

# Extended Corporate Citizenship: A Libertarian Interpretation

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## Abstract

We argue that the idea of ECC (Extended Corporate Citizenship) is more in line with libertarian than liberal thinking. The basic idea of ECC is the dislocation of the provider of citizenship rights from governments to corporations: corporations provide and administrate the same citizenship rights, which governments provided earlier, before the political processes started the privatization of these entitlements (since the 1980's and 1990's). According to John Rawls' liberal viewpoint, citizens' relations to the public structures of society are supposed to be fundamentally different from their relations to private associations like business corporations. In libertarian thinking (as with Robert Nozick), instead, citizens relations to public institutions do not significantly differ from their relations to business corporations. Both are based on voluntary agreements, bringing forth the idea of a contract-society. Since ECC is backed up by this kind of contract-society, it brings forth libertarian interpretations of the most central political matters - like the basic structure of society, and the concepts of freedom and democracy.

## Keywords

Corporate Social Responsibility, Extended Corporate Citizenship, Liberalism, Libertarianism, John Rawls, Robert Nozick

## Introduction

Dirk Matten and Andrew Crane (2005) launched an important political dimension to the discussion of the role of corporations in society by focusing on the question of extended corporate citizenship (ECC). They do not, however, consider corporations as citizens *per se*, which have some inalienable social, civil, and political rights, but as entities which have complex relations in regard to these rights.

Corporations as extended citizens, instead of the states, may, for example, provide welfare rights for ordinary citizens, further (or suspend) human rights, or act as channels through which citizens may express their political opinions and exercise their political rights. As presented by Matten and Crane (2005), this dislocation of the provider of the citizen rights would happen within a liberal tradition (p. 169). In Crane, Matten and Moon (2008) the political context is, however, lacking. Despite references, for example, to Western liberal tradition (p. 2, 159), deliberative democracy (p. 41 ff.), and libertarianism or neo-liberalism (p. 57, 58, 80, 208), no substantial view of the political context of ECC is present. In this paper, we argue that ECC is theoretically more in line with libertarian (or neo-liberal) thinking than liberal thinking. In this, we agree with Jones and Haig (2007). While Jones and Haig concentrate on more empirical questions, our focus is on a theoretical level.

As our starting-point, we take the influential liberal conception of business-society relations represented by John Rawls (1921-2002). According to this view, citizens' relations to the public structures of society are supposed to be fundamentally different from their relations to private associations like business corporations. As a contrast to Rawls, we introduce the libertarian idea of these relations represented by Robert Nozick (1938-2002). In libertarian thinking the relations of citizens to public institutions do not significantly differ from their relations to business corporations. Both are based on voluntary agreements, bringing forth the ideal of a contract-society.

We proceed as follows. First we in-

troduce the two political conceptions of business-society relations: the liberal and the libertarian conceptions. Then we move on to introduce the idea of extended corporate citizenship (ECC), which, by suggesting a new political role to corporations, reinterprets the traditional boundaries between the political and economic spheres of society. We also illustrate the notion of ECC in a real life example taken from the Finnish social and economic history. In our illustrative case, the corporation - instead of the public sector of society - provides the basic rights for citizens. We argue that this kind of social order is in line with libertarian thinking.

## Two Political Conceptions of Business-Society Relations

Liberalism is a wide enough discipline to include different sub-disciplines. The difference between liberal and libertarianism comes down to the interpretation of the idea of a contract-society. Historically, the idea of contract as the justification of liberal order is widely accepted, though in quite different forms - as, for example, in John Locke (1632-1704), Adam Smith (1723-1790), or John Rawls. What distinguishes libertarianism from liberalism is the subordination of other liberal values - most notably, political democracy and equality - under the idea of free contracts between citizens. In business ethics and CSR studies this feature of libertarianism has been noticed by Freeman and Phillips (2002) who define libertarianism as a doctrine, which rests on the idea of contract-society. Different political philosophers have presented various justifications for this subordination. Friedrich Hayek (1899-1992) argues that the value of individual freedom is jeopardized if too much weight is given to (wrong kind of) democracy or social welfare. Robert Nozick claims that contract-society, with its moral value of individual self-ownership, can be maintained only in an extensive contract-society. Ronald Coase purports a view of invisible hand (that is, free contract-making between individuals) leading to social and economic welfare without any strong public institutions, as for example, democratic decision making.

We will focus on the two most eminent scholars from the liberal and libertarian traditions. While Rawls presented the re-birth of contemporary liberal political philosophy in the Anglo-American world (Heath, Moriarty & Norman, 2010), Nozick was his harshest critic.

#### Rawls' Liberalism

Rawls addresses the question of proper business-society relations especially in his work *Political Liberalism* (1996, VII) where he justifies the idea of the basic structure of society as the first subject of justice. Rawls defines the basic structure of society as:

“the way in which the major social institutions fit together into one system, and how they assign fundamental rights and duties and shape the division of advantages that arise through social cooperation”.

Here corporations, as private associations, are subordinate to society's public structure. While the task of public institutions (political constitution, democratic legislation process, health care and education institutions, the legal system of property and taxation) is to take care of the background justice (and offer the fair conditions of operation for private associations), corporations are supposed to act under the public rules of society. The primary responsibility for the basic rights of citizens is, hence, on the site of the basic structure of society.

Rawls also believes that when citizens are able design and have democratic control over the background conditions, they are willing to allow companies a social space with a proper amount of freedom and autonomy (in order to focus efficiently on their business operations). Most importantly, Rawls sets explicit restrictions to the invisible hand (free contract-making) working in a market-society. This distinguishes his view from libertarian thinking, which famously sets a major role to free and the spontaneous process of contract-making between individuals. Rawls claims that without collective political control and deliberate design of the basic structure, the political and socio-economic power tends to concentrate through time, and the historically accumulated product of particular economic transactions is away from, not toward, the real freedom of citizens (Rawls 1996, 267). If we think that ‘real freedom’ amounts here to values like democratic decision making and equality of the material conditions of living, then the collective control of contract-making is an important precondition of these fundamental liberal values.

In Rawlsian liberal setting, the basic structure and institutions of the state are also expected to be impartial with respect to citizens' profound and irreconcilable differences in their conceptions of good life (Rawls, 2001). This kind of impartiality is important since the institutions of the state, unlike corporations, are not voluntary for citizens. Since attendance to corporations is voluntary, they may be more partial. Corporations may have specific aims and are allowed to assess and reward their members on the basis of their contributions to the ends of the firm. These kind of meritocratic practices are not acceptable in the liberal society leaning on the basic structure of society. The institutions of the liberal state are expected to treat citizens as free and equal (Rawls, 1996; Phillips & Margolis, 1999; Heath, Moriarty & Norman 2010).

Liberalism thus calls for explicit boundaries between public institutions and corporations. This guarantees their different roles and ends in a society.

#### Nozick's Libertarianism

Robert Nozick's libertarianism offers a striking alternative to

Rawls' conception of business-society relations. As noted by Rawls (1996, 264-265), in Nozick's doctrine the relation of citizens to the institutions of the state are supposed to be like their relation with “any private corporation with which they have made an agreement.” From this perspective, the state is just like any other private association (having certain special purposes like all associations have), and citizens' political relations to the institutions of the state are supposed to be voluntary and open to the meritocratic appraisal of contributions.

It seems that all relevant differences between corporations and the political structure of society emphasized by Rawls are missing in the libertarian setting (see Nozick, 1974). This may seem somewhat surprising, since libertarians usually favour a sharp distinction between the economic and the political spheres of society. However, libertarian distinction between politics and economics holds only when politics is understood in a narrow sense of protecting the values of life, property and freedom of contracts between citizens. The libertarian minimal state lacks all those egalitarian social structures, extended welfare services, and redistributive economic structures (Nozick, 1974; Crouch, 1997; Harvey, 2005) which constitute Rawls' account of the basic structure of society. If politics, instead, is understood widely, as covering also the extent and the quality of the (formal and material) equality of citizens and extensive welfare services, then libertarianism, by allowing only free (economical) contract-making to take care of these things, blurs the traditional boundaries between the economic and political spheres of society. In practice, this means the shrinking of the liberal understanding of the political sphere.

For libertarians, the proper social order arises historically (out of institutional vacuum) via spontaneous contracts between individuals, limited only by the property rights and the freedom of contracts. In principle, this may lead to anything from a highly concentrated economic power to equally distributed societal welfare. The main point, however, is the lack of the liberal (Rawlsian or other) basic structure of society, which has a political warrant to orient the historical process of free (economical) contract-making between individuals. However, libertarians do not accept this warrant (see, for example, Freeman and Phillips, 2002).

## ECC in Theory and Practice

### Theory

The basic idea of extended corporate citizenship is the dislocation of the provider of citizenship rights from the institutions of the state to corporations. For Matten and Crane (2005; Crane, et al., 2008) ECC arises especially in the context of global economy where territorially bound nation states are gradually losing their political, social and economic steering capacities over market forces and business actors like multinational corporations. The emerging institutional vacuum of power is filled by business firms and civil society associations, which enter voluntary self-regulation processes and take over governments the responsibility of addressing the basic rights of citizens. As concerned by citizens' rights, this process has a liberal background, which, however, turns into a libertarian provision of these rights.

Crane, Matten and Moon (2008) refer especially to the Marshall's (1965) famous categorization of citizenship as a set of civil, social and political rights. While the primary providers of citizenship rights have traditionally been public institutions, corporations now (due to global governmental failure coupled with the rise in corporate power) enter the arena of these rights. In this process, civil, social, and political rights gain new inter-

pretations.

Civil rights have traditionally been supposed to protect individuals from outside interferences, as, for example, from the coercive power of the state. This holds also within ECC, but it is now corporations, which increasingly take care of these rights (Crane & Matten, 2007; Matten & Crane, 2005). Social rights, on their turn, provide individuals with the opportunities and resources to participate in society. While previously public institutions pursued these opportunities, it is now increasingly the task of corporations (Matten & Crane, 2005; Crane & Matten, 2007). These cases show the libertarian strand of ECC: the institutional basis of the provider of the civil and social rights has changed from public institutions (whose relation to citizens and other private actors in society are not contractual) to corporations (whose relations to citizens and other private actors are contractual). While much could be said about these matters, it is political rights, which are the most interesting for us.

Political rights are meant to enable individuals to participate in the process of collective will formation. Within ECC, this can be done, for example, by corporations facilitating or blocking certain political processes, by lobbying and party funding. Also various political actions aimed at corporations may be seen as constituting the collective will. In cases like these, corporations provide an additional channel through which citizens can exercise their will (Crane, et al., 2008.)

In the arena of political rights, corporations, hence, operate as significant channels. Citizens' political activities are aimed more and more at firms, rather than on traditional political channels. (Matten & Crane, 2005; Crane & Matten, 2007; Crane, et al., 2008). We must note that this kind of collective will-formation is of a specific kind, and not necessarily the most obvious one to come into one's mind. Not, at least, if one holds on to a liberal thinking.

It may be claimed that from a liberal point of view it is essential for a collective will-formation that individual citizens overcome their individual preferences (the material of contract-making) in order to form some kind of general and over-individual understanding of socially relevant matters. This kind of collective will-formation is the matter of, for example, deliberative democracy and its aim to make possible what might be called the "public use of reason" (Kant, 1991; Habermas, 1984 and 1987.) Moreover, the conversion of the results of the "public use of reason" into the (Rawlsian, or some other kind of) basic structure of society has traditionally been the task of public institutions. This is a quite natural order if we think that public institutions should be impartial with respect to any given preferences - of either individual citizens or private associations (see above). It is, instead, difficult to see how ECC, with its commitment to a libertarian contract-society, with no institutionalised background justice to balance individual (preference-based) contract-making, might meet the presuppositions needed for this kind of liberal collective will formation.

Even though for Matten & Crane (2005) ECC arises in the context of contemporary global economy, there are also important historical settings where to study this phenomenon (see Roberts, 1979; Joyce, 1980; Montgomery, 1998). While historical cases obviously do not totally match with the present situation of ECC, there are enough similarities to make the comparison meaningful. This holds especially with the consideration of the general structures and processes behind ECC.

#### Practice (early Mänttä)

Michael Walzer (1983, 295-303) illustrates historical cases reminiscent of ECC in his work *Spheres of Justice A Defence*



Picture 1: Finnish forest industry communities

Source: Mäkinen & Kourula (in process), Original Source: Koskinen 1989

of Pluralism and Equality with the case of Pullman, Illinois" the town owned by George Pullman who "was one of the most successful entrepreneurs of late nineteenth century America". More contemporary study is Carol D. Miller's (2007) work *Niagara Falling Globalization in a Small Town*. In the spirit of these studies, Mäkinen & Kourula (in process) show how industrial Finland - as a compilation of forest industry communities and mill or factory towns (see Picture 1) - offers an interesting arena to examine economic and social systems reminiscent of ECC.

Finnish industrial history starts from the 19th century, when Finland was agricultural economy, with no developed economic structures or large corporations acting in communities. Neither had Finland substantial public welfare systems of any kind. Under Russian rule Finnish government also had limited amount of autonomy. This kind of closed societal structure began, however, soon to dismantle, bringing forth interesting similarities with ECC.

From the end of the 19th century up to 1950s there were in Finland a number of small forest factory towns and communities where corporations were the main political actors and social responsibility bearers, operating as what might be called "extended corporate citizens" within the framework of thin public structures (see Kettunen, 1994 and 2008; Kuisma, 1993, 2009; Koskinen, 2001; Mäkinen & Kourula, 2008). Some of these cases are documented in historical studies addressing towns, municipalities, areas and communities like Tervakoski (Koskinen, 1989 and 1993), Lielahdi (Randell, 1997), Kyrökoski (Leminen, 1999), Forssa (Leimu, 1983), Tampere (Haapala, 1986), Mänttä (Keskisarja, 2010; Mänkkönen, 1992 and 1998; Sihvonen, 2004), Nokia (Koivuniemi, 2000), Karkkila (Rentola, 1992), Varkaus (Jääskeläinen & Lovio, 2003), Valkeakoski (Vuorinen, 1972 and 1995), Kajaani (Pulma & Turpeinen, 1994), Kymenlaakso (Talvi, 1979), Kemi (Hedman, 1976), Simpele (Autio & Nordberg, 1972), Myllykoski (Autio & Nordberg, 1972), Jämsänkoski (Autio & Nordberg, 1972) etc.

As Mäkinen & Kourula (in process) point out, an illustra-

tive example is the municipality of Mänttä (currently known as Mänttä-Vilppula) located in central Finland. The Serlachius family operated a groundwood mill in Mänttä from 1868, and a pulp and a paper mill since 1881 (Norrmen, 1993). The town was formed around these operations with extremely strong links to the G. A. Serlachius Company (see Keskiarja, 2010). The factory owners and their staff were responsible for practically the entire lives of the company's employees, as well as of most inhabitants of the municipality (cf. Mönkkönen, 1992; Sivonen, 2004). This social order has been described in the following way (Palkkatyöläinen magazine, 25.4.2006, translation: Mäkinen & Kourula in process):

"The factory owners of Mänttä have hired the first police officers and built the first fire department. The company maintained the phone network until 1954. The company put efforts into building roads and railways. It owned ships, brought the first car to Mänttä in 1913 and maintained the municipality's roads and streets up to 1948. The inhabitants bought their groceries in the company store and paid them with "Serlachius money". The first bank of Mänttä got its premises and safe from the company. Healthcare was provided by a midwife and doctor hired by the company. Only in the 1950's did the doctor start to be employed by the municipality. During the [Finnish Winter 1939-1940 and Continuation 1941-1944] wars the military hospital of Tilkka was located in the Mänttä Club and the Children's ward was temporarily in the Joenniemi mansion. Mänttä inhabitants took their children to a daycare or day-nursery provided by the company. School was held at the grinding mill starting in 1869. When the Mänttä factory school became a public school, it continued its operations in the Serlachius sauna building. Mänttä's inhabitants lived in factory houses. The first company houses were built in 1870. House building was very active at the turn of the century. In 1936, half of the municipality's inhabitants lived in company apartments. In the 1970's, the company started getting rid of company housing."

Finnish early experiences of industrialization reflect the process of accumulation of capital within the minimal basic structures of society. There was the scarcity of institutionally done social work for industrial operations, as well as lack of background institutions evening out the cumulative effects of economic transactions. This brought forward an instrumental response by corporations to the thin and fragile social infrastructure, which hindered their growth and reproduction. As in ECC, corporations started to take care of citizens' rights.

Even though the case of Mänttä is somewhat extreme, it is reminiscent of ECC in that corporations voluntarily and extensively enter the arena of citizens' civil, social and political rights (see Crane, et al., 2008, 60). Historically, these kinds of corporate centered systems have not either been rare, but have existed worldwide especially at the early stages of industrialism (see Roberts, 1979; Joyce, 1980; Montgomery, 1998; Koivunieni, 2000). Thus, ECC is hardly a new phenomenon associated only with the recent phases of globalization.

In early Mänttä, the basic structure of society was almost identical with the organizational structure of G. A. Serlachius Company. The participation with the operations of the company was only formally voluntary. Costs associated with stepping outside the influence of the company were high practically for all inhabitants, and being fired from the corporation came close to being fired by the society.

In this kind of social system, the corporation has particular ends and missions, and it can recruit, assess, and reward individual citizens on the basis of how well they serve its ends and missions (compare above). At the same time, the fragile and

thin public structure limits peoples' possibilities to pursue their own ends of life. It is corporations – and market structures – which, instead, have extensive authority regarding the proper ends and values of life in a society.

If society has no political background justice, which levels the effects of free contract-making, it is corporations and free markets which determine the basic orientation of living for citizens. Today this is most apparent in those underdeveloped countries which have no strong public structures and yet are attracting to (multinational) corporations. In these kinds of libertarian (or neo-liberal) settings, emphasis is given to various things. Society purports and favors the economization of various spheres of life (like those enabling the civil, social and political citizenship rights), "economic rationality", procedural justice (over other conceptions of justice) and negative rights (vs. positive rights), as well external (atomistic and contractual) human relations (vs. internal human relations) (Räsänen, 2007.)

If corporations take over the responsibility of building up the basic structure of society - as in early Mänttä and in some contemporary cases - they must do this according to their nature, that is, as economic actors. However, this excludes them the possibility to take care of those liberal conditions of the background justice, which were meant to correct the very results of free contract-making of economic actors. It seems, hence, that it is almost conceptually flawed to think that corporations might here do governments' work. If we hold on to the idea that it is the task of the background justice of society to reflect the "public use of reason" vs. the preferences of citizens, ECC hardly offers a viable option to liberal state-institutions.

We must, to be sure, note also the differences between historical examples like Mänttä and contemporary global economy. In our days, the number of players in the determination of communal decision-making in (almost) any society is notably higher. Free entry to global markets is meant to guarantee that no single corporation can attain power in some new business-area. Non-governmental organizations (NGO's) critically focus on corporate-actions. Lobbying-parties influence political decision-making. Media, with its multiple and continually changing forms, is a powerful actor in global business. There is certainly much more happening in the contemporary context of ECC. Nevertheless, the structural similarities in the basis of ECC remain: it is rather private than public organizations, which are meant to be the driving-forces behind societal development. From a liberal perspective, the single most harmful outcome of this is the difficulty of finding even a theoretical place for a (Rawlsian or some other kind of) political orientation of free contract-making. Mänttä-case is as an illustration of what can (is likely to?) happen in this kind of situation.

As we have seen, G. A. Serlachius Company acquired such an amount of power that it became dominant in determining peoples' lives. The relative social status of the inhabitants in early Mänttä was strongly related to their relative contributions to the ends of G. A. Serlachius Company. It could also not have been imagined that the society's collective will – formed on the basis of the "public use of reason" - could have displaced the strategic goals of G. A. Serlachius Company. The political rights of citizens were only instrumentally at corporations' agenda. Social programs, likewise, were corporations' political strategies against the rising power of the working-class movement and socialism (both of which gained energy out of the inequalities produced by the underdeveloped redistributive socio-economic background structures). Corporate-led "libertarian" development in Mänttä meant narrow and unprogressive political prospects for community.

This situation changed only when G. A. Serlachius Company gradually outsourced its social and political responsibilities to the municipality, and the public structures of Mänttä gained more independence through the building of the Finnish welfare state. In this new "liberal" order, citizens' basic rights were more and more being provided by the democratically governed basic structures of society outside the domain of the company (Mäkinen & Kourula, 2008 and in process; Mönkkönen, 1998; Sivonen, 2004). The fundamental terms of living, as well as the realization of the basic rights of citizens, were no longer directly dependent on the strategic and political ends of the corporation. It is interesting here to note an analogy to one discussion in contemporary political philosophy.

Quentin Skinner talks about the concept of republican freedom. By this, he refers to a situation where the citizens of the state are not free only of actual restrictions to their actions, but also of potential restrictions. That is, individual citizens do not fear that those institutions, which, in the first place, have admitted them certain rights to act in a certain way, might deprive them those rights. This kind of guarantee is one of the most eminent that liberal governments may offer. As presented by Skinner, arguments in favour of republican freedom were essential in those arguments, which parliamentarians set against monarchy in the 17th century England (Skinner, 2003.) In early Mänttä, we may say, the relation of G. A. Serlachius Company to the citizens of Mänttä was analogical to that of Monarchy to the parliamentarians in the 17th century England.

## Conclusion

Libertarian society arises historically when individuals make legitimate contracts with each other. Social and political structures are needed only to support the legitimacy of contracts, private property rights and negative freedom. Finnish experiences of the corporate centered systems of power and responsibilities are natural, though, arguably, not the necessary results of these processes of accumulation of capital over time within minimal political and socio-economic background structures. At the level of contemporary global economy with ECC things might be the same structurally.

ECC is not a liberal doctrine. This becomes apparent in noting the ambiguity of ECC's interpretations of various political

concepts. It is conceptually erroneous to draw a parallel between the liberal idea of democracy that is fundamentally premised on the ideas of societal background justice and electoral democracy and ECC with no background justice and electoral part at all. While ECC leans on democracy, it radically alters its content as citizens have no equal and formal capacity to access the corporations in the way they can in theory put pressure on governments. (Crouch, 2010).

ECC's emphasis on voluntary contracts vs. governmental restrictions makes it look like there is only one narrow (negative) concept of freedom. This dismisses the importance of governmental actions in taking care of the material preconditions of citizens' opportunities to use one's (negative) freedoms - or, to speak in Rawlsian terms, 'real freedoms'. Like all libertarian doctrines, also ECC prompts a specific concept of responsibility. Freeman and Phillips (2002, 342) argue that in a libertarian society, actors must be committed to (what they see as 'strong') responsible behaviour with regard to the consequences of their actions. When, for example, third parties are harmed, they must be compensated. Firms must act responsibly, customers have a duty to use products as they were intended, employees have responsibility to support their employers within reason, and so on. No mention is, however, made on the responsibility springing from collective will-formation, which can set limits to free contract-making. Likewise, in ECC, with no public idea of justice, responsibility related to the free contract-making can have no public, that is, liberal (see above) origin. It seems also that ECC has no substantial answer to the challenges proposed by the republican idea of freedom (see above). If social order is based on voluntary contracts between private actors (within global market-structures), the question of the liberal guarantee of citizenship-rights is at continuous danger.

If we wish to situate ECC within a liberal framework, it requires that we hold on to the above-mentioned ideas of societal background justice and democracy. Crane, Matten & Moon (2008, 206), indeed, refer to the possibility of legally codifying corporate responsibilities. However, in this case it does not any more make sense to speak of ECC. Once we build impartial and stable institutions to take care of citizens' rights, the very idea of ECC, with its aim to replace those institutions with private associations, loses much of its substance.

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