between business and the state, as suggested by Friedman (1962) and others, is highly problematic at both national and international levels.”

In the dominant framing of political CSR, the phenomenon of the politicization of the business firm is connected with the globalist transition process weakening the regulatory powers of the territorially bound nation states

and blurring the traditional boundaries between the political and economic spheres of society (Scherer and Palazzo 2011, p. 905). According to Scherer and Palazzo (2011, p. 899), “under the conditions of globalization, the strict division of labor between private business and nation-state governance does not hold any more. Many business firms have started to assume social and political responsibilities that go beyond legal requirements and fill the regulatory vacuum in global governance.” Thus, for Scherer and Palazzo, political CSR refers to the transformations wherein business firms enter the self-regulation processes voluntarily, take over the traditional governmental tasks of the political and social regulation of businesses, and operate as the new providers of basic rights and public goods in society (Scherer and Palazzo 2011, p. 3; Matten and Crane 2005; Scherer et al. 2009). This new political role of corporations is seen by Scherer and Palazzo to be legitimate and in line with the realities of the globalized economy, and the republican and deliberative democratic conceptions of society (Scherer et al. 2006; see also Scherer and Palazzo 2007, 2011).

The potential of political CSR to depart fundamentally from the mainstream instrumental understanding of CSR can be questioned by studying the practical political and socio-economic processes and discourses in contemporary globalizing societies (Kinderman 2012; Shamir 2008; Mark-Ungericht and Weiskopf 2007; Banerjee 2007; Harvey 2005). In this setting, we argue that the mainstream instrumental understanding of CSR fits neatly into the neo-liberal processes of globalization (Mäkinen and Kourula 2012, p. 665) and may even represent a new form of capitalism where ethical, social, and political viewpoints are smoothly integrated into the basic capitalist rationale (Raith 2013).

However, we see that the one major aim of political CSR discussion is academic and expressed at the level of political theory. The goal of the discussion is to produce a paradigm shift in CSR studies where the economic conception of the business firm and CSR is replaced by the political conception of CSR (Scherer and Palazzo 2008, 2011). In its ambitious project, the political CSR discussion explicitly challenges the traditional classical liberal system of the division of moral labor, suggesting clear boundaries between business and politics, and where private firms are seen as economic actors operating within the regulatory framework provided by the institutions of the limited state (Scherer and Palazzo 2007, p. 1106, 2011, p. 9; Scherer et al. 2006).

From our perspective, political CSR discussion touching upon the major roles of businesses in a globalizing world is timely and well motivated by the recent financial crises, and the political and socio-economic problems of contemporary capitalist societies. However, in this paper, we

argue that political CSR does not go far enough in its political social analysis and puts too much burden on the corporate sector, which it cannot bear.

Our political theory-inspired argument proceeds in five stages. First, with the help of the Rawlsian notion of the division of moral labor (Mäkinen and Kourula 2012; Rawls 1996; Freeman 2007; Scheffler 2005; Nagel 1991), we introduce the relevant political doctrines and framework we use to map and position the dominant framing of political CSR politically.

Second, we show that political CSR's way of challenging the classical liberal system of the division of moral labor may actually overburden companies with the all-inclusive social responsibility of a whole community and undermine peoples' political autonomy. The historical examples of company towns (Green 2010; Miller 2007; Montgomery 1998) reveal the nature of the problem. The resulting order could even be compared to a libertarian ideal.

Third, we point out that political CSR's empirical findings on globalization do not really challenge the classical liberal normative idea of the boundaries needed between business and politics. Just the opposite—in the “global economy,” where the power of the corporations is arguably stronger than in the “national constellations”—the need for robust boundaries, at the global level, between politics and business seems to be especially urgent. Furthermore, we argue that there is no reason to undervalue the practical and normative significance of the national and international hard legal constraints when talking about the steering and regulation of the global economy. We illustrate this point with the contemporary case of financial deregulation in the USA (Stout 2011; Barth et al. 2012).

In the fourth stage of our argument, we show that the dominant framing of political CSR does not only challenge the classical liberal system of the division of moral labor, but risks challenging a much broader idea of the regulated market economy. We summarize the major alternatives of the regulated market economies and suggest that political CSR focuses too much on one particular version (i.e., the classical liberal version) when trying to argue against the economic conception of the business firm and instrumental CSR. However, classical liberalism is not ‘the one and only’ political doctrine in line with the economic conception of the business firm. Instead, there are numerous robust political doctrines compatible with an economic understanding of businesses' role in a just society (Freeman 2007; Rawls 2001; Thomas 2012; White 2012).

In our fifth stage, we address the fact that political CSR needs a convincing political background theory legitimizing the politically and socially enlarged roles of businesses. “Here, republican business ethics can be of help and may provide a way of resolving the legitimacy issue” (Scherer

et al. 2006, p. 515). According to Scherer et al. (2006, pp. 516, 518), in republican business ethics, the corporation is seen “as political actor with citizenship rights and duties” and, from the republican perspective, “the transnational vacuum of legal regulation and moral orientation has to be filled by processes of collective self-regulation that include TNSs as participants.”

However, appeals to republican business ethics to overcome the separations of the political and economic realms of society need further elaboration, since the political systems suggested by political CSR are not fully in line with the republican idea of political freedom—understood as an absence of domination and the non-existence of the arbitrary use of power (e.g., Pettit 1996). Furthermore, one of the major aims of republicanism is to enable legislators and political parties to be independent of the large concentrations of private economic and social power. Thus, it seems that from the republican perspective, there is a need for clear boundaries between business and politics or an urgent call for collective efforts and public institutions to redistribute wealth and entitlements in the global economy. Thus, the republican political philosophy seems to be more in line with some of the major versions of a regulated market economy than with political CSR (see Dagger 2006; Thomas 2012; White 2012).

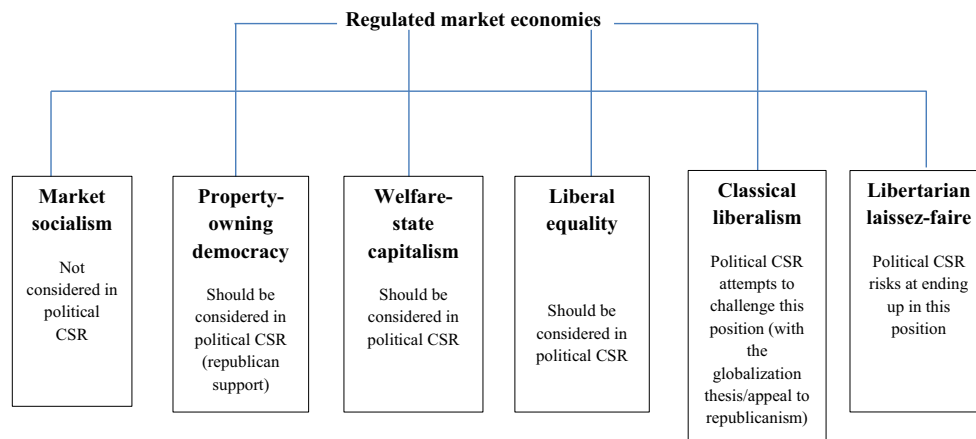
We conclude with a summary of our argument, showing how the recent political CSR discussion addresses significant ethical issues but lacks a consistent political doctrine in line with the extended political roles of business firms. We offer and defend an alternative approach to political CSR based on the idea of a regulated market economy.

### The Political Systems of the Division of Moral Labor

In John Rawls's influential political philosophy, the concept of the division of moral labor refers to the ways in which responsibilities for the political, social, and economic dimensions of society are divided among different political and socio-economic institutions, and various actors operating within these structures (Rawls 1996). For Rawls (1996, Lecture VII), the way in which moral labor is divided in a society in part defines how free and equal people are in the society and how democratically the terms of social life can be governed (see also Freeman 2007; Scheffler 2005; Nagel 1991).

Rawls (1996, pp. 266–267) expresses the idea of the division of moral labor by saying that in his conception of justice, the “aim is to outline a structure to secure just background conditions against which the actions of individuals and associations take place,” so that these actors are “left free to advance their ends more effectively within the framework of the basic structure, secure in the





**Fig. 1** The political systems of the division of moral labor

knowledge that elsewhere in the social system, the necessary corrections to preserve background justice are being made.”

From the Rawlsian perspective, well-known political doctrines can be seen as different conceptions of an appropriate division of moral labor between the public structures of society and the private sphere of society. Figure 1 shows the basic continuum of political doctrines (see also Freeman 2007; Rawls 2001) and includes libertarian laissez-faire, classical liberalism, liberal equality, welfare-state capitalism, property-owning democracy, and market socialism.

When we start from the right and proceed to the left, the politically preferred division of moral labor in a society changes, so that the role of the private sphere of society diminishes and the responsibility tasks of the basic structure public institutions of society increase.

1. In *libertarianism*, citizenship is seen as a private contractual relationship. Thus, in a libertarian political setting, successful firms may take over the traditional roles of the state. Only minimal public structures are needed (to protect the capitalist right to private property and freedom of contracts), with all other social responsibilities being left to voluntary business transactions.
2. *Classical liberalism* also favors voluntary cooperation and private enterprise. However, in classical liberalism, there is a need for a limited government and for clear boundaries between business and politics. Thus, classical liberalism is more willing than libertarianism to use the collective power of government, if there are clear reasons promoting economic efficiency and individual freedom that support this use.
3. *Liberal equality* is concerned about the cumulative effects of free-market transactions over time on people's equal chances in life and is willing to set

markets within the framework of social structures. The task of the social structures is to preserve equality of opportunity between people in a sense that the life prospects of those with the same abilities and aspirations should not be affected by their social starting position.

4. *Welfare-state capitalism* allows more significant public sector interventions to the market allocations of resources in the name of furthering the general welfare of society. The regime tries to scale up general welfare levels, reduce disparities between people, and assist those who lose out in economic competition through redistributive ex post progressive tax structures and transfer programs.
5. For *property-owning democracy*, the concentration of economic power over time undermines the citizens' democratic control of social life. While welfare-state capitalism tries to redistribute income “at the end of each period,” property-owning democracy tries to ensure the widespread ownership of productive assets “at the beginning of each period.” It uses robust egalitarian inheritance laws and progressive gift taxes, public policies to boost the savings of people of modest means, governmental policies to promote equal opportunity in education, public financing of political parties, the promotion of an egalitarian educational system, and the provision of public funding for universal health care to achieve fair equality of opportunity.
6. Finally, *market socialism* attempts to combine the socialist conception of distributive equity and the efficiency of markets. It uses markets to allocate the factors of production efficiently but not to distribute incomes and wealth. To eliminate the major sources of economic inequalities, it socializes productive capital. In market socialism, the means of production are

publicly owned and distributional issues are decided in the democratic processes. Nonetheless, the factors of production can be leased to competing firms owned by the workers who gain rewards for their efficient use.

According to Scherer and Palazzo (2011, p. 6), the classical liberalism represented by, among others, Friedman (1962, 1970) and Jensen (2002, 2008) is the major justification for the mainstream instrumental conception of CSR. In the classical liberal system, the regulatory powers of the state are separated from private business interests, the state has limited functions (protecting private property, voluntary contracts, etc.), and the task of private firms is to focus on economic issues within the regulatory framework provided by the state (Friedman 1962; Jensen 2002, 2008).

Since the major aim of political CSR is to produce a paradigm shift in CSR studies (after which the instrumental conception of CSR would be replaced by the political conception of CSR), the discussion needs to go beyond the classical liberal conception of proper business–society relations (e.g., Scherer Palazzo 2008, pp. 425–427). It seems that the way in which the classical liberal system of the division of moral labor is challenged by political CSR runs the risk of leading to an oversizing of the moral responsibility of companies and the marginalization of the democratic political process—in this it approaches libertarianism. However, it seems that the libertarian move does not produce the paradigm shift in CSR studies (in which the instrumental conception of CSR is replaced by the political conception) since there already is a well-known libertarian political position within the mainstream CSR discussions (Freeman and Phillips 2002). In the following, we address the potentially libertarian flavor of political CSR and illustrate the ethical challenges with the help of the historical case (located in Mänttä, Finland) of the early Finnish industrial system of the division of moral labor. Our case could be easily complemented with other historical accounts of company towns elsewhere (see Green 2010; Miller 2007; Montgomery 1998; Roberts 1979).

### The Company Town as a Case of Political CSR

Political CSR refers to the social processes whereby the boundaries between the political and economic spheres of society are blurred and business firms take over the traditional governmental tasks of political and social regulation, and operate as the new providers of citizenship rights and public goods (Scherer and Palazzo 2011, p. 3; Crane and Matten 2004; Matten and Crane 2005; Scherer et al. 2009). One major example of the politicization of business firms is what Matten and Crane (2005; see also Crane and Matten 2004) call ‘extended corporate citizenship,’ in which

business firms assume a state-like role of providing, enabling, and channeling citizens’ basic liberal rights.

The following case of an early industrial order in Finland (in Mänttä) illustrates extended corporate citizenship in real life. These social orders—in which there are no real boundaries between business and politics, and firms take charge of the public tasks of political and social regulation, beginning to operate as major welfare providers—exist and have existed worldwide. According to Green (2010), company towns have two basic types. The first one is ‘socially benign’—a paternalistic, utopian ideal that fosters the development of schools, hospitals, parks, and desirable housing for the workers. The other type, the so-called ‘Exploitationville’ model, focuses only on profits at the expense of the well-being of the employees (Green 2010). A highly significant contemporary example revolving around these issues is the case of Royal Dutch Shell’s Sustainability Agenda in Nigeria (Hennchen and Lozano 2012). Interesting scholarly observations on the similarities between contemporary CSR and the more explicit cases of paternalistic social orders are made by Jones (2007) and Kinderman (2012).

### The Case in Early Industrial Finland

From the end of the nineteenth century up to the 1950s, the industrial base of Finland was composed of small forest factory towns where corporations were the main political and social responsibility bearers, operating within the framework of thin public structures (see Kettunen 1994, 2008; Kuisma 1993, 2009; Koskinen 2001). Crane and Matten (2004), Matten and Crane (2005) and Crane et al. (2008) could very well call these Finnish firms with extended political and social responsibilities “corporate citizens.”

An illustrative example in this setting is located in the municipality of Mänttä (currently known as Mänttä-Vilppula), central Finland (Mäkinen and Kourula 2014). The Serlachius family owned a groundwood mill in Mänttä from 1868, and a pulp mill and a paper mill since 1881 (Norrmén 1993). The town was formed around the industrial operations of the G. A. Serlachius Company (see Keskiarja 2010). The factory owners and their staff were responsible for practically the entire lives of the company’s employees, as well as for most inhabitants of the municipality (cf. Mönkkönen 1992; Sivonen 2004). This social order has been described in the following way (Palkkatyöläinen magazine 2006, translation: Mäkinen and Kourula 2014):

The factory owners of Mänttä have hired the first police officers and built the first fire department. The company maintained the phone network until 1954.

The company put efforts into building roads and railways. It owned ships, brought the first car to Mänttä in 1913 and maintained the municipality's roads and streets up to 1948. The inhabitants bought their groceries in the company store and paid them with "Serlachius money." The first bank of Mänttä got its premises and safe from the company. Healthcare was provided by a midwife and doctor hired by the company. Only in the 1950s did the doctor start to be employed by the municipality. During the wars [Finnish Winter War 1939–1940 and Continuation War 1941–1944] the military hospital of Tilkka was located in the Mänttä Club and the Children's Ward was temporarily in the Joenniemi mansion. Mänttä inhabitants took their children to daycare or a day nursery provided by the company. School was held at the grinding mill, starting in 1869. When the Mänttä factory school became a state school, it continued its operations in the Serlachius sauna building. Mänttä's inhabitants lived in factory houses. The first company houses were built in 1870. House building was very active at the turn of the century. In 1936, half of the municipality's inhabitants lived in company apartments. In the 1970s, the company started getting rid of company housing.

In a sense, these early experiences of industrialization, such as the above situation in Mänttä, reflect the process of the accumulation of capital within the minimal basic structures of society resulting in no background institutions to even out the cumulative effects of economic transactions. Interestingly, as in political CSR, in these settings there are no real boundaries between business and politics, and the corporation takes over the governmental tasks of political and social regulation, and operates as the provider of basic rights and public goods in society. Historically, these political systems existed especially at the early stages of industrialism (see Green 2010; Koivuniemi 2000; Montgomery 1998; Walzer 1983; Roberts 1979). Thus, political CSR is hardly a new phenomenon, associated only with the recent phases of globalization.

In their time, the political orders of extended corporate citizenship were an important part of economic progress in Finland. The enlightened early industrialists, like Serlachius, developed their communities socially and economically. However, now we are in the twenty-first century, it can be argued that these forms of master economies hardly represent social progress and political emancipation any more. The tension between the idea of equal political freedoms and the political autonomy of citizens versus peoples' strong socio-economic dependence on private corporate power is far too evident in these industrial orders.

Furthermore, it seems that the extended corporate citizenship systems of the division of moral labor come close to what Goffman (1961) calls "total institution," namely, a social order where the traditional separations between various spheres of life are missing. In these settings, people are left quite vulnerable since there are no distinctions between realms, for instance, between work and non-work. As has been observed, various boundaries between the spheres of life "serve, in fact, as buffers protecting individual freedom" (Shenkar 1996; see also Walzer 1983).

Furthermore, the extended corporate citizenship type of industrial order easily goes against the very separation of the public and private spheres of life that, according to Marglit (1996), cuts across all cultures. In these systems, participation in the operations of the company is formally voluntary and the costs associated with stepping outside the influence of the firm are high. Being fired from the corporation comes close to being fired by society (e.g., Phillips and Margolis 1999). Furthermore, the fragile and thin public structures limit peoples' possibilities to pursue their own ends in life. In these settings, it is corporations who have extensive authority regarding life's proper ends. Furthermore, it seems that there is not much room for democratic decision-making, and unequally distributed economic power transforms fully into unequal political power.

#### The Libertarian Flavor of Political CSR

From political CSR's (Scherer and Palazzo 2007, 2011; Matten and Crane 2005; Crane et al. 2008) perspective, the process of extended corporate citizenship challenges the dominant instrumental CSR paradigm that is based on the classical liberal system of the division of moral labor. However, the problem is that political CSR cannot get beyond instrumental CSR by referring to the phenomenon of extended corporate citizenship. The social order of extended corporate citizenship, fully implemented, fits the libertarian system of the division of moral labor: privatizing the major public responsibilities of society and, in essence, blurring the boundaries between the economic and political spheres of society. As a matter of fact, the extended corporate citizenship system of the division of moral labor (like in early industrial Mänttä) suggested by political CSR is congruent with the libertarian political doctrine whereby citizenship is seen as a private contractual relationship and wherein private firms may take over the traditional roles of state. Furthermore, in libertarianism, only minimal public structures (to protect private property and free contracts) are needed and the rest of the responsibilities in society can be left to voluntary business transactions.



The problem with the extended political responsibility of companies and the ensuing libertarian division of moral labor is that there is really no space for the deliberative model of democracy, which in Scherer and Palazzo's framing of political CSR helps "to conceptualize global regulatory engagements of corporations" (Scherer and Palazzo 2011, p. 918). This is because the results of deliberative democratic processes may easily go against the individuals' private property rights and free contracts that are valued highly by libertarianism. Furthermore, the libertarian political setting lacks the major institutional background conditions (like equal political freedoms, equality before the law, economic justice, and procedural fairness) needed for deliberative democracy (Richardson 2002; Crocker 2006). Thus, the libertarian style of the division of moral labor hardly represents a politically progressive doctrine from political CSR's perspective. Later, we will suggest a way to keep the idea of political CSR alive while circumventing the risks of inadvertent libertarianism.

Furthermore, libertarian political CSR does not challenge the instrumental CSR paradigm since there already is a well-known libertarian branch of instrumental CSR, represented by, among others, Freeman (see Freeman and Phillips 2002). This political position within the instrumental CSR paradigm involves deep skepticism toward the state and its abilities to take care of the social background of businesses. It distributes moral labor strongly to private firms. Thus, extended corporate citizenship is at home in this particular political setting.

### Political CSR and Self-regulation

In our second stage, we problematize political CSR's response to the globalization process and claim that its empirical description of the global economy does not really weaken the classical liberal demand for boundaries between business and politics. Just the opposite—in the global economy—there is a need for robust boundaries between politics and business.

According to Scherer and Palazzo (2011, pp. 900, 905, 906), "on the global level, neither nation states nor international institutions alone are able to sufficiently regulate the global economy and provide global public goods." "Unlike national governance with its monopoly on the use of force and capacity to enforce regulations upon private actors within the national territory, global governance rests on voluntary contributions and weak or even absent enforcement mechanisms" (Scherer and Palazzo 2011, p. 900). In the global arena, "the borders between political and economic activities are blurring" (Scherer and Palazzo 2011, p. 906), in the global setting, "business firms are not

so much private institutions that operate under the rules of a particular legal system (Scherer and Palazzo 2011, p. 905)," and "it is necessary to acknowledge a new political role of business that goes beyond mere compliance with legal standards and conformity with moral rules" (Scherer and Palazzo 2011, p. 906). "Orthodox theories of CSR and the economic theory of the firm do not adequately address these challenges" (Scherer and Palazzo 2011, p. 906).

Thus, political CSR is based on a description of the globalization process where the territorially bound nation states lose their political and socio-economic steering powers over global business actors and where private firms take over the traditional government tasks of political and socio-economic regulation and operate as the new providers of citizenship rights and public goods. With this empirical description of the globalist transition process, where the traditional boundaries between business and politics are blurred, political CSR is challenging the classical liberal conception of proper business–society relations where the boundaries between business and politics are needed.

In globalization studies, political CSR's empirical position is called the strong globalization thesis (critically, see Ghemawat 2010, 2007; Hirst et al. 2009; Kollmeyer 2003). However, the empirical validity of the strong globalization thesis does not really challenge the classical liberal system of the division of moral labor, where firms' roles are economic within the boundaries of the political institutions of the limited state. The classical liberal system of the division of moral labor is meant to be a global normative ideal offering a general political goal of institutional design in society. Naturally, to challenge a normative conception, there is a need for relatively robust normative arguments. A description of the globalization process is not enough in this setting since one can very well accept the empirical validity of the strong globalization thesis and at the same time argue from various political perspectives for the strengthening of boundaries between the political and economic spheres of global society.

The political arguments supporting the boundaries between business and politics may revolve, for example, around the ideas of human rights, economic efficiency, the decentralization of social powers, democracy, political liberalism, and distributive justice. Instead of being old-fashioned, these normative viewpoints are especially significant in the context of a global economy. Also, different civil society actors have emphasized the need for the hard law regulation of global businesses and clear political and socio-economic boundaries for the use of economic power in various global venues (e.g., Mark-Ungericht and Weiskopf 2007).

Arguing in favor of a regulated market economy and global regulation, we have in mind the development of international legal mechanisms and agreements like the WTO in trade, IASB in financial reporting, Basel in financial risk management, and ILO in labor rights. These principles have been adopted into several countries' legislation and international settling mechanisms for disputes exist.

The blurring of economic and political boundaries causes moral hazards for politicians or businessmen in many cases. These situations easily lead to ethical problems as we have seen in company towns, 'deregulation,' and 'sustainability programs.' As different as, for example, China and the USA are politically, it is often either businessmen's excessive lobbying on legislation or politicians' cuts on business deals that cause moral problems in terms of legal loopholes and financial corruption.

### Deregulation and Financial Crisis

Deregulation—i.e., the loosening of hard legal constraints on some issues—is one powerful way to increase the political and social role of corporations, as promoted by the advocates of political CSR. In a loose regulatory, environment companies, in essence, make important decisions on feasible social risk levels, the transparency of the economy, the soundness of business contracts, the protection of consumers and the environment, and on the stability of the market. Deregulation means that the players themselves decide what rules, if any, are needed and enforced in a good game. Deregulation enables and calls for larger corporate political responsibility, shifting the division of moral labor toward the private sector. The self-governance of markets is a serious test of the functioning of enlarged political CSR.

Although the US financial crisis of around 2008 was a complex process for many reasons, we want to illustrate the role of, and dangers of, deregulation. Especially, we highlight how the unregulated derivatives helped to catapult the risks to systemic levels, taking down leading companies and forcing taxpayers to bail out the financial system at enormous cost.

The problem cases were not the weakest but rather the leading energy and financial companies in the US. Enron had been one of the financial success stories and had been rated as the most innovative large company in America in Fortune magazine (Healy and Palepu 2003). Enron and Wall Street were actively lobbying for the deregulation of OTC derivative products, together with politicians and high officials that had close ties with the industry. The prevailing belief was that the deregulation of sophisticated financial products would produce a competitive advantage

to the US in global competition (Corn 2008). Interestingly enough, even top regulators in the US were convinced of the benefits of deregulating derivatives (Barth et al. 2012, p. 98).

The industry's wish came true through (The Commodity Futures Modernization Act of 2000), which in essence created an unregulated market for complex derivative products [Financial Crises Inquiry Commission Report (FCICR) (2011), p. 48]. The underlying idea was to let the financial markets freely innovate and provide sophisticated financial products, without government red tape. The legal shift from regulated markets toward deregulation was drastic.

Although it went largely unrecognized at the time, this revolutionary legislation set the stage for the 2008 credit crises by legalizing, for the first time in US history, unrestricted speculative OTC trading in derivatives (Stout 2011, p. 5).

In particular, in the so-called "Enron Loophole," the over-the-counter (OTC) energy derivative contracts were left unregulated. This paved the way for Enron's disastrous energy trading and financing practices (Lipton 2008). Enron's risky business model, high-risk derivatives trading, and grossly misleading financial reporting (Healy and Palepu 2003) finally led to its bankruptcy in December 2001.

In the public eye, Enron was quickly transformed from a model company into a warning example of fraud, bad governance, and excessive risks. Given the opportunity, even the strong can be tempted. Subsequently, this deregulation exercise ended as Congress enacted new legislation in 2008, called the "Close the Enron Loophole Act" (Commodity Futures Modernization Act of 2000, Wikipedia).

Based on the Commodity Futures Modernization Act, an even higher impact financial innovation, Credit Default Swap (CDS), was developed without regulatory oversight, without financial transparency, and without assets to fully back up the commitments. CDSs resemble insurance contracts for debt instruments. Unlike normal insurances, where regulatory requirements are very tight, CDSs could be underwritten freely, and the buyer need not even own the insured object (FCICR 2011, p. 50).

The deregulated CDS market grew aggressively as it provided the needed "protection" against default for those who had invested in debt instruments and "free" underwriting money for those who backed up the contracts. CDSs grew into an enormous, unregulated market of \$58.2 trillion in 2007 (FCICR 2011, p. 50). There are two major problems with these instruments in their unregulated form. First, they are invisible to other market players. Second, the underwriter of the CDS need not have the assets to back it up.

These undercapitalized, invisible contracts created havoc in the financial markets. Eventually, to guarantee the functioning of the financial markets, one of the world's leading financial institutions, AIG, had to be bailed out by the government. To give some perspective, taxpayers had to commit over \$180 billion to the bailout (FCICR 2011, p. xxv). AIG had been the largest insurance company in the US with the highest ratings. Essentially, AIG underwrote so many CDS contracts and did not reserve capital to back up the commitments that when the debt defaults started to arise, the company could not pay the promised amounts. Had AIG been left to go bankrupt, the savings and insurance of millions of people would have been in danger.

It is sobering to read what the official US Government Commission writes about the largest financial meltdown in its history:

Furthermore, because of the deregulation of OTC derivatives, state insurance supervisors were barred from regulating AIG's sale of credit default swaps even though they were similar in effect to insurance contracts. If they had been regulated as insurance contracts, AIG would have been required to maintain adequate capital reserves, would not have been able to enter into contracts requiring the posting of collateral, and would not have been able to provide default protection to speculators; thus, AIG would have been prevented from acting in such a risky manner. (FCICR 2011, p. 352)

In both cases, financial market self-regulation broke down. In the end, taxpayers had to bail out the players, and lawmakers needed to set hard rules. The financial industry had actively lobbied for the removal of transparency and capital requirements regulation, taking on a large amount of CSR, but failed to self-regulate the casino that was created. The financial stakes were so high that probably no CSR unit could have cooled down the players. The situation is similar to the classic Problem of the Commons, where private interests lead to the overutilization of natural resources although everybody would be better off if good rules were jointly set up. The real world outcome of the financial deregulation experiment is, not surprisingly, more stringent legal rules in the US (such as the "Close the Enron Loophole" act, the "Dodd-Frank Wall Street Reform and Consumer Protection Act") and global efforts to set higher capital and risk management standards for financial institutions.

### Varieties of Regulated Market Economy

In the next stage of our argument, we address the fact that the dominant framing of political CSR does not only go

against the classical liberal social order but is also challenging from the more general perspective of the regulated market economy. We introduce some of the major versions of the regulated market economies and suggest that political CSR focuses too much on one particular variant of regulated market economies (i.e., the classical liberal variant) when trying to argue against the economic conception of the business firm and instrumental CSR. Thus, we suggest that classical liberalism is not the only relevant political doctrine in line with the economic conception of the business firm. Instead, there are also other robust political doctrines compatible with the economic view of CSR that are not taken into account in political CSR.

There are two distinct issues of political economy here: (i) Should there be boundaries between the economic and political spheres of society? and (ii) where should the boundaries (the moral division of labor) be set up? Political CSR has alerted us about the blurring of company activities and global regulation, and concluded that companies are taking (and should be taking) a more active role in the rule-setting processes. There is another alternative conclusion to be drawn: International society could and should take a more active role in setting up smart global rules to draw the boundaries closer to decent ethical standards.

For us, the notion of a regulated market economy refers to the political and socio-economic system wherein the moral labor is divided between the political and socio-economic basic institutions and economically oriented business firms operate within these regulatory structures. Thus, in the regulated market economy, there should be relatively clear boundaries between the political sphere of society (comprising of the basic structures of society taking care of the political and social regulation of economic life) and the economic sphere of society (involving competitive markets and economically oriented market actors such as business firms).

There are variations of a regulated market economy since our political tradition offers a number of different conceptions of the appropriate basic structures of society as the proper institutional contexts of businesses (see Freeman 2007, p. 105). We can have, for example, regulated market economies where the political sphere of society is quite limited (comprising of the basic structures needed for efficient markets and the effective provision of public goods) combined with an extensive economic sphere, based on the enlarged market activities of economically oriented firms and other private actors (e.g., Friedman 1962; Hayek 1944; Jensen 2002, 2008). In our framework, classical liberalism represents this version of regulated market economies (see Fig. 1).

On the other hand, we can have regulated market economies where the economic sphere of society or markets and market actors are set within the context of robust

political and socio-economic basic structure institutions ensuring citizens' equal political liberties, equal social opportunities, the fair distribution of economic resources, etc. It can be argued that within this institutional setting, firms may have more freedom to focus on their economic ends (e.g., Meade 1964; Rawls 1971, 1996; Krouse and McPherson 1988; Freeman 2007).<sup>3</sup> In our framework, liberal equality, welfare-state capitalism, and property-owning democracy represent these types of regulated market economies (see Fig. 1).

Nordic welfare states are the real life examples of these latter varieties of regulated market economies. In the Nordic setting, the basic parts of the moral infrastructure for businesses have been provided by the robust political and socio-economic institutions of the welfare state. The task of the major public institutions has been to equalize citizens' differing social and economic starting points in life, preserving the widespread ownership of property in society, and leveling inequalities and offering equal opportunities. Thus, plenty of responsibility work has been done collectively via public and democratically governed institutions. In these settings, firms may have more freedom to focus on the economic aspects of their operations, provided that the implicit obligations to be cooperative agents of society are acknowledged.

It is quite understandable that political CSR wants to produce a paradigm shift in CSR studies, focusing on the classical liberal version of the regulated market economy. This particular system has been an influential justification for the economic conception of CSR. However, it seems that political CSR would benefit from a discussion where all the major political conceptions of business–society relations are taken into account. This is important since classical liberalism is not self-evidently the strongest version of the regulated market economy or the best support for economic CSR since it lacks robust political and socio-economic basic structure institutions (which redistribute economic power over time, safe-guard adequate representation in political deliberation for poor citizens, etc.) that could, for example, stop the transformation of economic power into political power.

Another reason explaining political CSR's focus on the classical liberal version of regulated market economy is that there really is not too much political room for political CSR in other varieties of a regulated market economy. In all of these systems of the division of moral labor, a need for the boundaries between business and politics is seen

and the major political issues concern the appropriate places of these boundaries. Furthermore, when we move from the classical liberal to the left (see Fig. 1), more and more social responsibilities are seen to be on the side of the basic structure institutions of society. The responsibility tasks of these public institutions are considered the basic duties associated with social justice (and not voluntary issues). In these democratic settings, it is hard to see why people would be willing to give up their institutionally guaranteed basic rights and regulatory powers to private firms and various voluntary associations.

### The Republican Justification for Political CSR

In our final stage of discussing political CSR, we briefly review the political theory discussions addressing the republican and deliberative democratic conceptions of society since political CSR appeals to these conceptions of society to overcome the separation of the political and economic realms of society (Scherer et al. 2006; Scherer and Palazzo 2007, 2011). It seems to us that there are some tensions between these political philosophies and political CSR since these political doctrines are reluctant to offer business firms (seen as the major centers of economic power in a global economy) a political mandate to enlarge their political participation in society.

Evidently, there is no single republican political theory. Instead, in political philosophy, there are various conceptions of public morality that are linked to the republican political tradition. In these discussions, the term republican refers to the “images of the city–state republics of classical Athens and Rome or Renaissance Florence, which are widely believed to have successfully encouraged active and publicly spirited citizenship” (Kymlicka 2002, p. 294). Thus, republican discussions stress the importance of civic virtues, political participation and equality, and focus on notions of political freedom. Republicans are worried about political corruption and peoples' withdrawal from public political life into private spheres (Thomas 2012). Furthermore, republican political philosophy is often—though not always—linked with the deliberative conceptions of democracy underscoring the idea of democracy as a public political argumentation going beyond the vote-centric and aggregative conceptions of democracy (Kymlicka 2002).

In recent times, the most eminent republican political philosophical discussion has revolved around the issues of political freedom. In the literature, dominated by philosophers like Quentin Skinner and Philip Petit, the republican conception of freedom is seen as a state of affairs characterized by the absence of dependency, domination, and arbitrary power. Seen from the republican perspective, citizens are not politically free simply because nobody is

<sup>3</sup> Naturally, not all political economies are regulated market economies and we also have conceptions of society where there are no real boundaries between the political and economic spheres of society (e.g., communism or anarcho-capitalism) or where the boundaries between the political and business spheres of society are, to a large extent, blurred (e.g., market socialism or libertarianism).



actually restricting them. In addition to the idea of political freedom as actual non-interference, republican political freedom requires a relatively robust and institutionally guaranteed security against the potential domination and use of arbitrary powers (e.g., Pettit 1996; Mäkinen and Räsänen 2011). Thus, from the perspective of republican freedom as freedom from domination, the central task of the state and law is to preserve its citizens from the private interests and economic inequalities eroding the common bonds of citizenship and leading to corrupted political power in which some citizens come to dominate others (Dagger 2006).

How well is this republican ideal of freedom compatible with the political orders suggested by political CSR? Actually, it is particularly hard to see how the ideal of political freedom as the absence of domination and dependency and arbitrary powers can be realized in the political systems of extended corporate citizenship suggested by political CSR. In these systems of the division of moral labor, the responsibility for citizens' basic rights is transferred from the public structures of society to the relations between private firms, associations, and civil society organizations. The center of political activities in society moves from lying in the institutions of the state and the rule of law to lying in the relations between private actors. This increases citizens' socio-economic dependency on private interests and economic power. However, it seems evident that the level of republican political freedom offered for citizens by liberal democracy (in terms of its constitutionally guaranteed basic rights) well exceeds the level of republican political freedom offered by self-regulating business firms.

Furthermore, the contemporary republican political philosophy is actually more in line with one major version of a regulated market economy (more than with political CSR). The studies by Dagger (2006), Thomas (2012), and White (2012) argue that the version of regulated market economy called property-owning democracy (see Fig. 1) seems highly attractive to contemporary republicans aiming toward political equality. According to Dagger (2006, pp. 151, 158), neo-republican civil economy "will preserve the market, while constraining it to serve public purposes, and promote what John Rawls calls a property-owning democracy." In the republican constrained market economy, the central idea is to "limit the political effects of wealth" and "the disparities in wealth that flow from markets."

Thus, contemporary republicans are highly receptive to institutional measures designed to reduce the effects of wealth and unequal economic power in the political process or to furnish access to the media (Sunstein 1988, p. 1552). According to Rawls, "aim is to enable legislators and political parties to be independent of the large

concentrations of private economic and social power." "This is to further the conditions of deliberative democracy" (2001, p. 150). For neo-republicans, the reforms to these ends involve such things as the public funding of elections and restrictions on campaign contributions. Furthermore, modern day "republicans are hardly hostile to redistribution or to collective efforts to reassess the existing distribution of wealth and entitlements" (Sunstein 1988, p. 1551). Since political CSR involves no convincing mechanisms or programs to level economic and social power in a global economy, it seems to be in tension with the basic premises of the republican polity and deliberative democracy (see also Richardson 2002; Crocker 2006).

## Conclusion

In our paper, we argue that political CSR has not yet paid enough attention to the need to increase the global political community's moral responsibility in regulation. It seems that when political CSR tries to go beyond the classical liberal system of the division of moral labor, the discussion actually ends up defending the oversized moral responsibility for companies, which has a flavor of the libertarian conception of society. However, libertarian political CSR is not a politically preferred position for the political CSR movement. We also claim that political CSR's empirical description of the global economy does not really challenge the classical liberal idea of the boundaries needed between business and politics; rather, in the global economy, the boundaries between politics and business are even more urgently needed than in domestic business settings.

Furthermore, we argue that the classical liberal system of the division of moral labor gets too much attention in the political CSR discussions. To counter this politically narrowing tendency of the discussions, we show that there are also other political doctrines compatible with the economic view of CSR that are not taken into account in political CSR discussions. Finally, we address political CSR's appeals to the republican political philosophy and deliberative democracy to overcome the separations of the political and economic realms of society. In this setting, we argue that the political systems of extended corporate citizenship suggested by political CSR are in tension with the republican idea of political freedom and go against the requirements of republican and deliberative democracy for political and economic equality.

Even though, our analysis of the dominant framing of political CSR is somewhat critical, we see that political CSR is addressing crucial social issues. The expansion of markets to the new spheres of social life (Satz 2010; Sandel 2012), and the extended political and social roles of business firms are certainly the major political and ethical



issues of contemporary capitalism. However, our suggestion of the regulated market economy points out that especially in global economy we should pay more attention to the political and socio-economic contexts and the regulation of business activities. CSR could support governments and international institutions in building smart rules for global businesses and helping countries to build “government social responsibility” (GSR).

Instead of promoting the idea of business firms as political actors and blurring the boundaries between the political and economic spheres of society, the political CSR discussion could focus more on global institution building in order to create stronger boundaries between various spheres of globalizing societies. Since the major democratic challenges in contemporary societies have to do with the processes (whereby unequal economic power is quite freely converted into unequal political power and vice versa), why not focus on these issues in political CSR studies and try to figure out how to develop the political sphere of society to be on a comparable level to the economic sphere in a globalizing economy? In this setting, cooperation with political theory, political sociology, and studies of institutional design may offer business ethics and political CSR studies various tools for addressing these challenging issues. For example, studying different institutional mechanisms—like political campaign finance issues, anti-corruption measures, the dispersal of incomes and wealth, social justice promoting education systems, the guaranteeing of free and equal political speech, etc.—in connection with CSR could offer interesting avenues for political CSR.

In other words, we suggest that instead of advocating the idea of market societies wherein the economic perspectives and the major economic actors dominate all the central aspects of political and social life, political CSR could focus on the development and justification of democratically regulated market economies with robust institutional limits to economic power as the currency of politics. The main challenges of the governance of global economy revolve around the issues of the institutional design of fair and sustainable market economies. It is a precondition for a just moral division of labor that both companies and governments are up to the ethical standards of the global economy. We would like to see business ethics and CSR discussions taking these types of political challenges seriously. After all, companies (and governments) with a high level of social responsibility benefit most if there are global norms for good conduct and if the worst offenders are sanctioned.

**Acknowledgments** The authors are indebted to two anonymous reviewers for their insightful and very helpful reviews and guidance. The paper has been presented at various conferences and research

seminars at Aalto University School of Business, University of Helsinki, SCANCOR at Stanford University, ESADE Business School, EBEN Annual Conference 2013, Society for Business Ethics Annual Meeting 2013. We thank participants in these conferences and research seminars for their comments on earlier versions of this paper. In particular we would like to thank Martha Nussbaum, Esther Henchen, Jennifer Goodman, Arno Kourula, Sareh Pouryousefi, Ben Wempe, Pasi Heikkurinen and Udo Zander for their valuable comments and support. We gratefully acknowledge the financial support of the Liikesivistysrahasto - The Foundation for Economic Education, Jenny and Antti Wihuri Foundation, and Helsinki School of Economics Foundation.

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