



## **The Political Role of the Business Firm**

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*Abstract*

This is an essay in conceptual clarification: by way of comparison with the Aristotelian idea of individual citizenship for the antique polis, this article develops an ordonomic concept of “corporate citizenship” that offers two insights for academic scholarship. First, we clarify what is meant by a company’s *political* role. Companies take such a role if they do not confine themselves to acting as *bourgeois* within the basic business game of producing goods and services, but also participate as *citoyen* in the meta games of political rule-setting processes and rule-finding discourses. Second, we show that the political dimension of corporate citizenship need not weaken or compromise a company’s role as an economic actor. Rather, in light of deficient institutional rules, companies need to take a political role if they wish to pursue their self-perfection as economic agents for value creation. This means that in processes of new governance the economic and political roles of the firm need not contradict each other but can follow the same win-win logic of individual self-perfection through cooperative social interactions.

Keywords: Aristotle; corporate citizenship; ordonomics; self-perfection; value creation

*Kurzfassung*

Dieser Aufsatz dient zur konzeptionellen Klärung des Begriffs von „Corporate Citizenship“: Anhand eines Vergleichs mit der aristotelischen Idee individueller Bürgerschaft in der antiken Polis entwickelt dieser Artikel ein ordonomisches Konzept von „corporate citizenship“, das für die aktuelle Debatte über die Bürgerschaft korporativer Akteure in der Globalisierung zwei Einsichten formuliert. Erstens klärt der Beitrag, was es heißt, dass Unternehmen eine *politische* Rolle einnehmen. Unternehmen nehmen diese politische Rolle wahr, wenn sie sich nicht nur als *Bourgeois* im Basis-Spiel der Produktion von Gütern und Dienstleistungen betätigen, sondern auch als *Citoyen* an den Meta-Spielen der politischen Regelsetzungsprozesse und Regelfindungsdiskurse mitwirken. Zweitens zeigt der Beitrag, dass eine solche politische Dimension von Corporate Citizenship keineswegs zu einer Schwächung oder Außerkraftsetzung der wirtschaftlichen Rolle von Unternehmen führen muss. Vielmehr wird angesichts einer fehlerhaften Rahmenordnung die Übernahme einer politischen Rolle für Unternehmen notwendig, wenn sie ihre Selbstvervollkommnung als ökonomische Wertschöpfungsagenten zum Ziel haben. In funktionalen New-Governance-Prozessen müssen sich die politische und wirtschaftliche Rolle von Unternehmen daher nicht widersprechen, sondern können prinzipiell der gleichen Win-win-Logik individueller Selbstvervollkommnung durch wechselseitige vorteilhafte Interaktionen folgen.

Schlüsselwörter: Aristoteles; Corporate Citizenship; Ordonomik; Selbstvervollkommnung; Wertschöpfung



# The Political Role of the Business Firm: An Ordonomic Concept of Corporate Citizenship Developed in Comparison with the Aristotelian Idea of Individual Citizenship\*

Ingo Pies, Markus Beckmann and Stefan Hielscher

He who has the power to take part in the deliberative or judicial administration of any state is said by us to be a citizen of that state.

Aristotle (Pol 1275b)

## *Introduction*

This is an essay in conceptual clarification: by way of comparison with the Aristotelian idea of *individual* citizenship for the antique polis, this article develops an ordonomic concept of *corporate* citizenship for the emerging global society. We develop our argument in five steps.

The first step looks at the current debate on corporate citizenship and identifies two open critical questions concerning the firm as a political actor. The first question addresses a problem of conceptual clarification and asks what we actually mean by a political role of the firm. The second question addresses the theoretical issue as to how such a political role of the firm relates to its traditional role as an economic actor in competitive markets. The remainder of this paper then shows how an ordonomic concept of corporate citizenship helps answer both questions in a systematic way, revealing that there is, in principle, no conflict between the two roles.

To this end, the second step introduces the ordonomic distinction of three social arenas. We draw on this theoretical approach because the three-tiered ordonomic framework provides a fruitful analytical perspective for understanding the idea of citizenship in the context of different levels of societal governance.

The third step makes use of the ordonomic distinction of three social arenas to interpret the Aristotelian idea of citizenship, i.e., the idea of a polis citizen who becomes virtuous by self-perfection and habit. Applying an ordonomic interpretation of this key Aristotelian idea makes it possible to draw conclusions by analogy for a modern problem—how to conceptualize an ethics of organizations—that Aristotle himself did not address and for which he, therefore, does not provide a solution.

The fourth step spells out these conclusions in detail. Here, we show that the economic and the political roles of the business firm involve different arenas of societal governance. Our analysis thus provides a functional argument for distinguishing analytically between the role of a company acting as bourgeois in the basic game of business and the role of a corporation participating as citizen in the meta games of political rule-setting processes and rule-finding discourses.

The fifth step illustrates our argument with empirical examples that emphasize the ambivalence of the political role of the company. In particular, these illustrations show

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\* This article is the unabridged version of a much shorter paper that is to be published in a special issue about the political role of the business firm which is forthcoming in *Business & Society*.

that productive political participation by business firms requires an enabling environment created by government and civil society actors. We end our argument with a short summary and seven concluding points.

### *1. The Debate on Corporate Citizenship: Two Open Questions Concerning the Political Role of the Business Firm*

(1) Business firms are economic actors. They produce goods and services, allocate scarce resources, create jobs, and pay taxes. This is certainly true, but it is debated whether this perspective is sufficient to fully capture the societal role of corporate actors. For decades, mainstream economic theory and the management literature have focused almost exclusively on firms as economic actors. Milton Friedman (1962), for instance, famously argued that corporations should concentrate on maximizing profits and should refrain from trying to take any further social or even political responsibility. Similarly, present-day scholars such as Henderson (2001, 2005), Jensen (2002), and Sundaram and Inkpen (2004) explicitly oppose the idea that business firms have a political responsibility to their community. For these authors, it is the exclusive task of the government to establish the rules of the societal game. Governments are seen as the only (legitimate) rule-makers, while companies are confined to their economic role as mere rule-takers.

Recently, however, this “separation thesis of economic theory” (Scherer, Palazzo, & Baumann, 2006, p. 508) has been called into question. Various scholars have pointed out that in actuality there are many instances when companies do participate in political processes of rule-setting (Hillman, Keim, & Schuler 2004; Kobrin 2009). Consequently, there seems to be, as Hanlon (2008) argues, a pronounced need to overcome the “denial of politics” in the fields of business ethics and the theory of the firm.

And, indeed, the past decade has witnessed the emergence of a growing debate about the role of private firms as political actors (Barley, 2007; Detomasi, 2007; Kolk & Pinske, 2007; Levy, 2008; Mantere, Pajunen, & Lamberg, 2009; Norman & Néron, 2008; Scherer & Palazzo, 2008). A prominent concept that has surfaced in this debate is the notion of “corporate citizenship” (Crane, Matten, & Moon, 2008; Matten & Crane, 2005). This new metaphor of citizenship has been an important innovation in the fields of business ethics and management theory. As Crane and Matten (2008; p. 28) suggest, the citizenship concept provides “a new perspective on the corporation” that “unveils the political nature of its involvement in society” and thus “helps to illuminate certain dimensions that might otherwise go unexamined.”

(2) We agree that the citizenship concept is useful for shedding light on the political role of business firms. Yet, the concept of corporate citizenship is hardly uncontested (Henderson 2001, 2005; Jones & Haigh, 2007; van Oosterhout, 2005, 2008). In fact, while acknowledging a political role for companies has been an important step for theorizing business and society relations, this novel “political perspective” has also raised two critical questions that so far have remained largely unanswered.

The first question addresses an issue of conceptual clarification. What do we actually mean by a *political* role of the business firm? This question is highly relevant, for several reasons. In a way, it has much to do with what Néron (2010) recently called the “over-inclusion problem” as well as with the “differentiation problem” of the emerging political view of the firm. For Néron (2010, p. 348), the “over-inclusion problem” refers

to the “risk, under a new paradigm, to label every issue of business ethics as ‘political’ ones without making any real theoretical improvement.” The over-inclusion problem thus highlights the question of what is actually gained by looking at the business firm from this new catch-all “political perspective.” Closely related to this is what Néron (2010, p. 346) calls the problem of “differentiation.” If we eagerly embrace a political concept of the firm, then such a “new” perspective would be of little value if it “simply leads to a reaffirmation of the set of ideas usually associated with CSR and stakeholder theory” (Néron, 2010, p. 346). Again, the question is: What do we mean by “political” and how does this political view help us better understand the societal role of the firm?

The second question brings up a far-reaching theoretical challenge: If there is such a thing as a political role of the firm, how does it relate to the *economic* role of a business corporation? Again, this question is anything but trivial. Take the position of Scherer, Palazzo, and Baumann (2006, p. 515). They forcefully argue for a “political responsibility of the business firm.” Yet, how does this “political responsibility” relate to a business firm’s economic role? Interestingly, Scherer, Palazzo, and Baumann (2006, p. 524) see this question as a serious problem clearly in their own conceptualization. They admit that it “seems that the economic concept of the firm and the political role of the firm as advanced here are antagonists.” While Scherer, Palazzo, and Baumann (*ibid*) hurry to add that their “case is not to abandon market society or to reject the economic objective of the firm,” an open question remains: If firms should follow their economic objectives *and* carry a political responsibility, how can the two be integrated in a theoretically sound framework?

(3) Both questions are of fundamental importance not only for business practice but also for the scholarly study of the theory of the firm. Attempting to answer these questions leads to reflection on the very notion of citizenship. A classic reference in this regard is Aristotle’s idea of individuals who by habit and self-perfection become virtuous citizens of the ancient Greek polis (Nichols, 1992; Heater, 2004; Collins, 2006). This concept of individual citizenship cannot, however, be easily transferred to companies acting as global actors in an increasingly global society. Not only is Aristotle’s concept of citizenship developed in the context of individuals within a small group, not for organizations in a global society (cf. Aristotle NE 1170b),<sup>1</sup> but his understanding of democracy is different than that prevailing today. Aristotle’s concept of democracy applies only to free men—not to women, not to slaves, not to outsiders such as barbarians (Lindsay, 1994 and Rawls, 2000, pp. 3 et seq.; for a critical discussion, see Levy, 1990). Thus, at first glance, it does not appear that much, if anything, can be taken from Aristotle to solve today’s problems.

Indeed, Aristotle tailored his concept to a specific and, from today’s perspective, historical problem. Learning from Aristotle requires, therefore, first *interpreting* his argument in a way that provides a useful analogy between the role of the individual citizen in the Aristotelian polis and the political role of corporate citizens in the current global society. Such an interpretation requires a particular lens. We claim that the “ordonomic” framework, as recently put forward by Pies, Hielscher, and Beckmann (2009) as well as by Pies, Beckmann, and Hielscher (2010), provides just such a lens. In fact, we show

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<sup>1</sup> Aristotle’s idea of citizenship is closely linked to the role of the individual in the polis. The polis, however, is for him a rather small community. Indeed, in his *Nicomachean Ethics* (NE 1170b), Aristotle leaves no doubt that his idea of the polis is not applicable to the global community of a world society when he claims that “ten people would not make a city, and with a hundred thousand it is a city no longer.”



that a careful interpretation of key Aristotelian ideas can be used in the attempt to answer the conceptual questions raised above.

In terms of methodology, our ordonomic interpretation of Aristotelian ideas is somewhat different than that of many other contributions in the field of business ethics. In business ethics, many scholars draw on Aristotle to advance a perspective of virtue ethics that focuses on the virtue and integrity of the individual manager in a business context (Bragues, 2006; Flynn, 2008; Hartman, 2008; Mintz, 1996; Solomon, 1992, 2004). In contrast, we focus not on the virtue of individuals, but on the virtue of organizations as political actors.

John Rawls is an important role model for us in making use of Aristotelian ideas in order to highlight modern theoretical concepts. In his theory of justice, Rawls (1971) develops his innovative approach by drawing on and adapting Aristotle's legacy. Rawls, however, does not aim at a close hermeneutic reading of Aristotle's historical argument. This is particularly obvious when it comes to Rawls' *metaphorical* use of the Aristotelian idea of virtue. For the Rawlsian theory of justice (Rawls, 1971, p. 3), "justice is the first virtue of social institutions." Rawls transfers the idea of a just individual to the level of the constitution and the laws of a community and thus transforms it into the idea of just social institutions. We pursue an analogous approach. Similar to Rawls, we draw on the Aristotelian idea of *individual* citizenship in order to illustrate our ordonomic concept of citizenship for *organizations*. A key idea of our argument is: "Integrity is the first virtue of social organizations, especially of business firms."

Having now clarified the purpose of this paper, we expand our argument in the following four sections. The next section (2.) briefly introduces an element of the ordonomic approach that we see as a useful tool for interpreting Aristotle in a way that sheds light on the role of corporate citizens in the age of globalization. The third section (3.) then uses this ordonomic lens to look at the Aristotelian polis and the role of *individual* citizens. The fourth section (4.) shifts the perspective and applies our ordonomic interpretation of key Aristotelian ideas to the role of *corporate* citizens as political actors in a globalized world. The fifth step (5.) illustrates our ordonomic argument with a real-life case study. We conclude with a short summary and put forward seven hypotheses that show how our ordonomic approach enriches the conceptual debate about the political role of the business firm and, more specifically, the concept of corporate citizenship.

## *2. The Ordonomic Distinction of Three Social Arenas as an Interpretative Framework for Conceptualizing Citizenship*

In this section, we introduce a specific theory element of the ordonomic approach recently put forward by Pies, Hielscher, and Beckmann (2009) and Pies, Beckmann, and Hielscher (2010). The ordonomic approach takes a rational-choice perspective on the analysis of interdependencies between institutions and ideas or, more specifically, on the analysis of interdependencies between social structure and semantics.<sup>2</sup> Under the

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<sup>2</sup> For the ordonomic approach to analyzing social structure and the particular importance of social dilemmas, see Petrick & Pies (2007) as well as Buttkeireit & Pies (2008). For an application to the discussion on intersectoral alliances, see Buttkeireit (2009). For an ordonomic analysis of the importance of semantics, see, for example, Beckmann & Pies (2008a). For an application of the ordonomic approach to case studies of new-governance processes for sustainability management, see Pies et al. (2010). The importance of social dilemmas for business ethics is also emphasized by Waldkirch (2001), Lütge (2005), Su-

ordonomic approach, “social structure” refers to the incentive properties of formal and informal rule arrangements (institutions), whereas “semantics” refers to the terminology of public and organizational discourse and the underlying thought categories (ideas) that determine how people perceive, describe, and evaluate social interactions and, in particular, social conflicts as well as their possible solutions.

We draw on the ordonomic approach because it provides a specific perspective for understanding the idea of citizenship at different levels of societal governance.<sup>3</sup> More specifically, the ordonomic approach makes use of a distinction between three social arenas: the basic economic game of business, the meta game of political governance, and the meta-meta game of public discourse. Figure 1 is a graphical illustration of this analytical distinction, which we treat, in the words of Buchanan (1989), as a “relatively absolute absolute.” We discuss this three-tiered framework in detail because it provides an analytical perspective for interpreting Aristotle’s idea of *individual* citizenship in a way that illustrates our ordonomic concept of *corporate* citizenship for business firms in modern political processes.

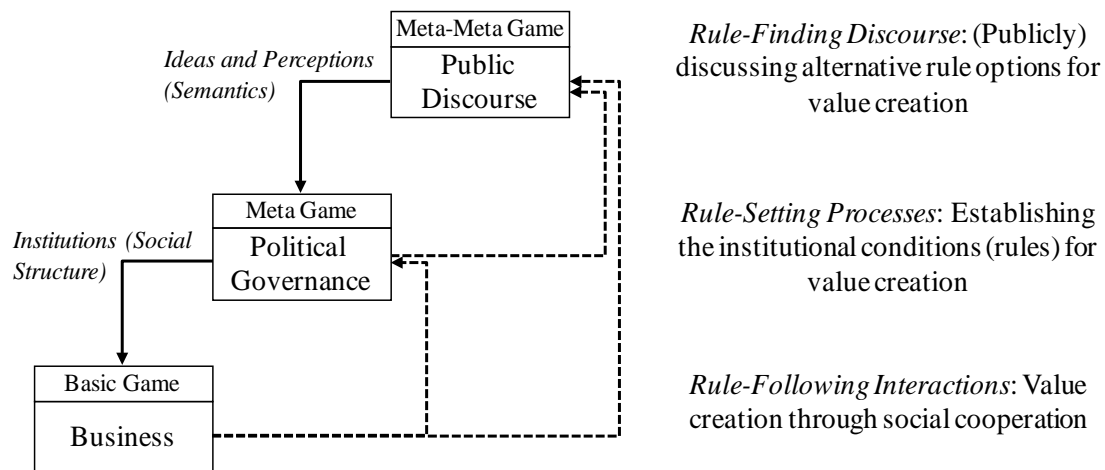


Figure 1: The three-tiered ordonomic framework

(1) When looking at the role of corporations in society, the first level of analysis is the *basic business game* of producing goods and services. It is in this basic game, alternatively called “the economy,” where business firms, consumers, suppliers, employees, and other stakeholders interact with each other on a daily basis. Here, companies trade, cooperate with their exchange partners, create value, and realize profits. These complex interactions can lead to highly diverse social outcomes. Following a rational-choice perspective (Baumol 2002, 2010; Becker, 1993; Coleman, 1990), these diverse results, however, do not flow directly from the intentions and objectives of the individual players. As the basic game of business unfolds with rational players pursuing their respective goals, interacting with each other, and responding to their individual incentives and opportunities, the unintended aggregate consequences of these interactions can be either

chanek (2008), Hirsch & Meyer (2009), and Lin-Hi (2010). For a similar business ethics perspective on the role of (re-)forming institutional arrangements, see, for example, Boatright (1999) and Heath (2004). A neglected classic in this respect is Baumol (1975).

<sup>3</sup> We agree with the definition by Williamson (2009: 456): “[G]overnance is the means by which to infuse order, thereby to mitigate conflict and realize mutual gains.” By “new governance” we denote tri-sectoral processes of collective rule-setting and public discussion that involve, in addition to state actors, civil society organizations as well as business firms.

socially desirable (as in the case of innovation and growth) or socially undesirable (as in the case of climate change, pollution, or corruption). From an ordonomic perspective, the important lesson to be learned here is that the quality of the economic basic game does not depend primarily on the individual motivations of the business actors. Rather, it is the institutional conditions—the structural incentive properties of the rules of the game (Buchanan, 1990)—that channel the individual moves within the game and thus define the situational “logic” (Olson, 1965; Popper, 1966) of business interactions. This is why it is important to look not only at the basic game of business itself, but also at those arenas of social interaction where the rules of the game are created, amended, or agreed upon.

(2) The second level of analysis is the *meta game of political governance*. While the basic game focuses on rule-following interactions, the meta game of political governance is about rule-setting processes. The meta game of political governance thus involves all those processes by which the players establish the rules that shape the logic of the basic game. Governance processes serve to form and reform institutions. As a political process, the governance meta game sets the incentives for the economic basic game, thus having the potential to amend and improve the social structure that channels the interactions in the basic game of business.

(3) The third level of analysis is the *meta-meta game of public discourse*. While the meta game of political governance is about rule-setting decision processes, public discourse is about creative rule-finding deliberation. From an ordonomic perspective, discourse is far from being simply “cheap talk”; rather, rule-finding discourse is an important precondition for successful institutional reform. After all, to change the rules of business interactions, it is rarely enough that any individual actor, e.g., a single company, sees the desirability of doing so. In many instances, collective action, including a minimal consensus among the cooperating partners, is needed to (re-)form the institutional framework. Rational players, however, will be willing to cooperate in the meta game and consent to institutional reform only if they believe that such reform will benefit them individually. Collective action for institutional reform therefore presupposes a shared awareness of common interests. From an ordonomic perspective, creating such awareness is a critical function of the meta-meta game of public discourse.

(4) The three-tiered ordonomic framework is helpful not only because it provides the analytical distinction between the three levels of rule-following, rule-setting, and rule-finding processes; it also shows how the ordonomic perspective conceptualizes the interplay between these levels and, more specifically, the interdependencies between ideas (semantics) and institutions (social structure).<sup>4</sup> What is of particular interest for theorizing in the field of business and society is that ordonomics offers a rational-choice perspective that acknowledges the importance of semantics and discursive processes. Whether it is possible to play constructive meta games largely depends on how the players perceive the situation, each other, and their relationship, which is why semantics

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<sup>4</sup> To illustrate: While the discursive processes in the meta-meta game of rule-finding focus on the importance of ideas, the meta game of rule-setting focuses on institutions. Bringing all three levels of social interaction together, ordonomics is interested in the question of how certain mental models and perception patterns of interpreting social reality influence and even determine our thinking and communication, thus shaping the social rules that coordinate human and organizational interactions, and, ultimately, channeling our behavior and social outcomes. Yet as illustrated by the dotted arrows in Figure 1, ordonomics is also interested in looking at this same question from the opposite direction. Here, the question is how social outcomes and institutional arrangements affect shared mental models and the prevailing patterns of perceiving social reality.

and, in particular, the normative categories of public discourse are so important. Put differently, the three-tiered ordonomic framework provides a powerful argument for why rational-choice analyses of social problems benefit from taking ethics and ethical theories into consideration. The following two sections now shift the focus toward the semantic legacy of Aristotelian thinking. We show that the ordonomic three-tiered framework can be used to interpret key ideas put forward by Aristotle such that they can be used to refine our understanding of the political role of the business firm.

### *3. The Aristotelian Idea of Citizenship: An Ordonomic Interpretation*

For almost 2.500 years, the writings of Aristotle have strongly influenced the intellectual tradition of diverse academic fields, ranging from rhetoric to physics, from biology to logic. One reason for this significant intellectual influence is that Aristotle's writings are not an eclectic conglomeration of barely connected ideas; quite the opposite, as Aristotle was a highly systematic thinker (cf. Shields, 2007). This becomes especially clear when looking at his writings about virtue ethics and at his political philosophy, which as extensively discussed by others (Knight, 2007; MacIntyre, 2006; Salkever, 2007), are highly complementary. We suggest that the three-tiered ordonomic framework discussed above offers a fresh perspective from which to interpret Aristotle in a way that highlights this interdependence between ethics and politics. Our reading provides an interpretation that shows how Aristotle's virtue ethics go hand in hand with key ideas on citizenship found in his political theory.

We develop this argument in four steps. The first step (3.1) looks at the level of the basic game and shows that, interpreted from an ordonomic point of view, Aristotle's theory of virtue ethics systematically builds on a functional understanding of society's basic game as a cooperative venture for mutual advantage. The second (3.2) and third (3.3) steps direct attention toward the meta game of political governance and the meta-meta game of public discourse, thus focusing on the political dimension of the Greek polis. The fourth step (3.4) summarizes how our ordonomic interpretation brings together virtue ethics and political theory and then draws important conclusions for the concept of citizenship

#### *3.1 Self-Perfection and the Basic Game of Social Interaction*

Interpreted from an ordonomic perspective, the basic game of the Aristotelian polis is about the day-to-day social interactions of individual citizens. In this game, each individual tries to realize his personal goals within the given setting of the polis. How does Aristotle's perspective of virtue ethics relate to this level of the basic game?

According to many philosophers, the fundamental question of ethics is: What shall I do? Yet, the answer to this question is far from a one-size-fits-all one because people have very different notions of what is true, what is good, what is beautiful. It is against this backdrop that Aristotle suggests a different strategy. He tries to find a starting point for his argument that basically anybody could agree upon (EN Book I, Chapters 3, 4, 6, and 7). To this end, he does not ask "what shall I do," but "what do you want to be?" What is the ultimate end of our actions? Is there a "highest of all goods achievable by action" (EN 1095a) that we can all agree upon? Aristotle's answer to this question is

straightforward. He argues that this final good is *eudaimonia*—happiness. He takes for granted that we all wish to be happy. Therefore, for Aristotle, “happiness is something final and self-sufficient, and is the end of action” (EN 1097b).

But how do you achieve happiness? Here, Aristotle’s answer is closely linked to the teleology that characterizes his thinking. His theory builds on the idea that all things and beings are designed for or directed toward a *telos*—an inherent purpose for all that exists.<sup>5</sup> Aristotle’s teleology assumes that all things and beings have an inherent potentiality that can be realized through self-perfection. For people, this self-perfection is important because it holds the key to happiness: one is happy if one realizes one’s potentiality as a person through a process of self-perfection.

So what does it mean to become a perfect person? Aristotle’s answer sounds simple: to be virtuous.<sup>6</sup> For him, virtue (*aretê*) is necessary if happiness is to be possible. In Aristotle’s view (EN 1101a), “he is happy who is active in accordance with complete virtue.” Note the importance of the adjective “complete” in this sentence. According to Aristotle, true happiness depends on one’s self-perfection as a person of *perfect* virtue. Aristotle (Pol 1332a) explicitly claims that “happiness is the realization and perfect exercise of virtue, and this is not conditional, but absolute.”<sup>7</sup>

Aristotle’s virtue ethics thus rests on a theory of self-perfection. Yet, how is self-perfection possible? How do people become virtuous? At this point, Aristotle makes it absolutely clear that virtue does not arise by “some divine providence” (EN 1099b), nor is any one “just or temperate by or through chance” (Pol 1323b). Self-perfection is not a process that happens automatically or “by nature” (EN 1103a); rather, self-perfection requires action on the part of the individual. More specifically, according to Aristotle, *habit* is the key to self-perfection. For him (EN 1103a), “moral virtue comes about as a result of habit.” “We are,” according to Aristotle (EN 1103a), “made perfect by habit.”<sup>8</sup>

Following this idea, virtue—and, for that matter, happiness—is not a given, but something actively acquired through habituation (EN 1099b). From an ordonomic perspective, Aristotle thus puts forward a stunningly modern theory of human capital. Take the case of the virtue of temperance. Aristotle (EN1104a) argues that “by abstaining from pleasure we become temperate.” At first sight, acting virtuously may then seem to amount to something like a sacrifice of self-interest. Yet, in our ordonomic interpretation of Aristotle, acting *as if* one were virtuous is not a sacrifice but can be understood as an *investment* in the acquisition of virtue. As Aristotle (EN 1103a) argues, “we become just by doing just acts, temperate by doing temperate acts, brave by doing brave acts.” Put in the rational-choice language of ordonomics, the habit of virtue builds “virtue capital” as a kind of human capital. For Aristotle, the habit of virtue is, in effect, an active learning process. He (EN 1103a) maintains that “the things we have to learn before we can do them, we learn by doing them.”

<sup>5</sup> As Aristotle puts it in his *Politics* (Pol 1253a): “Nature, as we often say, makes nothing in vain.”

<sup>6</sup> Aristotle’s idea of self-perfection relates to his view (EN 1098a) that “human good turns out to be activity of the soul in accordance with virtue.”

<sup>7</sup> Consequently, less than perfect virtue results in less than perfect happiness. By this logic, Aristotle (Pol 1323b) holds that “each one has just so much happiness as he has virtue and wisdom, and of virtuous and wise action.”

<sup>8</sup> Durant ([1926] 1991, p. 76) paraphrased this Aristotelian idea in his famous restatement, which is often erroneously attributed to Aristotle himself: “Excellence is an art won by training and habituation: we do not act rightly because we have virtue or excellence, but we rather have these because we have acted rightly; ‘these virtues are formed in man by his doing the actions’; we are what we repeatedly do. Excellence, then, is not an act but a habit.” Note that “excellence” is another translation for virtue

In short, virtues are habits.<sup>9</sup> And self-perfection requires active self-management. At first sight, Aristotle's virtue ethics thus seems to focus exclusively on the individual and to ignore the polis in which the person lives. Yet, the exact opposite is true. In fact, for a number of reasons, the self-perfection of the individual is only possible as part of a social process.

First, basically all moral virtues an individual wants to acquire for his happiness have a social dimension. Consequently, the habituation of these moral virtues is only possible through social interaction with other members of the polis. Take the case of justice. As Aristotle (EN 1103b) points out, "by doing the acts that we do in our transactions with other men we become just or unjust." As a solitary actor outside the community, it would be simply impossible to be just, temperate, or generous toward others—and thus impossible to pursue one's self-perfection.<sup>10</sup>

Second, following Aristotle's possibly most well-known idea (Pol 1253a), "man is by nature a *zoon politikon*—a political animal." Note how this idea mirrors again Aristotle's teleology. Given that "man is a political creature ... whose nature is to live with others" (EN 1196b), Aristotle concludes that the individual's self-perfection is only possible within the community of the polis. By this logic, Aristotle (Pol 1253a) argues that "he who is unable to live in society, or who has no need because he is sufficient for himself, must be either a beast or a god." Put differently, only creatures who either have no potential for perfection (beasts) or who are already perfect (gods) can live outside society. In contrast, human beings who are intent on self-perfection need to practice it as members of a community. To put it pointedly, the individualization of the person is a social process that requires interaction with other polis members.

Third, as self-perfection requires becoming a respected member of the polis, happiness depends on the *social recognition* of others. Aristotle emphasizes this idea in his reflections about the importance of friendship. For him (EN 1155a), "without friends no one would choose to live, though he had all other goods." This is why he contends (EN 1169b) that "the happy man needs friends." One reason friendship is so crucial is that friends are important for one's self-perfection. Aristotle (EN 1155a) holds that friendship "stimulates" excellence "for with friends men are more able both to think and to act." Cooperation and social recognition thus foster and reward the individual process of self-perfection.

In summary, these reflections capture a key idea of our interpretation of Aristotle's writing. From an ordonomic perspective on the Aristotelian polis, the process of self-perfection through the acquisition of virtue systematically links the interests of the individual with the interests of the polis. Interpreted ordonomically, this link works two ways.

On the one hand, the players in the basic game of the polis each pursue their individual happiness. To achieve happiness, however, requires a process of habitual self-perfection that is only possible in the repeated day-to-day interaction with others. In this basic game of the polis, social recognition and cooperation both stimulate and reward

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<sup>9</sup> Note that this does not mean that all habits are automatically virtues.

<sup>10</sup> Rawls (2000, p. 4) observes that Aristotle's argument for justice does not limit the importance of individual self-interest but takes it seriously: "Aristotle meets the criticism of acting justly not by saying that we should sacrifice our own good to the claims of justice, but by saying that we lose our own good if we reject those claims."

the acquisition of virtue. As a consequence, every individual inevitably needs the community of the polis to realize his potential and to pursue his self-perfection.

On the other hand, this pursuit of individual self-perfection is of vital importance for the community of the polis. For the polis, the virtues of individuals fulfill critical functions. Take the virtue of courage. Given the historical situation of the Aristotelian polis, it was vital that all citizens have courage and athletic skills because these virtues were needed to defend the interests of the polis against foreign enemies. Similarly, justice, temperance, or generosity created conditions that allowed others in the polis to thrive and to pursue their own self-perfection. In a way, the “self-perfection” of the polis as a community requires the virtuous self-perfection of its citizens, and vice versa.

We suggest that there is an important lesson to be learned here. In light of the functional interdependence between the individual and the polis, we *interpret* Aristotle’s theory of self-perfection to mean that there can be a win-win logic in the basic game of social interaction. Just as John Rawls (1971, p. 4) characterizes society as “a cooperative venture for mutual advantage,” the ordonomic interpretation of Aristotle points out that the polis rests on and enables mutually advantageous cooperation. Along these lines, Aristotle (EN 1160a) remarks that “it is for the sake of advantage that the political community ... seems to have come together originally and to endure, for this is what legislators aim at, and they call just that which is to the common advantage.” Interpreted from an ordonomic perspective, both Aristotle and Rawls thus take the potentiality of win-win cooperation as the starting point or even as the standard point of reference for their analysis. What is important from an ordonomic perspective is that the ideas of self-perfection and of win-win cooperation are thus complementary: my own personal self-perfection is only possible if I interact cooperatively with others, thus helping them realize their own self-perfection: *do ut des*. The self-perfection of each person is therefore linked to the perfection of the polis as a community. The following two sections argue that this interdependence also works the other way around.

### 3.2 Self-Perfection and Political Governance in the Aristotelian Polis

The principal arena for the self-perfection of the individual is the basic game of the polis. It is in these everyday interactions that citizens acquire happiness through the repeated habituation of virtue as they move within the game. Viewed from the perspective of ordonomics, however, Aristotle makes it very clear that this is only possible if the basic game is guided by adequate rules of the game. He even maintains that in the absence of adequate rules, human beings become beasts. As he puts it (Pol 1253a), “man, when perfected, is the best of animals, but when separated from law and justice, he is the worst of all.” Consequently, individual self-perfection necessitates functional social institutions.

Aristotle’s focus on the importance of an adequate institutional order of the state thus adds a new dimension to his idea that man is a *zoon politikon*. Put in ordonomic terms, man needs the polis not only on the level of the basic game for his social interactions, but in order to perfect himself by playing this basic game, man also needs the polis as an arena that creates functional rules, law, and justice. This is what the *meta game of political governance* is about. This meta game sets the rules and incentives that govern how the individual citizens interact in the polis.

Interpreted within the three-tiered ordonomic framework, Aristotle leaves no doubt that virtuous self-perfection in the basic game is not possible without this rule-setting function of the polis. With regard to the virtue of justice, for example, Aristotle (EN 1134a) maintains that “justice exists only between men whose mutual relations are governed by law.” Adequate rules enable, reward, and help the individual to know what is virtuous, to practice virtue through actions, and thus to become virtuous by repeated habituation. For Aristotle, this logic establishes the importance of the rule-setting process of law and legislation. He maintains (EN 1103b) that “legislators make the citizens good by forming habits in them.”

Following this idea that man cannot perfect himself without adequate rules (and thus without functional meta games), Aristotle has a clear definition of the *raison d'être* of the polis. For him (Pol 1280b), the polis “is a community ... for the sake of perfect and self-sufficing life.” It exists “not only for the sake of living but rather primarily for the sake of living well” (Pol 1280b). Happiness is thus the ultimate end of the state.<sup>11</sup> In light of Aristotle’s theory of virtue, this means that the ultimate end of the state is to facilitate the self-perfection of the citizen. Note, however, that the polis does not fulfill this function automatically. On the contrary, Aristotle underlines that not all forms of government are equally able to facilitate the happiness of their citizens. In fact, just as individual virtue does not come about by chance or by nature, good rules of the game are not automatically given; they need to be created in a social process.

Since for Aristotle (Pol 1326a) “law is order, and good law is good order”, the meta game of political governance thus aims at a continuous improvement of the rules of the basic game of everyday social interaction. In other words, just as the individual needs to perfect himself, the polis as a rule-integrated community needs to perfect itself so as to achieve its potential and to enable the good life. Viewed from an ordonomic perspective, Aristotle thus argues that the *self-perfection of the individual requires the self-perfection of the polis*. We suggest that our ordonomic interpretation of Aristotle’s concept of self-perfection provides a systematic link between the role of the citizen in the basic game and his political role in the meta games of rule-setting and rule-finding.

In the basic game, the pursuit of self-perfection is a matter of individual self-management. Here, the acquisition of virtue through habit requires *individual* self-commitment. These individual self-commitments, however, are only possible if they go hand in hand with *collective* self-commitments of the community. In a way, the meta game of political governance can be understood as a process of collective self-management.

### 3.3 *Self-Perfection and Public Discourse in the Aristotelian Polis*

The three-tiered ordonomic framework highlights that to perfect itself, society must be able to play functional meta games of rule-setting and functional meta-meta games of rule-finding. One reason it is particularly interesting to apply this perspective to the Aristotelian polis lies in the historical background of the time. When he wrote, Aristotle was seeing a society in the midst of great change. Above all, the ancient myth that had provided guidance for much of social life in the polis was fading away. In his writings

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<sup>11</sup> As a consequence, Aristotle (Pol 1324a) regards it as “evident that the form of government is best in which every man, whoever he is, can act best and live happily.”



on metaphysics, Aristotle (Met 1074b) characterizes this myth as ancient tradition: “Our forefathers in the most remote ages have handed down to their posterity a tradition, in the form of a myth.” Like many other thinkers of this time, Aristotle points out that the myth is clearly a social construction created by man himself, for the “rest of the tradition has been added later in mythical form” (Met 1074b). At the same time, however, he also understands that the mythical tradition played a functional role in society. Aristotle (Met 1074b) notes that the tradition of the myth was formed “with view to the persuasion of the multitude and to its legal and political expediency.” Put differently, tradition was an important focal point for the community and spelled out the rules according to which society should operate.

In the polis of Aristotle’s time, however, the myth was losing its authority and no longer provided the polis with a shared view of the world or with implicit rules for social conduct. Thus, the polis faced a radically new situation. The citizens could no longer take the implicit rules and moral foundations of their social order for granted. Instead, as “the state is a community of freemen” (Pol 1279a), the citizens themselves needed to develop the legal and normative framework of their community.

Against this background, our ordonomic reading of Aristotle highlights that political citizenship in the polis does not mean only participating in the meta game of rule-setting governance processes; it also means engaging in the meta-meta game of political rule-finding discourse.

As the myth no longer provided a broadly accepted normative framework, public discourse was necessary to clarify which principles and goals should be implemented by the rules and how they should be administered in the meta game. It is against this background that Aristotle, when describing in his treatise on politics the features of an ideal state, claims that in the polis there “should be established an agora” from which “all trade should be excluded” (Pol 1331a) so that it provides a public space reserved for political deliberation. Such discourse is needed to foster the self-perfection of the polis and, consequently, to enable the self-perfection of the individual.

Following Aristotle, the idea that the polis should enable the self-perfection and happiness of all citizens provides a systematic focal point for public discourse. Since the polis aims at enabling *all* citizens (excluding, of course, women and slaves) to pursue self-perfection, only those principles and rules should be adopted that can be considered just. In effect, for Aristotle, justice is the highest good of the political sphere. Note how Aristotle defines the concept of justice for the polis: justice is that which is for “the common interest” (Pol 1282b). Put differently, the polis can only perfect itself (and thus the individual) by finding, organizing, and realizing the benefits of mutually advantageous cooperation. Interpreted from an ordonomic perspective, Aristotle thus endows the meta-meta game of discourse with a powerful potential for a win-win orientation.

### *3.4 Lessons to Be Learnt for the Political Role of the Citizen in the Aristotelian Polis*

To this point, we have used the three-tiered ordonomic framework to interpret key ideas of Aristotle’s intellectual legacy in a way that will allow us in the next section to illustrate by analogy central ideas of the ordonomic concept of corporate citizenship. We saw how Aristotle conceptualized the role of the individual in the polis. What is now critical is that our ordonomic interpretation of Aristotle reveals the role played by the

individual at both the level of the basic game *and* at the level of the political meta games.

In fact, in light of our interpretation, the ability to participate in rule-setting processes and rule-finding discourses is the defining quality of Aristotle's concept of political citizenship. In his political theory, Aristotle dedicates much attention to the question of who can be considered a citizen of the state (Pol, Book III, Chapters 1-2). He rejects the idea of defining a citizen as someone who simply lives within the geographic boundaries of the state (Pol 1275a). By the same token, he points to the difficulties that arise from defining a citizen as someone whose parents are citizens (Pol 1275b). Instead, Aristotle takes a different strategy. He proposes a *functional* definition of citizenship that looks at the roles of the individual in society. Aristotle (Pol 1275b) argues that "he who has the power to take part in the deliberative or judicial administration of any state is said by us to be a citizen of that state." For Aristotle (Pol 1275b), citizenship is connected with "the right of deliberating" and conferred on a person who "legislates and judges." From the ordonomic perspective, the functional definition of citizenship thus means to participate as an individual not only in the basic game of social interaction but also in the meta game of rule-setting (legislation and judicial administration) as well as the meta-meta game of rule-finding (deliberation).

We argue that this ordonomic reading of Aristotle offers a fresh perspective for thinking about the political role of business firms and, in fact, can help to formulate a precise answer to the two questions raised at the beginning of this article. Before focusing our attention on the role of corporate citizens in the emerging global society, however, we present a summary of important conclusions from our analysis so far.

With regard to the first question, the ordonomic three-tiered framework allows clarifying what is meant by the "political" role of a citizen. Our analysis suggests that citizens of the polis interact at all three levels: they participate in the basic game of everyday social interaction, in the meta game of collective rule-setting, and in the meta-meta game of public discourse. There is, however, a fundamental difference between the basic game and the meta games. We argue that this difference illustrates the distinction between the nonpolitical "economic" role and the political role of the citizen. Drawing on a semantic distinction put forward by Rousseau ([1762] 1797, p. 32), we claim that the basic game is the social arena in which the citizens interact in their role as *bourgeois*. The basic game thus focuses on the daily interactions of private citizens who cooperate with each other so as to realize their individual self-perfection. As bourgeois, they are apolitical because they pursue their individual private interests within the *given* game of social cooperation. In contrast, citizens who interact in the social arenas of political governance or public discourse are playing the role of *citoyen*. Such a participation in the social meta games aims at playing a better game as a group. By analogy with Aristotle, we propose a functional definition of political citizenship that focuses on the ability of an actor to participate in rule-setting processes and rule-finding discourses. Consequently, that action is political that contributes to developing the shared ideational and institutional order of the polis.

This distinction between the citizen as a *bourgeois* and as a *citoyen* is not new. However, the ordonomic framework provides not only an alternative perspective for distinguishing between these two roles, it also offers a conceptual perspective on the interdependent relationship between the role of the bourgeois and the role of the citizen. With regard to the second question raised at the beginning of this article, we

maintain that our ordonomic interpretation of the Aristotelian concept of self-perfection reveals that the role of the bourgeois and that of the citizen do not contradict each other, but are complementary.

In his political theory, Aristotle argues that the ideal state should have two central places, the “agora from [which] all trade should be excluded” (Pol 1331a) and the “traders’ agora, distinct and apart from the other” (Pol 1331b). Interpreted from an ordonomic perspective, Aristotle’s description of the ideal polis means that the economic basic game and the political meta games take place in two fundamentally different social arenas. However, the people who interact in these arenas are the same citizens. People are equally bourgeois *and* citizen.<sup>12</sup> More importantly, our ordonomic interpretation suggests that in both arenas, they can follow the same win-win logic of individual self-perfection through social cooperation. In the basic game, the individual pursues self-perfection through day-to-day social interactions. In the meta games, the citizens can create the collective conditions that are needed to pursue individual self-perfection. When switching from the role as a bourgeois in the basic game to the political role as a citizen in the meta games, the citizen continues to pursue his own interest in happiness and self-perfection. Just as the acquisition of virtue through habit is an investment in fruitful cooperation and self-perfection, participating in rule-setting processes can be an investment in mutually advantageous cooperation and collective self-perfection in the polis. Our ordonomic interpretation of Aristotle’s theory of self-perfection thus provides a comprehensive concept of economic *and* political citizenship that builds on the potential of an integrative win-win logic. Going from the basic game to the arena of the meta games of deliberative or judicial administration does not disrupt this potential win-win logic: it extends it.

#### *4. The Ordonomic Concept of Corporate Citizenship: How to Answer the Two Open Questions*

From our ordonomic perspective, we interpret Aristotle’s key ideas to mean that individual self-perfection requires a social process that builds on the win-win logic of cooperative social interaction. In this section, we apply this concept to the societal role of the business firm. We show that our interpretation brings to light helpful analogies between the idea of individual citizenship in the Greek polis and the role of corporate citizens in the emerging world society. In fact, these analogies provide a systematic starting point for better understanding the economic role of the business firm as *bourgeois* engaged in value creation (4.1) as well as for clarifying the political role of the business firm as *citizen* in new-governance processes of rule-setting (4.2) and in (global) public discourse (4.3).

##### *4.1 Self-Perfection of the Business Firm as a Societal Agent for Value Creation*

How can the idea of self-perfection be applied to the business firm? For Aristotle, self-perfection meant realizing one’s potential, to fulfill one’s role or purpose. But what

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<sup>12</sup> Similarly, Aristotle (EN 1134b) maintains that citizens are “people who have an equal share in ruling [meta games] and being ruled [basic game].”

then, by analogy, is this *telos* of the business firm in a community? What is the purpose of corporate citizens in society?

With a nod to Milton Friedman (1970), a first answer to this question would be that the purpose of the business firm is to make a profit. From the perspective of ordonomics, however, such an argument misses the point of the question. Profit is important. But profit is a goal only from the viewpoint of the individual business firm.<sup>13</sup> Just as, according to Aristotle, every natural person wishes to be happy, a corporate citizen wants to make a profit. For Aristotle, however, happiness is not the same as the self-perfection of the individual in his community. Rather, happiness is a gratification, a reward or a signal that one has successfully achieved perfection of oneself and has become a virtuous *zoon politikon*—for happiness is the “prize and end of virtue” (EN 1099b).

By analogy, the ordonomic perspective argues that profits are important because they signal that a company has attained self-perfection of fulfilling its social purpose—and reward it for doing so. For a corporate citizen, the societal purpose to be achieved by virtue of individual self-perfection is the *creation of value*. From an ordonomic perspective, companies have a societal mandate to create value. This is, of course, not a new idea. As early as 1949, Ludwig von Mises ([1949] 1996, p. 217) made the case that “the owners of the material factors of production and the entrepreneurs are virtually mandataries or trustees of the consumers, revocably appointed by an election daily repeated.” In ordonomic terms, the self-perfection of a business firm means realizing its potential as a societal agent for value creation, not only for consumers but, in a substantial extension of von Mises’s position, for other stakeholders, too.

There is a strong analogy between happiness and self-perfection as a virtuous citizen and profits and self-perfection as a societal agent for value creation. For Aristotle, happiness is an individual goal that can be achieved only *indirectly*. According to Aristotle’s argument, happiness is the epiphenomenon of successful self-perfection as a virtuous citizen (EN 1099b “Happiness ... comes as a result of virtue.”) The same is true for profits. In a competitive market system with functional institutions, companies can realize profits only as an epiphenomenon of successful value creation. Here, a business firm can make a profit only if customers are voluntarily willing to pay more for its product than it costs to produce that product (cf. Mises, [1951] 2008, pp. 7 et passim; Jensen, 2002, p. 239). Just as Aristotle sees happiness as a signal that someone has perfected himself as a virtuous citizen, making a profit can be evidence that a company is giving more to society than it is taking from it.<sup>14</sup>

How does a company perfect itself as a societal agent for value creation? Remember that, for Aristotle, no one becomes virtuous by chance or nature; to become virtuous requires a process of active self-management. The same goes for the self-perfection of a corporation as an agent for value creation. To create value, a company first needs to actively constitute itself as a moral actor of integrity. This is necessary because the formal institutions and private contracts in the marketplace are necessarily incomplete

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<sup>13</sup> Following the advice of an anonymous referee we would like to elucidate the following distinction: From the point of view of the firm as a corporate actor, to earn a profit is a goal, while providing mutual benefits through value creation is a means. However, from the point of view of society, it is exactly the other way around. Corporate profit is a means that is employed in order to incentivize companies to contribute to the societal goal of value creation.

<sup>14</sup> Following a hint by an anonymous referee, we would like to point not only at an analogy, but at a difference, too. For Aristotle, it is impossible to experience happiness without virtue. Given dysfunctional rules, however, it is possible to realize profit without value creation, e.g. by fraud.

(Hart & Moore, 1996; Sacconi, 2007; Tirole, 1999). In an ideal world of costless, complete, and perfectly enforceable contracts, even anonymous players could cooperatively interact to create value. Yet in the “real” world, no stakeholder in the marketplace—including customers, employees, suppliers, creditors, and debtors—will cooperate with a company unless the stakeholder has reason to believe that the firm is trustworthy and reliable (Schelling, [1960], 1980: 43; Hart, 2002; Erhard, Jensen & Zaffron, 2010). In this sense, any company needs to be viewed as a “moral actor” in order to successfully perfect itself as a societal agent for mutually advantageous value creation.

From an ordonomic perspective, organizational integrity of a firm is what virtue is to the individual in the Aristotelian polis. So how do firms build up their integrity? Aristotle argues that individuals become virtuous by habit; we claim that organizations constitute themselves as actors of integrity by virtue of moral commitments.<sup>15</sup> Such commitments can be made credible via “specific investments” (Williamson, 1985) or guarantees, codes of conduct, informal rules and thus through a strong “corporate culture” (Kreps, 1990). Note that there are interesting similarities and differences between the Aristotelian perspective on the *individual* citizen and our perspective on the *corporate* citizen. What is similar is that both habituation and moral commitment can be regarded as prudent *investments*. Although moral commitments seem at first glance to restrict a company’s freedom, they can serve as a systematic *factor of production* by convincing a company’s stakeholders of its reliability, thus inducing the stakeholders into productive cooperation that would be impossible in the absence of such trust. Just as forming “character” by habit builds up valuable human capital in the Aristotelian citizen, moral commitments can start learning experiences that establish a corporate “character” of integrity, thus creating valuable social capital.

One difference in the two types of virtue, i.e., individual and corporate, is perhaps even more interesting. A corporation can use functional moral commitments not only to bind itself, but also to help *others* bind themselves. Take the case of micro-finance (Armendáriz & Morduch, 2007; Ghatak & Guianna, 1999). Here, the problem is that poor people often cannot provide collateral sufficient to make themselves eligible for credit from lenders. Micro-credit schemes such as the business model of the famous Grameen Bank (cf. Yunus, 2007) solve this problem by introducing an alternative commitment mechanism such as small group credit rings. By establishing such functional commitment arrangements that draw on moral feedback mechanisms and informal sanctions, micro-finance businesses can cooperate with poor borrowers and create a win-win relationship. As this example demonstrates, both moral self-commitments *and* commitment services for others play an important role for the self-perfection of a company as a societal agent for value creation.

By analogy with Aristotle, the ordonomic perspective holds that the individual self-perfection of a company as a *bourgeois* in the basic game of business is only possible

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<sup>15</sup> Following the advice of an anonymous referee, we would like to clarify the notion of moral commitments. A self-commitment voluntarily restrains one’s own freedom. This can be a prudent thing to do because it enhances one’s own self-interest by encouraging interaction partners to build trust into one’s own integrity and thus makes them contribute to cooperation. In this sense, a commitment is to be qualified as moral if it furthers mutually beneficial interactions which otherwise would not come about, thus contributing to fighting poverty, raising living standards, fostering productive innovations, improving the environmental quality, providing attractive jobs, etc. Without integrity, backed by credible moral commitments, corporate actors would find themselves in a situation aptly characterized by Gordon Tullock (1985: 1081): “If you choose the noncooperative solution, you may find you have no one to noncooperate with.”

by virtue of a social process that brings to bear the win-win logic of mutually advantageous cooperation. In competitive markets, companies can realize their individual profit objective only if they help others to realize their potential as consumers, employees, or investors. In the basic game of business, companies thus pursue self-perfection in their capacity as economic actors.

#### 4.2 Value Creation, Self-Perfection, and the Need for Functional Governance

The idea of self-perfection offers a fresh way of looking at the economic role of the business firm in the basic game of the marketplace. In competitive markets, companies can realize their potential as corporate citizens if they fulfill their societal mandate to create value. However, just as Aristotle argues that the individual cannot perfect himself without adequate institutional rules, the same is true for the self-perfection of a company. In competitive markets, functional rules are needed to enable companies to create value by their profit-seeking activities. Such rules, however, are far from self-evident. In fact, companies often operate within a context where the institutional framework is deficient.

To illustrate, take the example of business firms that are stuck in a quagmire of corruption. If due to a deficient institutional framework corruption is endemic, companies are collectively trapped in a social dilemma. In this situation of collective self-damage, the individual company faces perverse incentives that make it hard, if not impossible to uphold individual corporate integrity. If a single company decides to fight against endemic corruption in its industry sector, it runs the risk of suffering severe competitive disadvantage without even coming close to solving the social dilemma of corruption at the group level. In other words, perverse incentives erode a company's integrity and render self-perfection impossible. In the absence of adequate rules, companies will fall short of realizing their self-perfection as societal agents for value creation (cf. Baumol, 1975).

The self-perfection of a company thus critically hinges on the perfection of the institutional order. According to the traditional nation-state paradigm, this task is the exclusive domain of the government (Friedman, 1970; Henderson, 2001, 2005; Jensen, 2002). In the age of globalization, however, the conventional nation-state paradigm is increasingly challenged. Note the strong analogy to the historic background of Aristotle's analysis. Just as the traditional myth lost its ability to provide regulatory guidance for the social interactions in the polis, the traditional mode of nation-state governance no longer provides enough regulatory guidance to maintain an encompassing functional institutional framework for a globalizing economy.

In this situation, companies can realize self-perfection as societal agents for value creation only if they contribute to perfecting the shared institutional order. Put differently, if companies want to truly fulfill their economic role as *bourgeois* in the basic game of economic value creation, they need to be willing and capable of taking a political role as *citoyen* in the relevant meta game of governance. To illustrate, take again the case of corruption. If dysfunctional incentives drive a race-to-the-bottom competition in the basic game, companies can overcome this situation of collective self-damage and fulfill their societal mandate of value creation only by taking "ordo-responsibility" (cf. Beck-

mann & Pies, 2008a), i.e., by contributing to reforming the rules of the game.<sup>16</sup> This is exactly what the Oslo-based Extractive Industries Transparency Initiative (EITI) is about. EITI aims to strengthen governance by improving transparency and accountability in the extractives sector. Acting as *citoyens* and collaborating with civil society groups, governments, and international organizations, corporate citizens have made an active contribution to setting a global standard under which companies publish what they pay and governments disclose what they receive, thus creating better rules for preventing corruption (Eigen, 2006; www.eiti.org).

### 4.3 Self-Perfection and Global Public Discourse

Companies can contribute to creating institutional conditions that foster their individual self-perfection if they learn to initiate or participate in constructive political meta games. Such collective rule-setting processes, however, are anything but easy. For example, mutually advantageous meta games often require that all actors share a constructive understanding of the situation. What is needed is a shared awareness of common interests that will provide a mutual point of departure for institutional reform.

Such awareness of common interests is often absent because perceived conflicts of interest in the basic games induce the players to perceive their relationship with each other as a zero-sum game. What results is a kind of tradeoff thinking that assumes that not only the basic game but also the higher meta games are characterized by an invariably given distributional conflict. As a consequence, any political activity of business firms in rule-setting processes appears to be illegitimate lobbying via rent-seeking to privilege the firm at the cost of the larger public. Consequently, corporate contributions to societal governance are viewed with suspicion and opposed.

As long as such tradeoff thinking persists, a company will find it impossible to foster its self-perfection by constructively participating in collective rule-setting processes.<sup>17</sup> In this environment, companies can pursue self-perfection only if they learn to participate as *citoyens* in processes of deliberation that help create a shared awareness of the common interest. The critical relevance of such rule-finding discourse can again be underlined by analogy with Aristotle. Just as the citizens of the polis can no longer take the normative guidance of the traditional myth as a given consensus, the modern society is characterized by what Rawls (1993, p. XVII) calls the “fact of pluralism.” Today, there is a plurality of worldviews and conceptions of the good. This is particularly true of the global arena. Multinational corporations operate in overlapping ethnic, cultural, and religious contexts. In this situation, shared perceptions cannot be taken for granted; discursive processes are needed for mutual learning.

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<sup>16</sup> Seen from the ordonomic perspective, profit seeking is the organizational goal of the business firm. Depending on the rules of the game, business activity results in value creation (productive entrepreneurship) or value destruction (unproductive entrepreneurship). Ordo-responsibility means that business firms help improve the rules of the game in order to foster productive entrepreneurship.

<sup>17</sup> Note that this kind of zero-sum thinking is by no means limited to, say, civil society organizations (CSOs) who define themselves as being the watchdogs of business. Often, this tradeoff thinking is also found within companies themselves. As a consequence, many business firms have difficulty seeing, for example, that when it comes to overcoming dilemmatic problems in the basic game, they share a common interest with their rivals. Similarly, companies often fail to perceive CSOs not only as critical watchdogs but also as potential—and necessary—partners for overcoming unproductive conflicts.

Note that in order to pursue self-perfection, business firms not only have a special need for such learning processes, they also have a special capacity to contribute to rule-finding discourse in the global arena. First, with regard to many very complex problems, companies can share their specific expertise and how-to knowledge. Second, many problems in the global arena are by nature highly international. Multinational companies are among the few actors that have internationalized to a similar extent. Third, a key challenge for collective action lies in prohibitively high transaction costs. Multinational corporations and business networks provide options for reducing these transaction costs. Fourth, business firms can sometimes be held accountable more easily than, for example, government actors in corrupt or nondemocratic states. Consequently, a transparent involvement of corporate citizens in political discourse that is responsive to criticism could improve what Scharpf (1999) has termed the “output legitimacy” of governance.

In sum, corporations can contribute to creating institutional conditions that favor their individual self-perfection if they participate as *citoyens* in the meta-meta game of (global) public discourse. Increasingly, corporate actors play an important political role in discursive processes. The ancient Greek *agora* was an assembly of persons—i.e., natural citizens; the global agora will be, to a large extent, an assembly of organizations—i.e., corporate citizens—including companies as well as civil society actors.

#### 4.4 Two Ordonomic Answers to the Open Questions

We have shown that the ordonomic perspective provides an interpretative framework for reading Aristotle in such a way that we can establish fruitful analogies between the idea of individual citizenship in the Greek polis and the idea of corporate citizenship in the age of globalization. We used our interpretation of Aristotle to illustrate an ordonomic concept of corporate citizenship that allows addressing and answering the two questions currently under debate in the literature. First, what is actually meant by a “political” role of the company and by the idea of “corporate citizenship”? Second, how does the political role of a corporate citizen relate to its economic role as a business actor?

With regard to the first question, we argue that there is an important lesson to be learned from Aristotle’s *functional* definition of citizenship. From an ordonomic point of view, Aristotle’s concept of political citizenship focuses on the ability of an actor to play a constructive role in rule-setting processes and in rule-finding discourse. Accordingly, we claim that companies can and do take a political role as soon as they act not only as *bourgeois* in the given basic game of business but also participate as *citoyens* in discursive and regulatory new-governance processes.

With regard to the second question, we claim that the Aristotelian idea of self-perfection holds the key to linking the economic and political roles of the business firm. By analogy with Aristotle’s argument, companies operating in functioning markets can make a profit only if they successfully pursue self-perfection as societal agents for value creation. In their capacity as economic actors, this is what companies do as *bourgeois* in their everyday cooperation with stakeholders in the basic game of business. If, however, a company cannot realize self-perfection within a given game, it needs to move to the next higher level of the meta game. In other words, if the institutional rules in the basic game of business fail to enable a company to create value, it can foster its self-



perfection as an agent for value creation by contributing as a *citoyen* to the meta game of political governance and, if necessary, by joining in the meta-meta game of political deliberation. When changing from the basic game of business to the level of political new-governance processes in the meta games, a business firm follows the same logic. Both as a bourgeois *and* as a citizen, it pursues its individual interests in processes of social interaction. In light of deficient institutional rules, companies need to take a political role if they wish to pursue self-perfection as economic agents for value creation. According to this logic, by taking on a political role, the firm is not expected to abstain from or restrict its economic interests. On the contrary, in processes of new governance, the economic role and the political role of the business firm can follow the same win-win logic of self-perfection through cooperative social interactions. As a consequence, the ordonomic perspective suggests that a “political theory of the firm” does not need to be developed as a corrective or even substitute of the economic theory of the firm. Rather, a political theory of the firm can be understood as an extension of the economic theory of the firm under the conditions of new-governance processes in a globalized world.

#### 5. *Lessons (to be) Learned: The Potential of Corporate Citizenship*

The basic idea of this article is to clarify the societal role of companies in modern political processes. We do so by developing an ordonomic concept of corporate citizenship in comparison with (our interpretation of) the Aristotelian idea of individual citizenship, which systematically combines the economic role as bourgeois and the political role as citizen. Drawing on this insight, we argue by analogy that the corporate role as bourgeois and the corporate role as citizen are not in opposition to each other, but complementary. The point of vital importance here is that in our concept, citizens do not follow different logics or rationalities when acting in varying social arenas or, in ordonomic terms, in different social “games.” According to the rational-choice perspective employed here, individual as well as corporate citizens acting as *bourgeois* in the basic game of the economy do not follow a specific “strategic rationality” that they have to give up for some sort of “communicative rationality” when acting as *citizens* in the political meta games of societal governance (Palazzo & Scherer, 2006). To the contrary, our ordonomic perspective *models* all citizens as acting according to their self-interest—be it as bourgeois *or* as citizen.

We see a number of benefits in conceptualizing corporate citizenship within such a rational-choice paradigm. First, our model introduces the political role of the business firm as a concept that is not alien to or even incommensurable with existing economic theories of the firm. Instead, it extends the notion of a potential for win-win cooperation from acting as bourgeois to acting as citizen. Second, our approach does not put forward the normative request that companies *should* take a political role but instead explains corporate citizenship as a rational strategy of self-interested companies. It thus addresses the criticism of the corporate citizenship concept put forward by van Oosterhout (2005, p. 678). To put it in a nutshell, we do not take recourse to a duty that normatively obliges a company to undertake or to refrain from certain modes of behavior. Instead, we identify a spectrum of constructive actions that are prudent both from the actor’s as well as from society’s point of view. Third, and arguably most important, the framework developed here is useful for prompting more constructive research ques-

tions. This is important because, as Heinz von Foerster ([1971] 2003, p. 215) put it: “The way in which a question is asked determines the way in which an answer may be found.” To illustrate: A common perspective in business ethics models strategic rationality as different from communicative rationality and then asks whether a company’s strategic self-interest is weak or strong. If the self-interest is perceived as too strong, this perspective suggests taming or curbing it. In sharp contrast, the ordonomic perspective does not ask whether self-interest is weak or strong; rather, our concept prompts the question of whether the self-interest of an actor is in accord with or at the expense of the public interest. Putting the question this way shifts the focus to the institutional framework that determines whether the intentional behavior of actors leads to desirable or undesirable results on the social level, where “desirable” is to be understood in terms of societal “consensus” (Brennan & Buchanan, 1985). In this sense, we employ a concept of weak normativity. Fourth, in contrast to other rational-choice approaches such as public choice, which focus primarily on analyzing the social structure and thus the incentive properties of institutional arrangements, the ordonomic perspective put forward here also looks at the otherwise neglected aspect of semantics: the ideas, thought categories, mental models as well as the metaphorical language that frame the public perception of social interactions and, in particular, social conflicts and their possible solutions. That is why theories and conceptual clarifications are so important: a clear notion of corporate citizenship can help accelerate societal learning processes and rationalize business practice. Fifth, orthodox rational-choice approaches such as public choice have a blind spot in that they do not see that business firms can play a constructive role in politics. A typical tendency is to assume that firms enter politics only in order to search privileges at the expense of the common good (rent-seeking). Although this has a long tradition dating back to Adam Smith ([1776] 1991: 137), such a perspective is one-sided in that it tends to overlook the potential of solving societal problems through corporate citizenship. Sixth, this leads to an important insight: just as the economic behaviour of firms requires a functional institutional framework of competition, the same is true with regard to the political behaviour of firms.

Put differently, the ordonomic perspective calls attention to the fact that—given a functional definition—both the “economic” and the “political” role of the business firm are as a matter of principle *ambivalent*. Take the ambivalent characteristic of the business firm’s role when acting in the basic game of the economy. Given a functional institutional framework of competition, profit-maximizing companies act in favor of the public interest if they strive to serve the needs of their customers, thus following the “mutualistic” (Hazlitt, [1964] 1994: Ch. 13) cooperative logic of win-win interaction. Yet in the opposite case, characterized by the absence of functional rules, the same profit-maximizing behavior may operate at the expense of the public interests if, for example, business firms pollute the environment and externalize the social cost of their production, thus leading to a “tragedy of the commons” (Hardin, 1968) or a social dilemma (Bowles, 2004, ch. 1), characterized by the non-mutualistic logic of win-lose interaction. Given such a dysfunctional institutional framework, it is of vital importance to improve the rules of the game in order to protect moral actors against competitive disadvantage. Such improved rules can be brought about by government or civil society organizations, but corporate actors may also play an active part here.

By analogy, the political role of companies is also ambivalent. Companies that participate in political processes can do so in a way that is either at the expense of the public interests or in a way that furthers it. With regard to the former, dubious lobbying is a

case point. Companies may try to influence political rule-setting processes with the intent of creating cartels or monopolies, thereby destroying societal rents (Baumol, 1990, 2010; Bhagwati, 1982; Tullock, 1989). With regard to the latter, however, companies can cooperate with state actors and other civil society organizations to organize collective action among diverse industry members and other market players. For example, such collective political action may be the only feasible way of overcoming endemic corruption. In this case, companies engage in a type of lobbying that aims not at destroying, but instead creating, societal rents. Therefore, the question of whether the political activity of corporate citizens operates in accord with or at the expense of the public interest can be answered in strict analogy to the firms' profit-maximizing activities in the economy: it depends on the institutional framework for political activity.

Understanding the ambivalence of both the economic and the political role of companies is important because it directs the research focus toward analyzing the *institutional conditions* that channel this ambivalence for better or for worse. We hold that this is an important field for future research. From a normative perspective, understanding these institutional conditions is important because they are not invariably given but can be changed. This is true for the economic basic game as well as for the political meta games. As a consequence, it is not only an important task for all societal actors to provide a functional competitive order for economic activity (Baumol, 1975) but also to contribute to the establishment of a functional competitive order for political activity (Pies et al., 2010). Here, the basic idea is to provide corporate citizens and other civil society actors with open and transparent—i.e., not privilege-driven—access to the competitive process of political rule-setting in order to turn the political activity of corporate actors into a productive undertaking for society (Albareda, 2008).

The idea that functional institutions are of pivotal importance for aggregate results of individual corporate action can be illustrated by the role played by business firms in the matter of environmental protection. As late as the 1970s, most companies were opposed to actively working to reduce the ecological footprint of their business activities. Back then, business firms engaged in political lobbying in order to avoid environmental protection laws that would lead to stronger regulation of business production. In contrast, today companies view the greening of business—i.e., energy and water saving or waste avoidance—as a technological challenge that has genuine potential for efficiency enhancement in production (Hart, 2005, pp. 31, 54; Schaltegger & Synnestvedt, 2002). Corporations today do not only not try to block efficient environmental regulation, but some actually engage in active lobbying for such regulation. A case in point is the German climate protection initiative “2°-German CEOs for Climate Protection” (2° Celsius, 2010). By cooperating with political institutions—especially with the German federal government—this corporate initiative actively lobbies for a (global) climate protection policy that aims at confining global warming to 2° Celsius compared to pre-industrial levels.

From an ordonomic perspective, business's changing attitude toward environmental protection points out two lessons (to be) learned. The first of these is that institutions (social structure) and ideas (semantics) are interdependent. Social structure—i.e., national and supra-national environmental law—has fundamentally changed since the 1970s. Take the example of the EU carbon emissions trading system (EU ETS, 2010) that introduced and allocated property rights for greenhouse gas emissions within the European Union in 2005. Under this emissions trading scheme, climate protection has become incentive-compatible for companies because secure property rights enable them

to make good money by saving greenhouse gas emissions. Semantics—the mental models of public opinion—has undergone a fundamental change, too. Back in the 1970s, there was a dominant perception that the profit motive of companies and the ecological interests of society were incompatible.<sup>18</sup> As a consequence, companies associated greening primarily with a cost increase. In contrast, today’s managers have begun to see environmental protection as a viable business opportunity (Hart, 2005, pp. 41 et seq.). This semantic shift has much to do with the evolution of the notion of sustainability, to which various environmental activist groups and other civil society actors have made important contributions. From an ordonomic point of view, the triple-bottom line of sustainability can be interpreted as a semantic innovation because it involves an orthogonal position: it enables overcoming the win-lose perception of greening and instead focuses on the win-win possibilities of environmental protection (Beckmann & Pies, 2008b).

The second lesson is that not only companies, but also other civil society actors, can contribute to establishing a suitable (informal) institutional framework for corporate citizenship. Environmental activist groups and other organizations have made an important contribution toward changing public opinion about environmentalism. As a consequence, it has become much more difficult for corporations to publicly lobby against the introduction of environmental protection laws. Indeed, there has been such an about-face on this issue that now we are witness to German CEOs lobbying for *stronger* climate protection legislation! From an ordonomic perspective on semantics, this is a special instance of a successful learning process led by civil society that has positively influenced the ideational order for the political activity of corporate citizens. And as a particular civil society actor specialized in critically reflecting on the adequacy of ideas for social reform, academia can make an important contribution in this arena. Here again, John Rawls can serve as a role model. With regard to the learning process required for (re-)forming social institutions, Rawls (1980, p. 551) argues that “[t]he way in which we think about fairness in everyday life ill prepares us for the great shift in perspective required for considering the justice of the basic structure itself.” And, indeed, his theory of justice is meant as an academic contribution to correct the “everyday life” perceptions of justice in order to facilitate and improve social reform.

### *Conclusion: Seven Points*

(1) In this article, we have interpreted the Aristotelian concept of *individual* citizenship in a way that helped us draw analogies to the ordonomic concept of *corporate* citizenship. We showed that Aristotle provides a sophisticated semantics of self-perfection and citizenship for the social structure of the ancient Greek polis. Using the ordonomic distinction of three social arenas, we discussed how the Aristotelian semantics of self-perfection and citizenship can be interpreted and applied to the social structure of an emerging global society. Figure 2 summarizes the key ideas of our argument. The background for our analysis is the observation that modern society differs from the social

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<sup>18</sup> Porter & van Linde ([1995], 2008, p. 347) highlight the win-lose semantics that characterized the earlier debate about environmental protection and economic growth as follows: “The prevailing view is that there is an inherent and fixed trade-off: ecology versus the economy. On one side of the trade-off are the social benefits that arise from strict environmental standards. On the other are industry’s private costs for prevention and cleanup—costs that lead to higher prices and reduced competitiveness.”

structure of the polis in that the former was a community of natural persons, whereas modern society is what Etzioni (1964, p. 1) and Presthus (1962) call an “organizational society.” As has been pointed out by scholars from many different fields, the key actors in modern society are in many instances not individuals but organizations (Coleman, 1990; Luhmann, 1997; North, 2005; Simon, 1991). It is for this reason worthwhile to look from the perspective of citizenship at the role of organizations and, in particular, of business firms and civil society organizations.

	Citizenship in the Aristotelian Polis	Ordonomic Perspective on Corporate Citizenship
Society	Small community (Polis)	Emerging Global Society
Key actors	Natural persons	Organizations
Heuristic orientation	Self-perfection as a person	Self-perfection as societal agents for value creation
Individual gratification	Happiness (eudaemonia)	Profits
Key condition for self-perfection	Virtue (aretê) through habitualization	Virtue through management of moral commitments
Social feedback mechanism	Social recognition of other members of the polis	License to cooperate with stakeholders
Criteria for political citizenship	Political Virtue as condition for full citizenship	Moral commitments as condition for corporate citizenship

Figure 2: The analogy between natural and corporate citizens

(2) By drawing basic analogies to Aristotle’s notion of individual citizenship, this article developed an ordonomic concept of corporate citizenship. The following seven points summarize the key ideas and implications of our argument.

- Modern society is a society of organizations. This social structure poses a challenge at the semantic level—be it with regard to the idea of citizenship or with regard to other concepts such as integrity or (corporate) responsibility.
- Aristotle’s idea of citizenship does not encompass organizations. On the contrary, his concept of citizenship addresses individuals in the institutional context of a social structure that is very different from that of modern society. Applying Aristotle’s ideas to corporate citizenship thus requires a perspective that reveals (or even constructs) important similarities between the role of the individual citizen in the Aristotelian polis and the political role of corporate citizens in the emerging global society.
- The “ordonomic” approach provides just such a perspective because it does not focus on the personal characteristics of the individual but instead looks at the functional features of societal self-organization
- By analogy with Aristotle, we make the case for a functional definition of citizenship, according to which citizenship means participating in not only the basic game of social interaction, but also in the meta game of rule-setting and

the meta-meta game of rule-finding. Such a functional definition can be applied to the social structure of the Greek polis and to the current, increasingly global social structure, in the process answering the two open questions in the literature on corporate citizenship.

- With regard to the first question, we argue that companies can and do take a political role as soon as they not only act as *bourgeois* in the given basic game of business but also participate as *citoyens* in rule-setting processes and in rule-finding discourses, i.e., in discursive and regulatory new-governance processes.
- With regard to the second question, we hold that the Aristotelian concept of self-perfection reveals that the roles of the *bourgeois* and of the *citoyen* do not need to contradict each other, but can be complementary. Both as a bourgeois *and* as a citizen, citizens can pursue their self-interest in processes of social cooperation. In both roles, citizens follow the same logic: this is true both for the citizen of the ancient polis in his pursuit of self-perfection as well as for corporate citizens when they pursue self-perfection as economic agents for value creation. In fact, citizens can follow the same win-win logic of self-perfection through cooperative social interactions.
- Against this backdrop, we identify other questions—and tentative answers. For example, our functional definition of citizenship calls attention to the fact that the political role of corporate citizenship is normatively ambivalent. Consequently, we illustrate the importance of establishing an institutional framework for political activity by corporate citizens that discourages rent-seeking and dysfunctional lobbying and encourages constructive contributions to societal learning processes. Put differently, the win-win logic of individual and collective self-perfection discussed here does not promote a naïve teleology that assumes that there are no conflicts in the real world. There is no magic to win-win solutions; rather, they need to be worked out, often a complex and demanding challenge. This is why we believe it is fruitful to have a theory that highlights the *potential* of win-win-solutions as a crucial quality of social interdependence.

#### *Cited Works of Aristotle*

The numbers in the citation of Aristotle's works refer to the corresponding lines of the Greek text in the great modern edition of Aristotle's work published between 1831 and 1870 by the Berlin Academy. The pagination of the Berlin edition has become the customary means by which to locate a passage in Aristotle. The English quotations are taken from the following translations:

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