

# Stakeholders as Citizens? Rethinking Rights, Participation, and Democracy

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**ABSTRACT.** This paper reviews and analyses the implications of citizenship thinking for building 'ethical' institutional arrangements for business. The paper looks at various stakeholder groups whose relation with the company changes quite significantly when one starts to conceptualize it in terms of citizenship. Rather than being simply stakeholders, we could see those groups either as citizens, or as other constituencies participating in the administration of citizenship for others, or in societal governance more broadly. This raises crucial questions about accountability and democracy in stakeholder relations with the corporation. We sketch out the main currents informing and emerging from the citizenship perspective on firm-stakeholder relations; analyze specific stakeholder groups and their particular relevance in the context of a citizenship perspective; and conclude with a discussion of the broader implications in terms of building ethical institutions.

**KEY WORDS:** corporate citizenship, democracy, ethical institutions, participation, rights, stakeholder

## Introduction

The notions of 'citizens' and 'citizenship' have begun to be increasingly discussed in relation to corporations, whether in terms of their social role and responsibilities, or their stakeholders. For instance, the term 'corporate citizenship' (CC) has been in use for some time but has recently gained significant currency in the discourse of business ethics (Matten et al., 2003). This has included a stream of work discussing the citizenship-like behaviors expected of corporations (e.g. Carroll, 1998; Andriof and McIntosh, 2001). It has also given rise to an emerging stream of literature either critical of these conventional views of CC (e.g. Bendell,



2000) or attempting to set out a more radical agenda for CC thinking (van Luijk, 2001). Most notably, this has involved looking at the role played by corporations in administering citizenship for individual citizens beyond basic stakeholder models (Matten et al., 2003). Finally, we have also seen a number of contributions examining the linkages between notions of citizenship and specific stakeholders, such as employees (Manville and Ober, 2003) and consumers (Danna and Gandy, 2002).

These developments are significant in that they alert us to certain important lines of enquiry regarding the relationships between corporations and their stakeholders. Specifically, the main traditions of citizenship scholarship centre on three main aspects: (i) the *rights* or entitlements of citizenship; (ii) the processes of *participation* involved in citizenship; and (iii) the *democratic* context of citizenship. These are clearly all directly germane to stakeholder thinking, in that notions of stakeholder rights, stakeholder participation, and stakeholder democracy are all significant elements in the current discourse, and more importantly in the context of the EBEN 2003 conference, have been strongly associated with recent developments in thinking about the moral quality of the institutional arrangements for business.

This paper reviews and analyses the implications of citizenship thinking for building 'ethical' institutional arrangements for business. The paper particularly looks at various stakeholder groups whose relations with the company changes quite significantly when one starts to conceptualize it in terms of citizenship. Rather than being simply stakeholders, we could see those groups either *as* citizens (which depend and expect from the corporation the administration of some of their citizenship rights), or as other constituencies *participating* in the administration of citizenship for others, or in societal governance more broadly. Either way, this raises crucial questions about accountability and *democracy* in stakeholder relations with the corporation. The central question for us is therefore: what institutional and organizational frameworks are needed to make corporations accountable to, and controllable by, citizens in the context of particular stakeholder relations? In order to answer this question, we shall first sketch out the main currents presently informing and emerging from the citizenship perspective on firm-stakeholder relations. We shall then analyze

specific stakeholder groups – shareholders, employees, consumers, etc., – and their particular relevance in the context of a citizenship perspective. We shall then conclude by discussing the broader implications of this analysis in terms of ethical institutions.

### **Reframing the firm-stakeholder relation – a citizenship perspective**

The notion of 'citizenship' has been introduced quite broadly into the business ethics literature in recent years. Although these are certainly interrelated, and not always as distinct as we might expect, we can categorize the three main approaches as follows: corporations as citizens; corporations as administrators of citizenship; and stakeholders as citizens. Let us briefly look at each of these in turn.

#### *Corporations as citizens*

The idea that corporations can be thought of and talked about as though they were in some ways like citizens is the underlying, and usually unstated, assumption in much of the discourse of corporate citizenship, whether this appears in the exhortations of corporate websites or in academic or consultant-speak about CC. Here, the suggestion is that corporations are 'legal entities with rights and duties, in effect, "citizens" of states within they operate' (Marsden, 2000, p. 11). Consequently, being a 'good corporate citizen' has been widely identified as an important criterion for socially responsible business (e.g. Carroll, 1991).

Citizenship in this context typically 'implies membership in a bounded political (normally national) community' (Hettne, 2000, p. 35), and would ordinarily be thought of as providing the corporation with certain rights and responsibilities towards that community. Much of this writing however has not actually tended to think through the implications or assumptions implicit in thinking about corporations in such terms. Indeed, as Matten et al. (2003, p. 113) argue:

'[C]orporate citizenship' just functions as a new, as it were, combination of letters for certain ideas without any serious reflection on the notion of 'citizenship' and

its potentially new meaning. . . . From the analysis of the current academic thinking on CC, it would appear that this is really just a rebranding or relaunch of extant ideas in order to appeal better to business. After all, there seems to be nothing in the CC literature which is significantly different from the traditional CSR stance.

Notwithstanding this critique, talking about corporations as though they were citizens does alert us to questions about what exactly corporations would need to do or be in order to be legitimately afforded such a label. Moon et al. (2003) contend that the key issue here is one of the process of *participation* that corporations undertake in civic affairs and governance. Simply put, crucial aspects of (human) citizenship relate to participation in political processes. This raises questions for us about the forms and norms of participation on the part of corporations in such processes. Similarly, it also raises similar questions in relation to other collective entities such as trade unions, civil society groups, and governmental organizations. First, is it the case that these stakeholders do and should also participate as ‘citizens’ in societal governance? And second, what role might they and other stakeholders have in influencing or contributing to corporate participation in governance? These are essentially questions about democracy and accountability in societal governance.

#### *Corporations as administrators of citizenship*

Although participation may be the most legitimate way of thinking about corporations as citizens, the dominant understanding of citizenship in most industrialized societies is actually more rooted in the liberal tradition (Schuck, 2002), which stresses individual rights. Here, according to Marshall (1965), citizenship is defined as a bundle of rights conventionally granted by governments to individuals. These are: civil rights (freedom from abuses), social rights (freedom to enjoy welfare) and political rights (active participation in society).

If we analyze the term ‘citizenship’ from this perspective it is, at first glance, somewhat hard to relate this notion to corporations at all since few if any of these rights can be regarded as an entitlement

for a corporation in the direct sense (Wood and Logsdon, 2001). However, Matten et al. (2003, p. 115) suggest that ‘corporations then enter the picture – not because they have an entitlement to certain rights as a “real” citizen would, but as powerful public actors which have a responsibility to respect those “real” citizen’s rights in society.’ The crucial argument here is that it is corporations rather than governments which have increasingly assumed, shared or even taken over the function of protecting, facilitating, and enabling of citizen’s rights – formerly an expectation placed solely on the government. We only have to look at the examples of business involvement in educational and community development programs, or provision of health and educational services for workers in developing countries, to see that they play a role in administering social rights. Protection of civil rights can also be seen to have increasingly come under corporate influence, particularly in countries with oppressive or unstable regimes such as Nigeria or Burma. And evidence of citizens effecting their political choices through anti-corporate actions rather than conventional political channels, suggests that political rights too have increasingly entered the corporate sphere of action.

The contention that corporations administer certain aspects of citizenship for other constituencies obviously has implications for our thinking about stakeholders. In one sense, some stakeholders such as employees, consumers, shareholders, and local residents *are* these citizens whose rights are at stake and whose fortunes are bound up with the corporation. In other circumstances, the relationship will be more indirect. Stakeholders such as civil society organizations and the government are supposed to *represent* citizens’ interests, and those such as suppliers are simply *involved* in the corporate administration of citizens’ rights. More broadly, although the category of citizens will include traditional stakeholders such as employees, customers, or shareholders it will also include wider constituencies with no direct transactional relationship to the company, such as, for instance, civil society actors. Depending on the context then, this perspective certainly raises issues about the relevance and importance of citizenship rights for stakeholders. But more fundamentally, it also highlights further aspects of stakeholder participation and democracy, especially given that we are

talking here about corporations taking over what are hitherto or in other circumstances governmental functions.

#### *Stakeholders as citizens*

The final way in which citizenship thinking is relevant for our discussion is in relation to specific stakeholder groups, as in consumers or employees or other stakeholders being considered not only as stakeholders, but as citizens in themselves. This may rest on assumptions set out above, namely either that stakeholders *are* citizens, or that they *represent* citizens' interests. This has been evident in work such as: Manville and Ober's (2003) attempt to develop new a model of employee involvement from the Athenian model of citizenship; Danna and Gandy's (2002) examination of citizens' exclusion from participation in markets and the public sphere through data mining; and Cumming's (2001) analysis of stakeholder involvement in social accounting using Arnstein's Ladder of Citizen Participation.

Thinking about corporations as dealing here with 'citizens' rather than with simply 'consumers' or 'employees', etc. brings up several important issues. One of these is obviously the social, civil, and political rights that such citizens might expect to have respected and protected over and above their rights as stakeholders. Significantly though, many of these studies are at least, if not more, concerned here with aspects of stakeholder participation and involvement in corporate decisions, and the development of a more open and democratic model of governance. As Manville and Ober (2003, p. 48) make clear, this is not just concerned with decisions affecting the stakeholder's immediate interests, but about the direction and purpose of the overall company.

Considering stakeholders as representatives of citizens taken us onto even broader concerns. Stakeholders such as governmental and non-governmental organizations, trade unions, and consumer associations essentially represent the collective interests of groups of individual citizens. Under this remit, such groups have participated in the societal and regulatory environment that defines, enables, or constrains 'acceptable' business activity, suggesting

a more far-reaching citizenship role for stakeholders in building ethical institutions in society.

#### **Stakeholders: rights, participation and democracy**

As we have seen then in this brief review of the literature, the relevance of citizenship thinking for stakeholder theory raises several crucial issues – the rights of stakeholders/citizens; their participation in corporate decisions and governance; their participation in societal decisions and governance; and the democratic context under which stakeholders directly or indirectly influence corporations. In the following, we will explore these issues and questions for different stakeholder constituencies. We will, first of all, have a look at the nature of the citizenship rights relevant to a particular stakeholder group. The main focus of our argument, however, will be to look at ways these stakeholders hold corporations accountable and control the administration of these fundamental rights through democratic participation.

#### *Shareholders*

In an age of pension funds and increased shareholding, corporations administer a good deal of their shareholders' property rights, which in Marshall's (1965) term can be considered as social rights. In addition, the rise in ethical investment on issues such as armaments, oppressive regimes, and tobacco suggests that some shareholders are also exercising some of their political rights through their shareholdings rather than through the ballot box. This raises the question of how far corporations are accountable for this administration of rights. Further, it is important to examine the possibilities for shareholders to actually participate in corporate decisions and use the leverage of shareholding to shift companies towards a desired treatment of these rights, and even, the rights of others.

Shareholders have a particularly powerful position from which to hold the company accountable on a variety of issues. The notion of *shareholder democracy* is a commonly discussed topic in corporate governance (Parkinson, 1993, pp. 160–166). The basic idea behind the term is that a shareholder of a

company is entitled to have a say in corporate decisions.<sup>1</sup>

As in systems of mass representative democracy, given the vast number of shares this influence for the single shareholder is rather small. However, with institutional investors or holders of larger share packages the situation looks considerably different, since they are able to bring their collective shareholder power to bear through participation either formally at shareholder meetings or more informally between these. Nevertheless, the actual ways of influencing the board of the corporation and the institutions of proxy vary across countries. Moreover, since the crucial occasion where shareholders vote is the annual meeting, their power is mainly focused retrospectively. They may or may not approve of the company's activities during the last year, whereas their influence on *future* plans is somewhat limited.

Clearly though, these limitations and qualifications do not exclude corporations from being accountable to their shareholders. Corporations and their managers are (at least in principle) answerable to their shareholders, mainly through the annual general meeting (AGM) but also through the shareholders' representatives on the board of directors. In empowering shareholders to exert power over the corporation, a crucial role also falls to the annual report, since this is the main vehicle through which shareholders learn about 'their' company.

There are, however some important issues to be considered when extending this to incorporate social and ethical considerations, including the scope of activities (it is one thing to say that corporations need to answer for their financial performance, but it is quite another to suggest that they need to also be accountable for all sorts of other social impacts) and the provision of adequate information (standards of social reporting are still relatively under-developed and are non-mandatory).

Probably the key issue here though is the potential mechanism for change open to shareholders concerned about social and ethical issues. The options open to shareholders here broadly fall into two categories: *shareholder activism* and *ethical investment* (Sparkes, 2001). The first of these suggests that one of the potential levers with which to make corporations accountable for their ethical behavior is to make positive use of the rights of shareholder democracy. The most important right here is the

right to speak in the AGM and at other occasions where shareholders (and usually *only* shareholders) are allowed to voice their opinions on the company's policies. Perhaps even most importantly, they open the possibility to get broad media attention for these issues by bringing their voice to the meeting. In this situation, what we essentially have is a stakeholder group that adopts the role of a shareholder, but does so in a way that potentially provides it with greater leverage.

Shareholder activism is an established practice but is most famously associated with the US, for instance in the campaign to improve race relations at General Motors in the 1970s (Carroll and Buchholtz, 2000, p. 571). In the U.K. it is quite difficult to raise issues in the AGM as this would need the involvement of larger institutional investors (Taylor, 2000, p. 174). There have been some recent signs of their greater preparedness to contest company decisions over executive remuneration and appointments, such as recently witnessed at GlaxoSmithKline, and at BSkyB (see Crane and Matten, 2004, pp. 191–193). There are also a few examples of shareholder activism in recent years where NGOs have used shareholdings to challenge corporations on issues such as treatment of indigenous populations, pollution, or animal testing. The most prominent example in recent years is probably the decision by the construction firm Balfour Beatty to abandon the Ilisu Dam Project in Turkey, which is credited to a great deal to shareholder activism by the campaigning group the 'Ilisu Dam Campaign' (see Crane and Matten, 2004, pp. 445–448). Embedded in larger campaigns, the filing of shareholder resolutions, talking at annual meetings or even filing law suits as a shareholder can be very effective ways of making corporations change their behavior. Clearly though, this is only an option for reasonably wealthy individuals as – depending on the legal system – a certain amount of shares is necessary to attain visibility and influence.

The second main mechanism, *ethical investment*, is more removed from the corporation and certainly less active than confronting managers head-on in AGMs. However, with the general public apparently getting increasingly concerned about corporate accountability, a large and rapidly growing body of shareholders has emerged who specifically include ethical concerns into their investment decisions (Rivoli, 1995; Taylor, 2001). According to Cowton

(1994), ethical investment is the use of ethical, social, and environmental criteria in the selection and management of investment portfolios, generally consisting of company shares. Investors can either exclude certain companies with undesired features (negative screening) or adopt companies with certain desired features (positive screening). Besides investment brokers and portfolio management companies, the key actors in ethical investment are funds that offer investment opportunities in company shares complying with certain defined ethical criteria. In 2002, there were nearly three hundred such funds in Europe, although they accounted for less than one per cent of the total stocks managed by European funds (Anon, 2002).

Ethical investment is quite a striking example for what we referred to at the beginning of this section as shareholder democracy. By allocating their investment to corporations which comply with certain ethical standards, investors not only have some influence on the company's policy but they also set incentives for other companies to review their policies. Increasingly, analysts and investment firms question companies on their ethical policies, as the existence of ethical funds has proven to be not just simply a new niche in the market, but has raised attention to a previously ignored issue. As Rob Hardy, an asset manager from the Investment Banker JP Morgan Fleming in London puts it: 'we monitor the environmental and social profiles of the companies we invest in and adopt an engagement approach with the worst performers. I like to think we're waking companies up to these issues.' (Cowe, 2002). Interestingly some investment funds also use rating agencies (e.g. Ethibel), which collect data on corporations' social and environmental performance, often in conjunction with their own stakeholder networks. This is akin to human citizens using pressure groups and think-tanks to evaluate governmental performance. Ultimately, ethical investment obviously has an ongoing disciplinary effect on a wide range of companies, mainly because unethical behavior makes them less attractive for a growing number of investors.

### *Employees*

Corporations have a strong influence on the administration of social rights of their employees,

including aspects of health and safety, fair wages, education, etc. This is particularly the case in developing countries where governments have proven unwilling or unable to protect such rights, leaving it open to the discretion of corporations. This raises questions about the mechanisms of influence open to employees to shape this provision, including models of employee participation and 'co-determination' (Ferner and Hyman, 1998).

The recognition that employees might be more than just human 'resources' in the production process has given rise to the claim that employees should also have a certain degree of influence on their tasks, their job environments, and their company's goals – i.e. a right to participation (see Cludts, 1999; Claydon, 2000). The key issue at a practical level is not so much whether at all employees should have a right to participate in decisions, but rather to what degree this should take place. There are two main areas to which a right to participation expands (Kaler, 1999):

(i) *Financial participation* allows employees a share in the ownership or income of the corporation. Traditionally co-operatives have been thought of as the main mechanism enabling such participation. Some recent initiatives predicated on (partly) remunerating employees with shares or share options have also tried to work into this direction.

(ii) *Operational participation* occurs at a more practical level, and can include a number of different dimensions. Starting with delegation of tasks, often labeled as 'job enrichment' or 'job enlargement' schemes, operational participation may also include the provision of crucial information on the company or even consultation in decisions that have a significant impact on worker's lives. The strongest form would be co-determination where employees have a full and codified right to determine major decisions in the company. This is the strongest form of participation and would include decisions about the strategic future of the corporation, such as mergers or diversification into new markets (Ferner and Hyman, 1998).

Internationally, there is still quite a variety with regard to the degree of participation allocated to employees. Whereas employees in Britain, for instance, mostly learn from the papers if their jobs are on the line, Swedish or French companies usually cannot take these measures without detailed communication, consultation, and agreement with

employees. In many such countries, there is a quite extensive body of legislation that focuses on the representative organization of the workforce. Consequently, many of these participatory rights are not practised by employees directly but by their representatives in works councils, trade unions, or other bodies. With converging legislation and a constant extension of the EU, there is reasonable ground for expecting future convergence of legislation regarding worker participation, as the example of European Works Councils illustrates (Ferner and Hyman, 1998).

The European model of capitalism branded as 'Rhenish Capitalism'<sup>2</sup> by Albert (1991) appears to consider the interests of employees to a greater degree than the Anglo-American model. The key concept in this context is the idea of 'codetermination,' which describes the relationship between labor (employees) and capital (shareholders) in Europe, namely that both parties have an equal say in governing the company (Ferner and Hyman, 1998). In Germany and France, in particular, this has resulted in a very strong legal position for workers, works councils, and trade unions. So for instance, in German companies in the metal industry, half of the supervisory board consists of employee representatives and the executive board member for personnel has to be appointed by the workers directly. Consequently, the employees and their rights tend to be far better protected than where shareholders are regarded as the most important group.

Given the important role for works councils and trade unions in facilitating the right to participation, we must also consider here the underlying question of whether employees have a 'right' to join together in such organizations. The crucial factor here is that without a right to associate, employees often lack an effective form of representation of their interests to employers, leaving them in a far weaker position than management in bargaining over pay and conditions. Such rights are in fact enshrined in many parts of continental Europe, especially France, Germany and the Netherlands, although far less so in countries such as the U.K. and U.S. Still, even where rights to associate are legally protected, companies may seek to obstruct or avoid them. For example, Royle and Towers (2002) illustrate how, in the fast food industry, companies with a strong 'anti-union' stance such as McDonald's have been

able to tame, neutralize, or subvert systems of employee representation, especially at a workplace level. In Germany, for instance, they argue that the company successfully managed to avoid collective agreements for eighteen years, and continues to resist works councils. This illustrates the pivotal position of corporations structuring stakeholder citizenship even in politics, which aspire to ensure these.

The rights of workers to participate and associate therefore remain crucial issues for corporations, especially when moving to countries where the legislative framework is different from at home. The motivation, however, does not only have to come from concerns about compliance with legislation or issues of fairness and equity. Increasingly, in modern organizations participation at least has been identified as a means to enhance worker's efficiency, especially when jobs ask for flexibility and creativity on behalf of the employee (Collier and Esteban, 1999). Ultimately though, the rights to participation and association within a company follow a similar line of argument to that concerning participation of citizens in the political process (Ellerman, 1999). Corporations have power over one of the most important areas of an employee's life, namely their economic prospects. Consequently, the principles of a democratic society can be applied to participation in the firm. This is usually through a representative body of some kind such as a trade union. Trade unions may also allow employees some degree of indirect participation in broader issues of societal governance, for instance through union involvement in developing workplace standards and regulation.

### *Consumers*

Corporations predetermine a considerable scope for the exercise of consumers' citizenship rights, such as by denying them access to certain products, or enabling freedom of expression. The role of corporations actually pertains to all three citizenship rights for consumers. In the area of social rights, corporations provide an increasing amount of services, which in developed countries have long been linked to the welfare state. Corporations administer civil rights as they shape the freedom to engage in markets by shaping the offer of goods and services as well

as influencing consumer preferences through advertising. Moreover, consumption decisions are also increasingly framed by consumers as political 'votes' on corporate policies or – a step further – on social and political issues for which the company assumes a representative or symbolic role.

Obviously, the main mechanism of influence open to consumers is the market. Indeed the basic idea of consumer sovereignty, which underlies much neo-classical economic thinking, suggests that consumers have power over producers. Ostensibly, they express their needs and desires as a demand, which firms subsequently respond to by supplying them with the goods and services that they require. This idea is also the basis for conceptions of ethical consumption, which suggests that consumers to some extent can act as a social control of business (Smith, 1990). If consumers demand improved business ethics through the market, then business might be expected to listen and respond (McWilliams and Siegel, 2001). Hence, the consumer is effectively using their purchases as 'votes' to support or criticize certain business practices rather than using the ballot box to vote for political solutions through government and regulation. This is significant since the corporation then begins to act as a conduit for the exercise of consumers' political rights as a citizen.

As Hertz (2001b) has noted, increased political apathy has taken hold in many European countries, the U.S. and elsewhere, yet consumer activism appears to be on the increase. As she contends (Hertz, 2001b, p. 190), '... instead of showing up at the voting booth to register their demands and wants, people are turning to corporations. The most effective way to be political today is not to cast your vote at the ballot box but to do so at the supermarket or at a shareholder's meeting. Why? Because corporations respond.' For example, when the public registered their concerns about the health value of GM foods, governments across Europe did little, yet many major supermarkets soon removed the products from their shelves. The Cooperative Society even solicited consumer opinion on this question, thereby creating a citizenship opportunity for these stakeholders to inform the company policy (CWS, 1995).

Food safety regulation, child welfare, and oppressive regimes have traditionally been issues dealt with by governments. In Hertz's (2001a) words, such issues have undergone a 'silent takeover'

by corporations, with consumers using the lever of the all-important corporate reputation to effect social change. Although we would qualify these developments as gradual, and partial, still leaving considerable leverage in the traditional mechanisms of the electoral process, this shift takes ethical consumption away from merely being a way for consumers to assuage their consciences, towards active participation in making social and political choices. The connection between consumers, corporations, and these traditional 'governmental issues' expands the significance of corporations in providing an arena for citizenship.

In the absence of better ways to make citizens' views heard, ethical consumption is certainly a positive phenomenon. However, there are also limits to the consumer's influence on corporations. First, however socially responsible they may be, the motives of corporations will always be primarily economic rather than moral. Hence, their attention to social concerns will always be driven by market appeal. As in mass representative democracies, minority interests or unattractive causes are likely to be ignored or pushed aside. Market choices are also predicated on an ability and willingness to pay on the part of consumers. If consumers decide they no longer want to pay extra for these ethical 'accessories', or if they can no longer afford them, they will be dropped or firms will reduce costs. Moreover, if purchases are 'votes' then the rich get far more voting power than the poor. The market is hardly egalitarian in the way that democratic elections are. Finally, notwithstanding the practical limits in consumers' ability to gain information, compare between alternatives, choose a viable alternative etc. (see Smith, 1995) the market appears to offer little real opportunity for true consumer participation in corporate decisions. Choosing between alternatives, deciding not to purchase, or even offering opinions to a market researcher all fall far short of genuine participation. Corporations may listen to consumers, but usually only within the closely circumscribed ambit of market preferences.

### *Suppliers*

As corporations themselves, the issue with suppliers is less about their citizenship rights (since again,



suppliers as with any other corporation cannot really be said to enjoy rights to citizenship), but more about their participation in corporate efforts towards societal governance. Hence, one of the most crucial areas where corporations enter the realm of citizenship and begin to take on formerly governmental roles is in the ethical regulation and control of their suppliers. This can be mainly seen to happen through the supply chain, via a process known as *ethical sourcing*, namely when a supply chain member introduces social and environmental criteria into their purchase decisions in order to support certain practices and/or suppliers. Although far from comprehensive, increasing numbers of European companies now include some criteria of this kind into their purchasing policies and agreements, although most tend to focus almost exclusively on environmental issues (Young and Kielkiewicz-Young, 2001).

There appear to be two main ways in which firms can effect such control of their suppliers (see Winstanley et al., 2002). First, *disengagement* which involves the setting of clear standards for suppliers (e.g. a code of conduct) coupled with a means for assessing compliance with those standards (such as an ethics audit). Failure to meet standards in the short to medium term will result in disengagement by the company in order to do business elsewhere. Reebok's 'zero tolerance' policy on child labor is illustrative of this approach (Winstanley et al., 2002). Second, *engagement* which also involves setting standards and compliance procedures, but tends to rely on longer term 'aims' together with incremental 'targets' in order to foster a step-by-step approach to improving standards. Here, the firm is likely to work with other businesses to achieve improvements. Whichever strategy an organization adopts, an ethics code, or supplier code of conduct is likely to play an important role.

Studies have shown that supply chain pressure has been a key factor in prompting firms to seek various social and environmental certifications of one sort or another, even if they are not necessarily perceived as intrinsically valuable.<sup>3</sup> These include accreditations such as the staff training and development award, Investors in People (Ram, 2000) and the environmental quality standard, ISO 14001. In the absence of specific or insufficient legislation in suppliers' countries, or more usually, where there is simply weak enforcement of existing legislation, this kind of

supply chain pressure can be an effective form of regulation on these companies. Although this is not regulation in the formal sense of ensuring compliance with government legislation, the pressure exerted by powerful corporate customers to comply with ethical sourcing guidelines and criteria does constitute strong and indeed often very effective regulation of supply chain members (Cashore, 2002). The threat of losing business or being delisted by a major customer can act as a powerful force for change, particularly when the threat is shown to be more than just an idle one. In particular, when *competitors* within an industry collaborate to introduce ethical guidelines for suppliers, it is often difficult for the suppliers to avoid compliance.

This kind of pressure on suppliers can effect further change through the supply chain, and even into the wider business network. This is because not only are suppliers' own suppliers often involved in any progress towards compliance with ethical sourcing guidelines (and in turn *their* suppliers, and so on), but competing suppliers also have a chance to gain business if they have the right ethical policies or accreditations. Hence, a purchasing 'multiplier effect' can be set in motion which has the potential to achieve social change more quickly and thoroughly than any other single activity that a particular firm could undertake (Preuss, 2000).

The mechanism by which ethical sourcing works is very much the same as the process of ethical consumption – except here it is a corporation (or group of corporations) that is the customer, not an individual person. This obviously constitutes a concentration of buying power far in excess of that wielded by individual consumers. This is particularly pronounced when it is not just solo firms introducing ethical sourcing criteria, but whole groups of competing firms joining together in a coalition to address the problem. Such industry alliances can take a number of forms, from setting up supplier codes of conduct, to systems of supplier auditing and evaluation. Frequently, they also involve pressure groups or government agencies as advisors or even managers of the programme. Either way though, the participation of suppliers in such programmes appears to be very limited, with the emphasis apparently more on enforcing certain supplier behaviors rather than involving them in democratic corporate governance programmes.

A slightly different form of ethical sourcing, where organizations seek in particular to improve the prospects and involvement of suppliers, is *fair trade*. The aim of the fair trade movement is to foster the protection and empowerment of growers as well as to encourage community development by guaranteeing minimum prices and conditions (Brown, 1993). This is effected through the application, monitoring, and enforcement of a fair trade supply agreement and code of conduct typically verified by an independent social auditing system operated by a national body such as the FairTrade Foundation (U.K.), Max Havelaar (The Netherlands) or Reilun Kaupan (Finland). As a result, growers are prevented from sinking into poverty at the whim of commodity markets. Products such as filter coffee, chocolate bars, and bananas sourced and produced according to the strict fair trade conditions are permitted to use a fair trade label, indicating to consumers that growers have received a fair price and been afforded decent conditions and community support. Many growers involved in the fair trade system organize into local co-ops in order to ensure that the benefits are shared appropriately and so that community development can be promoted (Brown, 1993).

#### *Civil society organizations*

Civil society organizations (CSO), namely pressure groups, non-governmental organizations (NGOs), community organizations and other civil actors play an important role in holding corporations accountable for the way they administer citizenship rights. For example, CSOs may co-ordinate boycott actions or other forms of direct or indirect action against corporations. At one level, this may help consumers to exercise their own political rights. For example, while governments across the world stalled on applying sanctions to Burma, the threat of a high profile boycott orchestrated by the Free Burma Coalition encouraged major multinationals such as Philips, Heineken, C&A, and Carlsberg to pull out of the country (Hertz, 2001b). At another level, CSOs may attend to the social and civil rights of the citizens ultimately affected by such campaigns. The above example of Burma is also evidence of a CSO attempting to protect the social and civil rights of workers under an oppressive regime. This

process is sometimes known as *civil regulation* (Zadek, 2001).

In a sense then, CSOs act like proxies or representatives for citizens, similar to the role of parliament and its members in a (democratic) governmental context. Furthermore, in effecting civil regulation, CSOs sometimes participate in the process of governance itself, either in conjunction with corporations, in opposition to corporations, or alone. This is particularly evident when CSOs work together with corporations to introduce forms of civil regulation, such as workplace standards and other codes of conduct because here there is often a relatively significant degree of CSO participation.

Ultimately, however, given that CSOs essentially act on behalf of third party interests, the question of the accountability of CSOs themselves is also a crucial one. This issue has been raised with increasing regularity in recent years (Hilhorst, 2002). This is perhaps not surprising when one considers that they have often been the parties most vociferously questioning the accountability of corporations. Questions about CSO accountability have largely mirrored the same questions that have been raised in relation to corporations. For example, who exactly is an organization such as Greenpeace supposed to be serving? Are the interests of its managers aligned with those of its principal constituents? To what extent and to whom is Greenpeace responsible for the consequences of their actions? This suggests that we can conceptualize CSO managers as 'agents' for a broader collective of civil society 'principals' in the same way that we do for corporate managers and shareholders (see Doh and Teegen, 2002). Likewise, we can model CSOs as representative of different stakeholder interests just as we can with corporations (e.g. Hilhorst, 2002).

Given such a range of stakeholders, issues of accountability, participation, and democracy are clearly quite complex. Still, it is in fact the accountability of CSOs to their supposed beneficiaries that tends to raise the most debate. A number of problems are evident here (see Ali, 2000; Bendell, 2000; Hilhorst, 2002), including:

- CSOs in developed countries purporting to represent the interests of people in the developing world have been accused of imposing their own agendas on local people without

adequately understanding their situation and needs.

- The participation of beneficiaries in agenda setting, defining priorities, and making strategic decisions is often limited.
- The need for financial support and other resources can focus CSOs interests on donors' priorities rather than those of their intended beneficiaries.
- Beneficiaries typically lack effective mechanisms to voice approval or disapproval of CSO performance.

In some ways then it would appear that many CSOs have tended to be equally as inattentive to issues of participation and democracy as many corporations have. Given their largely positive impact on society, their moral orientation and comparatively high levels of popular trust, it could be argued that perhaps these issues are less crucial. However, given the growing importance of their role in society in general, as well as their involvement in business specifically, these questions are only really likely to gain in significance otherwise they will be accused of power without responsibility.

### Governments

In our review of citizenship and stakeholders, we suggested that issues of citizenship rights and participation typically arose when businesses (or their stakeholders) became involved in functions and processes, which in other circumstances, particularly in democratic welfare states, are carried out by governments. This becomes particularly visible, though somewhat complicated, in the context of the government as a stakeholder of corporations.

Unlike many other stakeholders, such as shareholders, employees, or suppliers, government in principle represents an entire community, since it claims authority and in democracies is elected by the citizens of towns, regions, countries, or in the case of the EU, groups of nations. In this respect, governments are similar to CSOs in that they administer and represent the interest of a wider community. In this role as the elected representative of citizens' interests, government mainly defines the conditions for the *license to operate* of business, and constrain or

enable business activities to ensure that citizens' rights are protected.

Recently however, we have witnessed the emergence of quite significant innovations and new styles of regulation used to enact this role. Specifically, the new regulatory approach usually *includes* business (as well as other actors) in the regulatory process itself. And because regulation is essentially about creating rules to benefit society, this inevitably involves corporations more heavily in the administration and protection of citizen rights, and presupposes business participation in governing.

There is a plethora of different labels by which this new trend in regulation is described. The most common one would be *self-regulation* (Doyle, 1997), sometimes known as 'reflexive regulation' (Orts, 1995). Here, the central idea is that the actors are involved in setting up the very regulation that they themselves will be subsequently affected by. A typical example here is the regulation of financial markets in the U.K., which is handled by the Financial Services Authority – a self-regulating industry body rather than a government organization. Other forms of self-regulation include codes of conduct and programmes dedicated to enforcing them such as the Marine Stewardship Council (MSC) or the Ethical Trading Initiative (ETI).

This then is closely related to the idea of *privatization*, since regulation is no longer a task only for public (government) actors, but for private actors such as industry associations and CSOs (Ronit, 2001; Knill and Lehmkuhl, 2002). Moreover, much of this regulation is *voluntary* in that business gets involved in these regulatory processes not because they are forced by government, but because they see it as being in their own self-interest (van Calster and Deketelaere, 2001). Regulation might therefore be regarded as 'softer' and more flexible, since it can adjust reasonably easily to new circumstances, issues, and actors (Martínez Lucio and Weston, 2000). One example here is the 1996 amendment to the U.K. Occupational Pensions Schemes (Investment) Regulations which required pension funds to disclose how they take account of social, environmental and ethical factors in their investment decisions from 2000 onwards. This does not require any particular behavior other than to report but, thereby, encourages greater responsibility through the requirement for transparency, which

again encourages businesses to be explicit about their social responsibility.

There are a number of reasons why these new forms of regulation have emerged. According to van Calster and Deketelaere (2001), the main goals for those trying to introduce new types of rulemaking in this area are the encouragement of a pro-active approach to social and environmental issues from industry, cost-effectiveness and faster achievement of objectives. However, as Orts and Deketelaere (2001) point out, on the national level this innovative approach to regulation is foremost a European approach, and one that has only fairly recently been adopted in other parts of the world and, most notably, on the global level. In particular, then, it has been countries such as France, Germany, and the Netherlands that have been among the early adopters of this approach on the national level since the 1970s.

It would appear that the whole area of business involvement in self-regulation is multifaceted, multi-level, and highly dynamic. That business *is* involved in regulation is clear – thereby providing support for the argument that corporations have increasingly become involved in the protection (or otherwise) of citizens' rights. In discussing various actors in the field of regulation though, it is apparent that the roles of business and government have increasingly become inseparable. In terms of government's role as a stakeholder of business then, it seems to be moving from one of dominating the rule-setting process, to one of accommodating corporate participation in its sphere of activities. Hence, we might further contend that since the government acts as a representative of citizens' interests, citizens have a right to be informed about governmental decisions with other constituencies (such as business), and to be able to determine whether it is acting in their interests or not. The relationship between business and government therefore has also to answer the criterion of accountability. The problem here is not so much corporate accountability to its stakeholder (i.e. government), but the accountability of both parties to society about their relationship.

### Implications and conclusions

Our analysis has shown in which areas stakeholders' relations with corporations can be understood in

citizenship terms: in which ways citizenship *rights* translate into the purview of corporate decision-making; in what fashion their *participation* in corporate and societal governance might take place; and to what extent this lends itself to sustaining a *democratic* context for the enactment of citizenship in relation to corporations.

The issue of citizenship rights for stakeholders certainly extends the notion of relevant rights beyond those typically considered in a stakeholder context. When discussing the relationship to shareholders, we identified quite a substantial influence of corporations over civil rights, most notably the right to property of this constituency. We then surveyed various employee rights corporations have to administer, many of which touched on their social and civil rights. Corporations often provide an additional channel for consumers and CSOs to express their political preferences without going to the ballot box. Corporate and civil society involvement in lobbying, as well as self-regulation and voluntary codes of conduct, further underline their role in areas that, in other circumstances, would be occupied by governments. Similarly, if a large corporation requires certain ethical standards from its suppliers, such as environmental quality or human rights, they have considerable power to shape the manner in which citizenship rights of third parties are enacted.

It remains an open and debatable question in how far these institutional settings actually allow for effective and democratic control of corporations by stakeholders. The main criticism and limitation of stakeholders' democratic influence on corporation lies in the fact that most institutions used for that purpose were originally created for other purposes. Particularly in the cases of shareholders and consumers, obviously the main leverage is the market where these stakeholders either provide their consent or retract it in case they disapprove of the corporation. This mechanism, does not, however, always function as 'perfectly' as economists tend to assume. As in representative democracy it normally takes a very large number of consumers or shareholders to inform corporate behavior and as the huge number of boycotts shows, not all of these consumption decisions/votes of consent have been overly effective in the past (Friedman, 1999).

Furthermore, there is the issue of representation. If the market is the mechanism for controlling the administration of stakeholders' rights, or participating in corporate or societal governance, what are the options for those stakeholders who lack the financial resources to influence the corporations by means of shareholding or consumption? If we accept the market as the sole means of controlling corporations, only a rather small number of stakeholders will be able to offer voice and exert their influence.

The second main institution, apart from the market, is the legal framework of corporate activities. Most notably the regulations about corporate governance are centre stage in this context. This partly pertains to the way that markets are regulated, but particularly focuses on the legal position guaranteed to certain stakeholder constituencies. This is particularly evident with regard to employees: the extent to which they are granted control and to which corporations have to be accountable to them or their proxy institutions is in large parts determined by the legal framework of a country. We briefly discussed some of the differences here, suggesting different models of capitalism across and outside Europe, as well as country-specific variations. The main limitation, however, of this institution for sustaining stakeholder participation and control is the fact that corporations can quite easily circumvent national legislation in a global economy. Not only are countries reluctant to impose too much unfavorable legislation for fear of discouraging investment and employment opportunities, but also corporations are able to locate their investment in part according to the amount of legislation and control imposed over their operations.

An important third factor in the plethora of ethical institutions for stakeholder control are civil society organizations. In the history of stakeholder activism, they arguably have had the most substantial influence on corporations in the past. Their main leverage, however, is publicity and their capacity to mobilize public attention and subsequently public pressure on corporations or governments. An element of concern, however, is their legitimacy and accountability to those constituencies of stakeholder whose interests they supposedly advocate. The legitimacy question increases now that CSOs are getting more constructively and cooperatively involved with corporations and governments, and the

more that they are actively participating in rule setting and other forms of governance, supposedly in the name of their member citizens.

An interesting intermediate form of those three institutions is the emergence of corporate self-regulation or civil regulation. These approaches are partly initiated by market pressure, partly by potential regulatory moves of governments and in many cases rely on the involvement of third parties, most notably CSOs. The advantage of self-regulation is the enhanced flexibility of corporations to react to differing and new stakeholder demands and rights. Furthermore, the process of participation is quite often part of the regulatory process, which frequently includes negotiation between the parties affected.

Finally, an important element of ethical institution building consists of the cultural system of a certain country. More collectivist and feminine cultures – to use Hofstede's (2001) terms – would encourage ethical institutions that embed corporations deeper in societies than those cultural contexts that are more individualistic. This particularly pertains to the collaborative regulatory approaches we discussed. As Donaldson (2001) argues, different nations have different 'inherent cultural tendencies [that] make a society more likely to succeed with democratic institutions' (pp. 25–26). We would argue that these factors play a particular role in providing the basis on which innovative institutional arrangements for corporate accountability and stakeholder control can grow. This pertains particularly to different forms of participation of citizens (turned stakeholders) in societal government alongside with co-operations. As Moon et al. (2003) have shown, participation is enabled and institutionalized differently in different models of democracy. Some of these differences, we argue here, are part of the cultural fabric of a country and will thus shape modes and intensities of stakeholder participation.

The latter reflections shed an interesting light on recent developments in business-society relations on the global level. The most recent 'innovation' here, the UN-Global Compact (for a recent overview see McIntosh et al., 2003) aims at institutionalizing relations between firms and stakeholders particularly beyond the institution of laws and regulations. Having witnessed more than three decades of relatively unsuccessful 'experimenting' with codes of

conducts or other forms of transnational legislation, the UN has now deliberately chosen a different institutional lever. Building on a mix of market pressure (or rather ‘peer pressure’ at the moment), NGO involvement, and trust in corporate intent to behave ethically, the Global Compact institutionalizes specific forms of corporate participation in governing, most notably in the form of multi-stakeholder based ‘Learning Forums’ and ‘Policy Dialogues’. Though the Global Compact is still a fairly new venture, one could argue that more accountable corporate governance of stakeholder interests and rights will increasingly focus on an institutional level beyond (nation-state-based) governmental legislation. This coincides with the recent growth in new CSOs active on the global level to tackle some of the negative side effects of economic globalization. The expectation then would be that corporations can expect to face still quite a plethora of new forms of stakeholder representation interacting with corporations on platforms beyond the institutional setting firms are familiar with at present.

Introducing the metaphor of citizenship (Moon et al., 2003) to the relationships between corporations and their stakeholders has clearly illuminated issues of, and opportunities for, new forms of stakeholder rights and participation in corporate behavior. However, several questions require empirical and theoretical attention. Perhaps the most central one concerns the extent to which, and ways in which, the metaphor can be maintained if corporations are regarded as metaphorical ‘governments’ in relation to their ‘stakeholder citizens’. Most obviously, whereas humans may be citizens in between, say, one and four polities (e.g. local, state/regional, national, supranational), in their role as shareholders, consumers, and suppliers they may be citizens of multiple corporations.

This raises questions about the corollaries of citizenship rights and opportunities, namely: obligations and duties. In the Athenian model, citizenship was an exclusive relationship that explicitly included the duty to defend the polity. Although federalism, regionalism and international integration may have problematised this exclusivity such that, for example, taxes may now be paid in two or three polities, the relationships that stakeholders have with tens and even hundreds of corporations in market societies, where choices for exit are foundational, clearly

stretch these relationships much further. Moreover, democratic conceptions of citizenship in the age of welfare states (Marshall, 1965) were predicated upon assumptions that the state could coordinate activities to deliver social, political, and economic rights, which, in turn, earned the citizens’ loyalty. In such polities, the relative exclusivity of citizen loyalty and government responsibility made for much simpler, if thinner, lines of accountability than the corporation’s stakeholder relations afford. Similarly, membership of one or very few political systems enables the democratic citizen a reasonable capacity for participation without intruding on their other activities (e.g. employment, gardening, reading, family life, etc.). In a similar vein, they enable organized interests such as industry associations and CSOs to organize their affairs in respect of the governmental authorities presiding in a small number of polities. There are questions about how stakeholders of *multiple* corporations – as well as of governments – can emulate these levels of engagement. These, though, are questions for further consideration.

## Notes

<sup>1</sup> Paradoxically in this context, the fear of corporations being unaccountable to shareholders is precisely what inspired Friedman’s (1970) caution against corporate managers – the agents – developing social responsibility policies without the authority of the shareholders – the principals.

<sup>2</sup> This alludes to the fact that the heartland of this approach lies particularly in those countries bordering the river Rhine: France, Germany, The Netherlands, Switzerland, and Austria. In a broader sense though, key features of this capitalist approach can also be traced in the Scandinavian countries as well as in Italy, Spain or Portugal.

<sup>3</sup> Incidentally, this mechanism equally applies to governments as a (in many economies even *the*) major purchaser. There are numerous examples in various European countries where governments have used their purchasing power to impose certain ethical and environmental standards on their suppliers. In effect then, government appear in a double role here: it is a stakeholder of the corporation (see Section “Governments” below) but it can also be seen in a similar role to corporations, in that it may apply analogous mechanisms to its ‘stakeholders’ (Mitchell, 1990), here, namely, suppliers.

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