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Corporate Citizenship as Stakeholder Management: An Ordonomic Approach to Business Ethics

Diskussionspapier Nr. 2008-4

des Lehrstuhls für Wirtschaftsethik
an der Martin-Luther-Universität Halle-Wittenberg,
hrsg. von Ingo Pies,
Halle 2008
Haftungsausschluss


ISBN 978-3-86829-024-0
ISBN 978-3-86829-031-8 (elektronische Form)
ISSN 1861-3594 (Printausgabe)
ISSN 1861-3608 (Internetausgabe)

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Abstract

This paper argues that the perspective of ordonomic—a rational-choice based analysis of (interdependencies between) social structure and semantics—can provide new insights into the changing role of business in society. We claim (a) that the proper role of business is societal value creation, (b) that business firms—as economic players—can take on the role of improving the rules of the game, i.e., act as corporate citizens, and (c) that business ethics can and should provide theoretical guidance for “corporate citizenship” and the political processes of “new governance,” in which business firms, together with civil society organizations and state actors, work together to solve problems, especially at an international (and sometimes even global) scale. Finally, we show (d) that this perspective requires overcoming two blind spots in recent discourse about the appropriate analytical foundations of business ethics.

Key Words: business ethics, corporate citizenship, corporate social responsibility, new governance, ordonomics, rational choice, social dilemmas, stakeholder theory

JEL-Klassifikation: A12, A13, D02, D63, M14
Corporate Citizenship as Stakeholder Management: An Ordonomic Approach to Business Ethics

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Introduction

This paper argues that the perspective of ordonomics can provide new insights into the changing role of business in society. The ordonomic approach makes use of a rational-choice analysis to systematically explore the interdependence between social structure and semantics. By “social structure” we mean the institutional framework of society and its incentive properties; by “semantics” we mean the terminology of public discourse and the underlying thought categories that determine how we perceive, describe, and evaluate social interactions and, in particular, social conflicts. The ordonomic approach involves making sure that our order of thought is properly aligned with the order of social structures, in particular, with the institutional order. From this perspective, we claim (a) that the proper role of business is societal value creation, (b) that business firms—as economic players in the economic game—can take on the role of improving the rules of the game, i.e., act as corporate citizens, and (c) that business ethics can and should provide theoretical guidance for “corporate citizenship” and the political processes of “new governance,” in which business firms, together with civil society organizations and state actors, work together to solve problems, especially at an international (and sometimes even global) scale. Finally, we show (d) that this perspective requires overcoming two blind spots in recent discourse about the appropriate analytical foundations of business ethics. These arguments will be developed in four steps.

The first step focuses on the core problem of business ethics. Drawing on the perspective of ordonomics, we distinguish between the two semantic alternatives of a firm’s pursuit of profit and the advancement of social concerns that are “moral” desiderata. The article argues that the key challenge for business ethics is to find or construct an orthogonal position that overcomes the perception of what seems to be a conflict between profit and morality.

The second step uses the rational-choice method to analyze social structures. The article shows how the ordonomic perspective calls attention to the importance of social dilemmas for the identification of win-win solutions. The article distinguishes between one-sided and many-sided dilemma structures and demonstrates why strategies of self-commitment aimed at overcoming these dilemmas need to be tailored to the specific properties of the respective social structure.

The third step develops a conceptual framework for corporate citizenship. Extending the analysis of social structure, the article differentiates between corporate self-binding commitment technologies and corporate binding services that enable stakeholders to commit themselves. This concept helps to better understand the role of corporate

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citizens as “rule-entrepreneurs” in (global) processes of new governance. Also, it provides an exhaustive framework for analyzing and classifying corporate citizenship activities into four distinct cases.

The fourth step uses the insights derived from this analysis to highlight strengths and weaknesses of the prevailing business ethics literature. It is argued that there are two blind spots in this literature. First, the literature fails to distinguish between different types of dilemma structures and, henceforth, between different commitment technologies. Second, although our article acknowledges the important contribution of stakeholder theory, it argues that in the business ethics debate, competitors are often overlooked as pivotal stakeholders in collective rule-setting processes. In sum, we claim that the ordonomic approach with its rational-choice perspective offers a unified framework for business ethics, bringing together strategic management theory, the stakeholder approach, scholarship on social responsibility and corporate citizenship, and political concepts of new governance.

1. The Role of Business in Society: Aporia of the Current Debate

Within the last few decades, the perception of business’s role in society has changed dramatically. Companies increasingly commit to philanthropic activities that are often referred to as the “social responsibility” of business. Not only do companies donate money for charitable purposes (corporate giving) or endow financial resources to civil organizations (social sponsoring), they also encourage, coordinate, and facilitate the volunteer efforts of their employees in community affairs (corporate volunteering) and establish and maintain civil organizations (corporate foundations). Firms undertake marketing efforts to support charitable institutions (cause-related marketing) and partner with community nonprofit organizations to support social causes (social commissioning). They also co-fund and cooperate in joint ventures with state actors and civil society organizations (public-private partnerships). Finally, business firms champion the cause of charitable organizations by professionally influencing political decision makers (social lobbying) and by venturing risk capital and know-how (venture philanthropy).

These sorts of activities have led to widespread expectations that companies will (and maybe even should) assume corporate responsibility—in a wide field of interests, including environmental pollution, global warming, child labor, human rights violations, the aging population, social security, and corruption, among others. Private business actors are increasingly taking on the role of corporate citizens, in the process embracing all the rights and duties of political citizens. However, the as-yet rather vague ideas about how companies should fulfill this role calls attention to an important problem: it is becoming ever more apparent that under the existing institutional framework of the global economy, a number of legitimate social and moral objectives are being ignored or not being given the attention they deserve.

Semantics matters. The phenomenon of corporate social responsibility (CSR) or corporate citizenship (CC) is not viewed completely optimistically by everyone.2 One of the more pessimistic takes on it can be summarized as follows: Do companies

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2 Although CSR is often used to denote philanthropic activities, whereas CC, a newer term, denotes the involvement in processes of new governance, in this article we use both terms synonymously.
“really” mean it when they practice CSR, or is this just another, albeit sophisticated and skillful, profit-seeking public-relations strategy? Behind this question is the implication that activity undertaken in the pursuit of self-interest can never qualify as truly ethical because “real” social responsibility requires being willing to place moral objectives above the profit motive. In other words, this line of thinking assumes that there must be a tradeoff between these competing values, and as illustrated in Figure 1a, there does seem to be an inherent tradeoff between the pursuit of profit and what is perceived to be the “moral benefit for society.”

This line of reasoning is unsatisfactory on both theoretical and practical grounds. From the theoretical perspective, there are severe problems with regard to our understanding of politics, ethics, and scientific standards. First, a democratic society is based on the ideal of a general consensus between all actors involved. Yet, to favor some interest (such as stakeholder causes) at the expense of others (such as the profit interest of shareholders) will hardly lead to such consensus but is, instead, far more likely to lead to dissent, making democratic consent even more difficult.

Second, there are problems with this from an ethical point of view. The ethical principle of autonomy, or self-determination, entails respecting the choices and wishes of free actors. If it is unquestionably assumed that there is a tradeoff between profit or self-interest and moral benefits for society, then moral claims necessarily result in appeals to curb self-interest. Yet, demanding that one party permanently forgo its own objectives is irreconcilable with the freedom of autonomous subjects.

The third problem has to do with the theory of science. As Max Weber pointed out, an essential prerequisite for systematic learning in modern science lies in freedom from value judgments. Although social science can discuss how different means might serve to attain given ends, it cannot determine which ends to choose, that is, it cannot say which ends are best, as that implies a value judgment. By this logic, any approach to business ethics that argues for a specific “balance,” i.e., a “sacrifice,” by one party so as

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to effect a given end is a value judgment and fails to meet the methodological standards for scientific statements.

In addition, our fourth point is that persisting in a semantics that implies (or assumes) a tradeoff between profit and moral objectives creates practical problems as well. The semantics of individual obligation is simply not sustainable in the context of a social structure based on successful competition for survival. If a company sacrificed some of its profits, it would suffer a competitive disadvantage. In the extreme, a company that individually decides to continuously realize less profit than its competitors will eventually be driven out of the market and thus will not be able to act at all, much less fulfill any moral obligations. In short, the sort of this or that trade-off thinking that underlies much of public debate and some of the theoretical discussion of business ethics appears to be based on semantics that systematically fail to appropriately take into consideration the social structure characteristic of market economies. Thus, this kind of trade-off thinking, although popular, is not part of the solution; it is part of the problem.

((3)) From an ordonomic perspective, the systematic way to avoid such aporetic disorientation is to ask a different question. Instead of asking whether business activities “should” encompass more than profit maximization, we ask: Looking at the situation where a company acts completely self-interestedly, is it, by so acting, also furthering legitimate social purposes, or is the pursuit of profit at the expense of moral objectives?

We claim that this alternative question draws on a semantics that is much better tailored to the social structure of a (global) market economy: We propose to judge business behavior not by unobservable motivations but by observable outcomes. Furthermore, this question avoids having to address whether the pursuit of profit is per se “good” or “bad.” Rather, the answer to the question we ask is anchored in a sound analysis of the situational consequences of the respective social structure. It focuses on the working properties of the institutional framework within which the pursuit of profit occurs.

Put in historical context, according to Adam Smith’s famous invisible hand, the answer to this question is that profit-seeking can, indeed, benefit others.4 This “Smithian” scenario describes a situation in which the institutional framework of competition allows the self-interest of corporate actors to unfold in favor of society. This is the morally interesting case of the institutionalized (social) market economy that has laid the groundwork for prosperity and peace in most of the Western world. The opposite case is no less morally interesting and equally historical. In the “Malthusian” scenario, self-interest operates at the expense of legitimate interests of society. One famous example of this is the problem of overpopulation addressed by Thomas Malthus two centuries ago.5

Both the “Smithian” and “Malthusian” scenarios illustrate the logical fallacy of explaining aggregate collective outcomes as directly triggered by individual intentions (e.g., the profit motive). Rather, these social results arise as nonintended consequences of intentional efforts of individual actors who are pursuing a whole range of personal

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4 Smith (1776, 1991, 20) says: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantage” (emphasis added).

objectives. From this perspective, the central task of business ethics is to offer an intellectual framework that, metaphorically speaking, allows for transforming a “Malthusian” scenario—a situation of collective self-damage—into a “Smithian” scenario—a situation of mutual betterment, where the proper role of business is to create value for society. In such a Smithian scenario, profit is a signal (and award) for behavior that serves other people who voluntarily pay for products and services they regard as more valuable than the societal resources spent in the process of production. Here, profit is a means of doing well by doing good.

Against this background, we argue that the task of business ethics is to broaden the underlying perception of moral conflict in such a way that the problem is seen in another light, thus allowing new solutions. In short, we argue that the seemingly unavoidable chasm between self-interest and “morality” can be bridged as follows: Social concerns that qualify as moral desiderata can be reconstructed as concerns of legitimate self-interest for all parties. Therefore, the moral thing to do is to look for mutual betterment, and this will not require sacrifice, especially not sacrifice by one party only. Instead, “genuine morality” will be achieved by a win-win solution. Figure 1b illustrates this argument.

Put graphically, the argument is to take an “orthogonal position” through changing the direction of the line of thought by 90 degrees. As indicated by the arrow in northeast direction, the focus should be on discovering those conditions under which self-interest and moral objectives are mutually enhancing. Viewed in this light, the hard work for business ethics is to look for and help create win-win situations that encompass the legitimate interests of both business and society. To accomplish this, business ethics theories will need to develop a semantics firmly grounded in an analysis of social structure. The following section gives a brief outline as to how the ordonomic perspective can contribute to our understanding of the incentive properties of institutionalized market economies.

2. The Ordonomic Perspective: Social Dilemmas and the Analysis of Social Structure

Using rational-choice analysis, the pattern of social structure inherent in a “Malthusian scenario” can be reconstructed as a “social dilemma.” The hallmark of a social dilemma is that it is a situation of collective self-damage: a situation in which a win-win solution cannot be realized due to an incentive constellation that induces rational actors not to cooperate even though it would be in their common interest to do so. The result of such collective noncooperation is Pareto-inferior: A different behavioral pattern could make at least one actor better off without harming the interest of others. Paradigmatically, there are two types of collective self-damage: one-sided and many-sided dilemma.

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7 In the business ethics context, demands to sacrifice self-interest can at best be understood as assistance under risk of market exit. However, such assistance is no correlate of the moral rights of others in society. Therefore, such acts are called supererogatory. In this respect, Rawls (1971, 117) states: “Supererogatory acts are not required, though normally they would be were it not for the loss or risk involved for the agent himself. A person who does a supererogatory act does not invoke the exemption which the natural duties allow.”
8 Nearly every interaction between individuals can be characterized as a simultaneous existence of converging and conflicting interests, cf. Schelling (2003, 4 et passim).
structures. Analogously, it is possible to distinguish two ways of overcoming situations of collective self-damage: individual self-commitments in one-sided dilemma situations and collective self-commitments in many-sided dilemma situations.

((1)) The one-sided prisoners’ dilemma (PD) represents a situation characterized by the possibility of asymmetric exploitation: Player A has the option of making a specific investment (cooperate) or of refraining from so doing (not cooperate). If Player A decides to cooperate, Player B may either exploit or not exploit the investment made by Player A. The ordinal payoffs indicate how each player evaluates the strategy combinations within the game. High numbers indicate a high net benefit (Figure 2a).

Assuming rational actors, this game can easily be solved by backward induction. If Player A decided to invest, it would be to Player B’s advantage to exploit Player A’s specific investment (2 > 1). However, in anticipation of Player B’s noncooperative ex post conduct, it is to Player A’s advantage not to invest ex ante (0 > –1). The result of this game (the rectangle in Figure 2a) is suboptimal from both players’ perspective. Both players would be better off if the investment were made and not exploited. This strategy combination would be Pareto-superior (ellipse in Figure 2a). However, due to incentives, it cannot be realized. Comparing the payoffs (0,0) and (1,1) shows that the actual outcome in this game is collectively self-damaging.

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11 Within this approach, the rationality postulate is neither an anthropological assertion nor an empirical statement about the essence of human beings; rather, it is an assumption about a situational pressure to learn and adapt one’s behavior to incentives. Whoever tries to avoid wastage in view of scarcity, whoever does not prefer a priori to succumb in a conflict, whoever has an interest not to be the loser in a competition has a strong incentive to behave according to the rationality postulate. Assuming rational actors therefore means that incentive-driven behavior—be it conscious or unconscious—can be reconstructed as if actors followed a rational calculus.
12 Following a convention in game theory, the chosen strategy is represented by a double bar.
Given the initial social structure of the one-sided dilemma, both players have a common interest in an institutional reform that allows for a more attractive outcome. Both players would be better off if Player B made a credible commitment to refrain from exploiting Player A. However, just announcing such an intention is not enough—“talk is cheap.” In fact, Player B must undertake a binding commitment that renders his exploitation of Player A unattractive to him. Ultimately, this option means playing another game.

In Figure 2b it is assumed that Player B imposes on himself a sanction, s, that is severe enough to make credible his promise not to exploit Player A’s investment. The sanction is severe enough only if the exploitation strategy loses its initial profitability. This requires that $2 - s < 1$, such that Player B now has a genuine interest in not exploiting Player A. Anticipating this modification of Player B’s incentive, Player A will make the rational decision to go ahead with the investment. The new equilibrium $(1,1)$ is Pareto-superior. Here, an individual self-binding moral commitment is a win-win strategy.

((2)) In contrast to the one-sided PD, the many-sided prisoners’ dilemma describes symmetrical interaction between n players whose cooperation fails because of the reciprocal opportunity for mutual exploitation. The well-known case of the two-sided PD may serve to illustrate the underlying logic. Players A and B each have the option to act cooperatively or uncooperatively. Again, the ordinal payoffs indicate how the strategy combinations are valued individually. The number before the comma applies to Player A; the number after the comma to Player B (Figure 3a).

\[(\text{cooperate, cooperate}) \quad (1,4) \quad (3,3) \]
\[(\text{cooperate, not cooperate}) \quad (4,1) \quad (2,2) \]
\[(\text{not cooperate, cooperate}) \quad (1,4-s) \quad (3,3) \]
\[(\text{not cooperate, not cooperate}) \quad (2-s, 2-s) \quad (4-s, 1) \]

\[\text{(a) (b)}\]

Figure 3: The two-sided prisoners’ dilemma and its solution by collective self-commitment

Assuming rational actors, this game can easily be solved. In none of the cases will Player A’s individual benefit calculus lead him to cooperate;\(^{13}\) if Player B acts uncooperatively, it is likewise beneficial for Player A to refuse cooperation, for example, a comparison between Boxes III and IV shows $2 > 1$. However, if Player B cooperates, Player A is again better off by noncooperation—a comparison between Boxes I and II shows $3 < 4$. The same situation holds for Player B. He compares the

\[^{13}\text{Following a convention in game theory, the individual benefit analysis in Figures 3a and 3b is shown by arrows. Vertical arrows apply to Player A; horizontal arrows to Player B.}\]
payoff in Box I to that in Box IV and the payoff in Box II to that in Box III. Doing so makes it obvious that Player B’s best strategy in all cases is to act uncooperatively. Therefore, the Pareto-inferior solution of the game is the strategy combination that results in Box III (payoffs shown in a rectangle to indicate the Nash equilibrium). A comparison with Box I reveals this as a situation of collective self-damage: a different behavioral pattern could be to the advantage of both players.

Note that in a many-sided dilemma, an individual self-commitment can never solve the problem of collective self-damage. Starting from the status quo in Box III, a unilateral change of strategy by Player A would lead to Player A’s worst outcome—his payoff would decline from 2 to 1 (Box IV). Mutual betterment is only possible by shifting from Box III to Box I, and to make this possible, both players would have to simultaneously change their strategies, which can be accomplished only by a collective self-commitment. A sanction, s, to punish uncooperative conduct will be effective if it is severe enough that 4 – s < 3 and that 2 – s < 1. Under this condition, cooperation becomes the best strategy for each player (see Figure 3b). In short, only a multilateral commitment device can overcome the symmetric logic in many-sided dilemma structures. Individual self-commitments—though effective in one-sided dilemma structures—do not result in win-win solutions but, instead, lead to win-lose outcomes and thus fail to achieve the moral desideratum.

(3) Collective self-damage can be overcome only by playing a better game. As a consequence, business ethics needs to focus on two different levels: instead of concentrating exclusively on better moves within a given game, business ethics also needs to focus on creating new rules for a better game. This distinction will demonstrate that an interest-based rational-choice perspective can differentiate between two fundamentally different concepts of rational interest. Following James Buchanan’s terminology, the first relates to “choice within rules,” while the latter relates to “choice among rules.” Within the game, there are conflicting interests concerning individual action and in a social dilemma, the result is a bad outcome for all players involved. Therefore, all players have a common interest in overcoming their dilemma by playing a better game. A better game requires better rules that will provide the incentives for a better outcome. The odd, almost paradoxical, element of this rational-choice reasoning is that there is a systematic link between these two levels of interest: it is precisely the conflicting action-based interests within a social dilemma that create a common interest in changing the game to the advantage of all actors—in other words, conflict is the very starting point for consensus! To reiterate: any conflict holds the key for an orthogonal position if it is interpreted as a social dilemma, i.e., a Pareto-inferior status quo, which, because it is Pareto-inferior, invites a search for institutional devices that will lead to a win-win solution. Seen from this perspective, every conflict is not only a challenge but an opportunity for mutual betterment. Thus the role of normativity is not to smooth over conflicts from the outside but to transform them from within. Hence, normativity is not injected from an external source—it is internal to the conflict.

The ordonomic analysis shows that a win-win solution is dependent on credible commitments and thus it is important to discover how such commitments come into being. We argue that there is a conceptual benefit in distinguishing between self-commitments more narrowly defined, on the one hand, and commitments established through the help of third parties, on the other hand. More precisely, we distinguish

between “self-commitments” and “the provision of commitment services for others.” While this distinction is also of central importance for the broader discussion of new governance processes (and particularly for the “division of labor” between state, business, and civil society actors), this line of reasoning allows deriving a conceptual framework that proves useful in better understanding and shaping the role of business in the process of social (self-)organization.

3. A Rational-Choice Based Conceptual Framework for Corporate Citizenship

The conceptual framework we propose for classifying corporate citizenship activities that contain the potential for a win-win solution systematically differentiates both between type of dilemma structures as well as between alternative commitment technologies. The two-by-two matrix in Figure 4 illustrates four ways corporate citizens can act as rule-entrepreneurs. On the vertical dimension, the framework distinguishes between individual and collective commitments; in other words, this dimension distinguishes between whether the problem to be solved results from a one-sided or a many-sided dilemma structure. On the horizontal dimension, the framework differentiates between self-commitment and commitment service as two alternative types of commitment technologies. In the former case, the business binds itself; in the latter case, companies support others (e.g., customers, suppliers, or employees) in binding themselves by organizing collective action for stakeholders or by providing a functional equivalent (Figure 4).

<table>
<thead>
<tr>
<th>Dilemma Structure</th>
<th>Business(es)</th>
<th>Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>one-sided</td>
<td>(III)</td>
<td>Service (II) for individual self-commitment (Micro-credit and micro-insurance schemes)</td>
</tr>
<tr>
<td></td>
<td>(IV) Collective self-commitment (Google, Yahoo, Microsoft)</td>
<td></td>
</tr>
<tr>
<td>two-sided</td>
<td>(I) Service for collective self-commitment (Krupp, 19th century)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(II) Individual self-commitment (Ford, 1914)</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4: Dimensions of individual and collective commitment

((1)) Box I represents the case where companies offer a mechanism for collective self-commitment as a service to other stakeholders. Such services are particularly valuable to large groups, which, on their own, find it difficult to overcome the problem of free riding that undermines their capacity for collective action. The concept of “collective action” can be traced back to Mancur Olson (1965, 16). Olson refers to the ability of group members to organize themselves in such a way that the common interests of the group are effectively realized. However, the problem of free riding must be overcome.
Small groups dominated by face-to-face relationships can often make use of informal incentives to effectively solve this problem, but large groups typically need institutional rules creating formal incentives in order to induce each group member to actively contribute to the group goal. Box I illustrates how companies can play an active role in this process as rule-entrepreneurs. A historical case in point is the welfare program of the Krupp Crucible Steel Company of Essen. As early as 1836, Alfred Krupp introduced a voluntary health and dependents’ pension fund for his approximately 60 workers. In 1853, when staff grew up to around 1,000 workers, the fund was converted into a compulsory health and death insurance scheme; a pension fund followed in 1855. Subsequently, Krupp rendered instituted additional benefits for his workforce, such as a company-owned bakery (1858), the employees’ retail store, hostels for unmarried workers (1856), as well as company dwellings for foremen and workers’ housing estates (1861 and 1863). In 1870, Krupp even acquired a hospital to serve his workers. Needless to say, Krupp’s workforce soon felt proud to be “Kruppianer.”

Krupp’s welfare program was the solution to his problem, which was that mass production requires a healthy and reliable workforce. In the early stages of industrialization, workers began to loosen the ties to their extended families in rural areas and thus also lost much of the support they had previously been able to access in times of illness, unemployment, and when old. In principle, this kind of support could have been organized among industrial workers in urban areas, but trying to organize workers to voluntarily contribute to a common fund is akin to the two-sided social dilemma depicted in Figure 3a. Each worker would find it advantageous to free ride on the contributions of the others, with the consequence being that the aggregate contributions are insufficient to render the services needed. By introducing health and death insurance and related services, Krupp organized a functional equivalent for collective action on behalf of his workers. He offered a service of self-commitment in two steps: first, in 1836, the enforcement mechanism was still informal as the small size of his staff allowed for a voluntary scheme of funding. However, by the 1860s, informal mechanisms no longer sufficed due to the much larger workforce. Therefore, a formal compulsory scheme became necessary to organize collective action. In fact, by linking the employment contract, Krupp simultaneously avoided free riding by means of an ex ante sanction and made cooperation among workers their best strategy (Figure 3b). In the end, the welfare program—insurance and related services—can be viewed as an important factor of production, allowing Krupp to reap the full benefits of mass production.

By organizing collective action for his employees through compulsory social insurance, Krupp created the blueprint for the national social security system later installed by Otto von Bismarck in the German Reich in 1883. That is, on a small scale, Krupp fulfilled an important governance function long before this function could be

15 With regard to Krupp’s social initiatives before 1860, cf. Berdrow and Homann (1937). For a detailed analysis of Krupp’s welfare program from 1860–1914, cf. McCreary (1968). Viewed from the 21st century, Krupp’s welfare program is somewhat ambiguous from a moral point of view. Take, for example, the “General Directive” issued in 1872. Besides formally establishing the internal command structure and defining rights and duties of both foremen and managers, this early code of conduct formalized the company welfare program as Krupp feared the growing influence and pressure of the trade unions and the Social Democratic Party in his firm. The original “General Directive” is replicated in Schröder (1956). The argument put forward in this article, however, is unaffected: at the time, the Krupp welfare program managed to overcome a situation of collective self-damage allowing for a win-win solution beneficial to both the company and the workforce.
undertaken by the government itself. The Krupp example, therefore, challenges the mistaken belief that nation-state governments are always the best or even the only feasible source for organizing governance. On the contrary, cross-border challenges illustrate that nation-state governance is well equipped only for a particular subset of governance challenges. Even in other contexts, employing the win-win logic of self-commitment services by firms that organize collective action for large groups might be an important complementary form of governance. In effect, corporate citizens already assume an important function as “political” entrepreneurs in new governance processes.16

((2)) Box II represents those cases where corporate citizenship projects offer a mechanism for individual self-commitment as a service to stakeholders. Cases in point are current micro-credit and micro-insurance programs that solve the problems of credit rationing and adverse selection in rural markets in developing countries.17 Unlike in the developed world, borrowers in developing countries normally cannot provide collateral sufficient to make themselves eligible for credit from lenders. As a consequence, only a few formal institutions expose themselves to the risk of credit default, which results in formal credit rationing. Many transactions that would actually be productive do not take place. However, there are informal credit institutions—often called “usurious moneylenders”—that issue credit at a tremendously high risk-adjusted interest rate. Micro-finance institutions such as the Grameen Bank in Bangladesh or the Unit Desas of the Bank Rakyat Indonesia solve this problem by introducing an alternative commitment mechanism by which the borrower may credibly signal that he or she will repay the loan. Instead of pledging collateral to individual borrowers, those institutions form groups of borrowers among members of local communities—mainly groups of women because they are (believed to be) more reliable than men—who are jointly liable and thus have an incentive to monitor each other.18 Thus, each borrower’s credit default option is subject to group pressure: the second borrower will receive credit only after the first borrower has begun with repaying his or her loan, the third borrower receives credit only after the second borrower has begun repayment, and so forth. Micro-insurance programs such as currently offered by the German insurance company Allianz in South East Asia facilitate micro-credit relations by insuring the risk of sickness and death, i.e., cases of credit default that occur due to reasons other than borrower moral hazard. Thus, this insurance further reduces the risk premium demanded by the lender and directly increases the win-win potential of the micro-credit relationship.

The problem of credit rationing can be viewed as a situation of asymmetric exploitation on the borrower side that results in collective self-damage (Figure 2a). If the lender assumes that the borrower will behave opportunistically and default after receiving credit, the lender will not be willing to grant credit in the first place. The commitment service offered by micro-credit programs imposes an informal sanction for borrower default (peer pressure) and thus induces the borrower to act cooperatively (Figure 2b). This credible signal from the borrower enables the lender to reduce—and with the help of micro-insurance schemes, reduce even further—the risk-adjusted

16 The increasing importance of corporations as norm-entrepreneurs is put forward by scholars such as Reinicke (1998), Wolf (2005), Pattberg (2005) as well as Moon, Crane, and Matten (2005).
17 A detailed analysis of rural credit markets in developing countries is given both in Petrick and Pies (2007) and Petrick (2004).
interest rate and to invest in a formal contract scheme of credits. In this way, micro-
credit and micro-insurance fully exploit the win-win potential of self-commitment and
help solve the problem of credit rationing as a prime obstacle for rural development and
the moral objective of fighting poverty and social exclusion.

((3)) Box III represents those corporate citizenship projects by which the company
binds itself. A prominent example is Henry Ford’s public announcement of the $5-per-
day program on January 5, 1914, a morally highly desirable program for which, at the
time of introduction, Henry Ford was heavily criticized by Wall Street stockholders and
competitors. The program included a reduction in the length of the workday from nine
hours to eight, a six-day workweek, and a doubling of going rate for minimum daily pay
from $2.34 to $5 for qualified workers. The program was offered to men over age 22
who had worked at the company for more than six months and, importantly, conducted
their lives properly—that is, did not indulge in heavy drinking and gambling.19

Ford’s innovative program was designed to solve a particular problem he was
facing. At that time, the industrial workforce typically consisted of migrant workers.20
As a result, along with high absenteeism, the turnover rate at the Ford plants amounted
to 370 percent [sic!] prior to 1914. This means that the average employee recruited on
January 1 would have already left the company by April 15. The technical innovation of
producing cars on an assembly line, however, made workers highly dependent on each
other and hence high turnover rates and absenteeism created huge problems at the
plants. The dramatic increase in wages and the 48-hour, six-day workweek, therefore,
induced workers to bind themselves to the company, to settle down and make company-
specific investments in human capital. In this way, productivity at Ford’s plants
increased so much that he realized a high increase in net profits despite higher costs due
to the increase in wages—ultimately satisfying even the critical Wall Street
stockholders. Ford’s moral commitment to the $5 workday triggered a productive
response by his workforce and thus proved to be a prudent win-win strategy.

To see this more clearly, the situation before 1914 can be reconstructed as a one-
sided social dilemma that results in collective self-damage as depicted in Figure 2a. It
would have been advantageous to Henry Ford to exploit his workers’ company-specific
investment both in human capital (in-plant training for firm-specific skills) and in social
capital (settling down near Ford’s factories with their families) and related investments.
In our game theoretical scenario, however, the workers, anticipating Ford’s
noncooperative conduct, would not make such human or social capital investments and
would, instead, remain flexibly deployable as migrant workers. Imposing on himself a
sanction in the form of the $5-per-day program, Ford made credible his promise not to
exploit his qualified workers (Figure 2b). This permitted the win-win solution of self-
commitment by inducing his employees to make productivity- and profit-enhancing

19 In 1926, Ford went so far as to introduce the five-day workweek. However, from today’s
perspective, the revolutionary wage package was linked to a set of morally debatable measures.
These measures involved paternalistic arrangements that today would be regarded as unduly
interfering with the employee’s private sphere. For instance, the year 1926 also saw implementation
of the “Sociological Department,” created to approve the proper lifestyle of Ford’s workers. The
department used investigators and support staff to maintain employee standards, cf. Crowther (1926).
Again, the crucial argument put forward here, however, is to shed light on the mutually beneficial
commitment logic as illustrated by Ford’s innovative entrepreneurship, not to pass moral judgment.

This logic was clearly recognized by Henry Ford himself: “All of our wage rates have been voluntary. … There was, however, no charity in any way involved. … We wanted to pay these wages so that the business would be on a lasting foundation. We were not distributing anything—we were building for the future. A low wage business is always insecure.”

Box IV represents those corporate citizenship projects by which companies incur a collective self-commitment. This case is of particular interest with regard to those situations in which moral first-movers do not enjoy competitive advantage and may fear that their competitors will exploit the first-mover’s individual self-commitment. Collective self-commitments are thus needed to “bring in” the competitors and, consequently, reduce the threat. In principle, two types of collective self-commitments by companies are possible. The first type involves companies voluntarily binding themselves by way of a sector-wide collective agreement, e.g., to curb carbon dioxide emissions in a certain industry or, perhaps, to reduce corruption in the construction sector. The second type involves firms lobbying for regulation so that all like firms will be collectively bonded by government, creating a “level playing field.” An interesting example of this second type is the case of various online search engines and technology companies—namely Google, Yahoo, and Microsoft—initiating a series of multistakeholder dialogues aimed at developing a set of principles on how companies should respond to Internet censorship and other human rights violations as they relate to the worldwide use of technology. As a result of this process, the companies have petitioned for government regulation and requested that these principles be enacted as U.S. or international law by the end of 2007.

The initiative is a response to the threat to freedom of expression and privacy posed by the Chinese government when it demanded that online search engines reveal information on dissidents and other critics of the system. The problem that Internet companies face in China is akin to the many-sided social dilemma illustrated in Figure 3a. Here, to cooperate means that the Western companies would implicitly agree to maintain international human rights standards despite considerable pressure from the local regime; not cooperating means that the company refuses to be a party to this implicit agreement on the sanctity of human rights and complies with what is required.

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21 In arguing that a lack of (self-)commitment during the early phase of industrialization resulted in firms refusing to improve working conditions and workers failing to make productive human capital investments, the productive logic of commitment is clearly given credit by Huberman (1997, p. 406). Huberman asserts: “[I]n the early stages of industrialization firms and workers have not made a commitment to each other. The early labour forces were heterogeneous, employing men, women and children of nearly all ages. Firms appeared to be indifferent to the benefits of building up a stable and qualified workforce, whereas workers were unsure about their role in and uncertain about the possible benefits of industrial work” (emphasis added).
23 Along with business firms, civil society organizations, investors, and academics have been involved in dialogue aimed at tackling the problems of Internet censorship, cf. Center for Democracy and Technology (2007).
24 Starting in June 2006, Google has taken a novel approach to the problem by asking U.S. trade officials to treat Internet restrictions as international trade barriers, similar to other obstacles to global trade, such as tariffs, in order to tackle the dramatic increase in government Internet censorship, cf. Rubaber (2007). This action by Google draws on Wu (2006), who argues that a trade pact approach is likely to be more effective when governments are blocking entire websites or applications instead of simply filtering specific content.
by the dictatorial regime. In making entering the local market conditional on complying with local laws, dictatorial regimes make compliance the dominant strategy for international technology companies trying to enter the online market in these countries even though local laws conflict with international human rights law. There is a strong incentive to succumb to these demands if one fears the competition will be less scrupulous and step in as soon as a moral stand is taken (i.e., refusing to comply and so not being allowed to enter the market). Thus, the initiative proposed by Google et al. aims at altering the institutional setting for company behavior when faced with laws, regulations, and policies that interfere with the protection of human rights (Figure 3b). Ultimately, the initiative calls for reducing the potential to blackmail transnational companies such that moral standards can be upheld even under strong local government pressure.

(5) This analysis allows formulating the logic of corporate citizenship in a parsimonious yet compelling way. The systematic raison d’être of corporate citizenship (and, for that matter, of business ethics theory!) is to help overcome hitherto unsolved commitment problems. Put differently, it is possible to array any meaningful corporate citizenship activity as belonging to one of the boxes in the two-by-two matrix in Figure 4. At first sight, this assertion might seem overly restrictive. However, if a CC project cannot be reconstructed in terms of (at least) one of the four commitment categories, it follows that, by definition, such a project fails to solve a social dilemma. Thus, it obviously cannot come up with a win-win solution. Consequently, such an activity could only benefit “winners” at the expense of creating “losers.” Conceptualizing corporate social responsibility as a win-lose endeavor, however, not only causes serious problems for implementation, it is also disappointing from an ethical point of view.

This ordonomic analysis has direct implications for our understanding of the semantics of responsibility. Conventionally, the idea of responsibility is used to hold rational actors accountable for their moves in a given game. Yet, the properties of any game are defined by its particular order, i.e., by the general conditions of interaction. Against this backdrop, the rational-choice framework posits that rational actors can also take responsibility for the order of the game. To take responsibility for the game can therefore be described as taking ordo-responsibility for the game’s order—for the constraints that channel behavior. These constraints include both the existing (institutional) rules as well as the knowledge available in the game.25

By this logic, there are two levels of ordo-responsibility. On the first level, ordo-responsibility can be understood as governance responsibility. Governance responsibility seeks to establish mutually beneficial commitments in order to (re-)form the rules that govern the game being played. Put differently, governance responsibility is about amending the institutional constraints of the game. On a second level, ordo-responsibility can be put into practice as discourse responsibility. Discourse responsibility is about initiating and participating in a discourse that aims at identifying common (rule) interests. In other words, discourse responsibility is about changing the informational constraints that shape the perception of the game. The concept of ordo-responsibility thus mirrors two fundamental insights of the ordonomic perspective: “Institutions matter!” and “Ideas matter!”

Thus corporate responsibility can be defined as ordo-responsibility by corporate citizens. Understood in this way, corporate citizenship is a concept for strategic

management: it extends the core idea of business’s proper role in society from being one of value creation by way of moves in the economic game to being one of value creation by means of (re-)forming the rules of the economic game. To put it in simple terms, morality can be employed as a production factor that enhances value creation. To spell it out even more clearly, by acting morally, a company will be acting in its own self-interest with the result being that not only will the company prosper, society will also benefit.

4. Business Ethics, Economics, and Stakeholder Theory: A Literature Review

((1)) Ideas matter. Yet, in order to facilitate social problem solving, semantics need to be in sync with a suitable analysis of social structure. This is particularly true for theoretical perspectives on the changing role of business in a global society. The conceptual framework developed here offers an outlook on social structure that theorizes corporate social responsibility as an endeavor to overcome hitherto unsolved commitment problems. This view of CSR may offer a way of grounding business ethics theory in an appropriate analysis of social structure. As we see it, there are five critical questions that must be answered when solving social problems. Comparing how different theoretical approaches deal with these questions will be one way of judging their effectiveness in the real world.

First, the key feature of a business context is competition. The objective function of the firm is to maximize profits. Profit maximization, however, is not an end in itself. The pursuit of profits can be pivotal to creating broad benefits for society. The first criterion therefore asks whether the business ethics theory seeks to solve potential conflicts by (even partially) suspending the objective function of the firm or by focusing on strategies aimed at harnessing the profit motive for mutual betterment. Rather than making value judgments, we argue that the role of theory is to generate arguments of prudence that are systematically incentive-compatible with regard to the objective function of the firm.

Second, the analysis shows that the systematic point of leverage for creating incentive-compatible win-win solutions lies in (re-)forming the rules of the game. The second criterion therefore asks whether companies are assigned a constructive role in rule-setting processes or whether the creation of rules is treated as the exclusive domain of the state. We argue that in light of a globalized economy where the regulatory action of nation states is nearing the limits of its capacity, business ethics and economic theory are well advised to recognize the role of corporate actors in new governance processes.

Third, win-win reforms can be usefully conceptualized as solving social dilemmas. Yet, the analysis shows that there are different types of dilemmas and different commitment technologies for overcoming them. The third criterion therefore asks whether a theory accounts for these differences and systematically focuses on alternative mechanisms of conflict resolution. We argue that business ethics theory can benefit from a more sophisticated understanding of dilemma structures and commitment devices.

Fourth, it can be rational for self-interested actors to make moral self-commitments because dilemma structures are characterized by the interdependence of individual interests. In social interactions and, particularly, in new governance processes of collective rule-setting, it is imperative to acknowledge the legitimate interests of other
actors. The fourth criterion therefore asks whether the business ethics theory encompasses a stakeholder role. We argue that it is to a company’s advantage to take its stakeholders seriously. Only if companies engage with their stakeholders will they be able to identify and avoid collective self-damage and realize new opportunities for value creation.

Finally, Box IV in Figure 4 illustrates that there are many cases in which companies can best create win-win situations by establishing a collective self-commitment with their competitors, e.g., by agreeing to common environmental standards in order to avoid a race to the bottom. Traditionally, economic orthodoxy has been highly skeptical of such a political role for companies. Adam Smith, for instance, argued: “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”26 More recently, rent-seeking theory has pointed out the problem that arises when companies, cartels, or trusts collude at the expense of the general public. Price collusion is a case in point: companies cartelize, thus making the principle of competition irrelevant. What we have in mind, however, follows a fundamentally different logic. The corporate citizenship framework we propose is based on the concept of “coopetition.”27 From this perspective, cooperation and competition are not mutually exclusive. On the contrary, companies can cooperate in creating suitable, competitive market conditions. In other words, coopetition does not seek to limit but, instead, to empower competition for mutual betterment. We thus argue that business ethics and economic theory should draw on a stakeholder concept that takes into account the pivotal role of competitors in processes aimed at setting or redefining common standards that will improve the working of markets.

((2)) In business ethics, economics, and stakeholder theory, there is an ongoing, dynamic debate regarding the changing role of business. We suggest that the five criteria set out above can serve as points of reference for discussing some of the strengths and weaknesses of this debate. To illustrate, we briefly discuss how the contributions of prominent authors such as Milton Friedman (a), Michael Jensen (b), John Boatright (c), Joseph Heath (d), and R. Edward Freeman (e) can be compared within the framework of this article.

(a) Although Milton Friedman is often criticized in the business ethics literature, we argue that he has set an important theoretical standard. Friedman believes that business ethics need to be grounded in an understanding of the economic system. He discusses how the pursuit of profit contributes to fostering social objectives. Friedman argues that “corporate social responsibility” that is engaged in at the expense of profit ultimately undermines free markets.28

Note that Friedman uses two different semantic approaches to corporate social responsibility. The first one conceives of CSR as a win-lose concept: CSR at the expense of profits not only undermines the morally desirable benefits of free markets, it also creates a severe principal-agent problem. If CSR weakens the profit principle, managers can no longer be held fully accountable to their shareholders. This win-lose approach comes under heavy criticism by Friedman. The second approach, and the one advocated by Friedman, sees CSR as a win-win concept. Given a functional institutional

28 This perspective draws on Friedman (1962).
framework for competition, Friedman concludes that the social responsibility of business is “to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud.” It is important to note, however, that Friedman does not assume that the institutional framework is always perfect; he acknowledges that there might be shortcomings in the government’s rule-setting function. Although he does not fully explore the issue, Friedman at least mentions the possibility that corporate actors may contribute as rule-entrepreneurs to improving an imperfect institutional framework—at least in some (local) contexts where the company’s business is directly affected. Friedman writes: “[I]t may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government.” Nonetheless, Friedman fails to provide a systematic framework for conceptualizing the potential role of business in governance processes.

(b) Similar to Friedman’s critique of the win-lose approach to corporate social responsibility, Michael Jensen argues against the widespread normative understanding of stakeholder theory. According to Jensen, the mainstream perception of stakeholder theory not only falls short of providing managers with a clear-cut objective function, it also operates, if adopted, against the long-term self-interest of the firm. Jensen states:

In particular, I argue, a firm that adopts stakeholder theory will be handicapped in the competition for survival because, as a basis for action, stakeholder theory politicizes the corporation and leaves its managers empowered to exercise their own preferences in spending the firm’s resources.

The normative theories Jensen criticizes treat the involvement of stakeholders as an end in itself that should be pursued in addition to—i.e. at the expense of—the firm’s profit. In contrast, Jensen argues for a two-tiered instrumental approach to stakeholder engagement. Consulting stakeholders can serve as a powerful means to the end of pursuing profit. Yet, the pursuit of profit is not the ultimate end but, in turn, a particularly effective means of fostering society’s moral objectives. Consequently, the involvement of stakeholders can best be understood as a useful means for advancing social welfare. This idea is at the core of what Jensen calls “enlightened value maximization.” By this logic, stakeholder management is important as a heuristics, as a way of empowering the profit principle for both shareholder and stakeholder interests. Note that Jensen’s understanding of corporate citizenship is clearly in keeping with a win-win approach to corporate social responsibility. However, even less than does Friedman, Jensen does not envisage any political role for businesses to improve government functions: “Resolving externality and monopoly problems is the legitimate domain of the government in its rule-setting function.” For Jensen, the rule-setting function remains exclusively with government.

(c) Whereas Jensen is concerned with the negative implications of a normative stakeholder paradigm in strategic management, Joseph Heath argues against this same

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29 Friedman (1962, 133), emphasis added.
30 Friedman (1970), emphasis added.
approach but from the viewpoint of business ethics. According to Heath, the normative stakeholder concept fails to provide a productive heuristics for an appropriate understanding of the firm’s social responsibilities. Heath instead suggests conceptualizing corporate responsibility in terms of a “market failures approach” that systematically targets the institutional framework in which the firm operates. From this viewpoint, there are two institutional solutions when the price mechanism of competitive markets falls short of providing a win-win outcome. The first response is the creation of the firm itself. This Coasian argument draws attention to the fact that in order to assure a proper working of the firm the first set of (intra-company) responsibilities for managers involves their fiduciary duty as corporate agents of the owners of the firm to maximize profits. The second mechanism of overcoming market failure is to set up a legal framework that enforces and maintains market transactions within the realm of competition. However, Heath claims that the legal framework set up by government is not always able to ensure a perfect market system of competition—market failures still occur. Therefore, firms need to embrace a second set of extra-company social responsibilities. If such market failures occur, firms should refrain from taking advantage of the situation and, consequently, suspend their profit maximization. As Heath asserts: “[T]he ethical firm does not seek to profit from market failure.”

Note, however, that Heath’s advice ignores the fact that the market will punish moral first-movers if their competitors can take advantage of the first-movers’ individual self-commitment. Strategies of individual self-binding are simply not effective in addressing systemic market failure. Hence, with regard to the second set of responsibilities, Heath’s argument resorts to moral appeals to foster the common good at the expense of the firm’s self-interest. Put within the context of our framework, the theory falls short of providing a constructive way for companies to contribute as political corporate citizens by providing rules to overcome social-dilemma situations.

(d) Akin to Joseph Heath, John Boatright also calls for a paradigm change in business ethics. More specifically, he pointedly criticizes what he calls the “Moral Manager Model,” which Boatright perceives as the underlying paradigm of much of the established business ethics literature. The hallmark of this model is to focus primarily on the individual manager as the core unit of analysis. According to Boatright, the problem with this has to do with the difficulties that arise when trying to use this perspective for addressing ethical dilemmas. Focusing on the moral virtue of the individual manager, ethical conduct can accomplish moral objectives in the business context only if it manages to override two functional logics: the logic of corporation hierarchy and the logic of market competition. Boatright is skeptical that this is possible. As a consequence, he argues for a different theoretical perspective for business ethics that focuses not on the virtues of managers but on the creation of moral markets. By this logic, he directs the attention of business ethics toward appropriate market incentives that provide for aligning the self-interest of corporations with the moral

37 Heath (2006, 550) asserts: “[S]pecifically ethical conduct in an extrafirm business context … consists of refraining from using non-preferred strategies to maximize profit, even when doing so would be legally permissible. Put more simply, the ethical firm does not seek to profit from market failure.”
objectives of society, and suggests the use of a “Moral Market Model” that, instead of stressing the individual moral responsibility of top managers, highlights the “role responsibility” of managers as agents of the corporation and favors incentive-compatible rules to guide managerial and firms’ behavior. Boatright also believes the corporation can fulfill a political role and actively participate in rule (re-)forming processes with firm-specific stakeholders.

(e) Stakeholder theory has become of increasing importance in business ethics and business administration. Originally conceived of by R. Edward Freeman, the stakeholder concept also plays a central role in a number of deontic theories that are used to determine corporate and managerial duties. Freeman himself, however, strongly opposes this normative perception of stakeholder theory in business ethics. In contrast to the deontic take on stakeholder theory, Freeman asserts that the stakeholder concept is a powerful tool of strategic management. This strategic stakeholder concept emphasizes the pivotal role of stakeholders for the long-run success of the corporation. Freeman argues that there is no need for a separate CSR approach as long as stakeholder management is taken seriously. In principle, Freeman’s functional approach to stakeholder interests is a win-win approach. He focuses on corporate behavior that embraces both the long-run self-interest of the firm and the legitimate social and moral objectives articulated and represented by its stakeholders. Viewed in light of the framework proposed in this article, the mutually beneficial coordination of stakeholder interests—i.e., solving pressing societal problems—requires a change of the rules of the game. However, it remains an open question whether Freeman envisages any political role for businesses to participate in joint rule-setting processes. His stakeholder theory does not explicitly discuss that in such processes competitors might be the key stakeholders that need to be considered.

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Figure 5: Overview on business ethics literature


40 Freeman refers to the normative interpretation of stakeholder theory put forward by, e.g., Goodpaster (1991) or Donaldson and Preston (1995).
This short analysis of Milton Friedman’s classical text and of the more recent debate about the theoretical foundations of business ethics has some interesting implications for the field. There appears to be a strong consensus that business ethics will best contribute to the real-life implementation of moral objectives if it successfully identifies avenues for mutual betterment. As Figure 5 illustrates, this win-win orientation is—or is becoming—mainstream in business ethics (first column). However, there are two other developments that make a true consensus difficult. First, there is a dynamic strand of business ethics literature that focuses on the emerging role of corporate citizens in rule-setting processes of new governance (second column). Second, there is the well-established discourse on the stakeholder approach (column four). So far, these two important strands of theoretical literature seem fairly disconnected. We suggest that the ordonomic framework set forth in this article might serve to bridge this gap. We contend that a proper understanding of corporate citizens as rule-entrepreneurs necessarily needs to acknowledge the important role of stakeholders. After all, processes of joint rule-creation require constructive dialogue with all actors that play a crucial role for the firm’s potential of value creation. In a similar way, the stakeholder approach needs to acknowledge the importance of new governance, especially in the form of collective rule-setting processes. If it does not, it blinds itself to the central role of competitors (column 5) as crucial stakeholders in a competitive world. In short, we believe that there is ample room for mutual learning and constructive dialogue between current business ethics theorizing on social responsibility and corporate citizenship, strategic management and new governance, and stakeholder theory. The ordonomic approach offers a conceptual perspective that can serve to integrate these different research perspectives. Its emphasis on the logic of social dilemmas (column 3), allows for focusing the debate on the analysis of alternative mechanisms for dealing with (hitherto unsolved) commitment problems.

Conclusion

If business ethics is serious in its aim to realize moral desiderata, it must take care not to use inappropriate semantics that inadvertently sabotage the whole endeavor. Theory matters. With regard to the theoretical paradigm appropriate for business ethics, we have formulated an “ordonomic” approach that implies four core theses.

First, we distinguish between “Smithian” and “Malthusian” scenarios. The first describes a situation where individual self-interest (e.g., profit seeking) is in harmony with societal concerns that qualify as moral desiderata. The latter describes a situation where individual self-interest is in conflict with the legitimate self-interest of other actors. We propose that business ethics should help transform “Malthusian” situations into “Smithian” situations. We claim that an ordonomic approach provides a theoretical foundation that enables business ethics to fulfill this task.

Second, we show that by using a rational-choice based analysis of institutional arrangements, “Malthusian” scenarios can be reconstructed as social dilemmas. We distinguish between one-sided and many-sided dilemmas. In both types of dilemma, rational actors experience Pareto-inferior outcomes. The difference between them is that in order to overcome a one-sided dilemma—i.e., to realize a win-win solution—an

individual commitment is sufficient, whereas a collective commitment is required to overcome a many-sided dilemma. Collective commitments are the essence of new governance processes in which corporate citizens can display ordo-responsibility.

Third, we claim that there is a systematic connection between social dilemmas and win-win solutions. Our analysis shows that all corporate citizenship activities aimed at mutual betterment can be exhaustively classified into four categories. These categories are (a) individual self-binding commitments, (b) collective self-binding commitments, (c) a commitment service for individual self-binding, and (d) a commitment service for collective self-binding. We illustrate each category with a real-life example and conclude that, as corporate citizens, business firms can extend their societal role as value creators from simply making moves in the economic game to (re-)forming the rules of the economic game. By making use of moral commitment technologies as a factor of production, business firms actively improve incentives and thus contribute to playing better games.

Fourth, we survey the recent debate concerning appropriate theoretical foundations for business ethics and in the process identify two lacunas in the field. First, a rational-choice analysis of dilemma structures plays virtually no role in this literature even though such an analysis can provide a powerful basis for business ethics. Second, the literature does not view competitors as crucial stakeholders. This mirrors the underexposed rule-setting function of corporations in new governance processes. We conclude that our “ordonomic” approach has the integrative power to provide a basis for mutual learning and constructive dialogue between current business ethics theorizing on social responsibility and corporate citizenship, strategic management and new governance, and stakeholder theory.
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