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## **Review Essay: "It's the Politics, Stupid!": Reflections on the Role of Business in Contemporary Nonfiction**

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# “It’s the Politics, Stupid!”

## Reflections on the Role of Business in Contemporary Nonfiction

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Reich, Robert B. (2007). *Supercapitalism: The Transformation of Business, Democracy and Everyday Life*. New York: Alfred A. Knopf.

Klein, Naomi. (2007). *The Shock Doctrine: The Rise of Disaster Capitalism*. Toronto, Ontario, Canada: Alfred A. Knopf.

This review essay analyzes the 2007 books of Naomi Klein and Robert B. Reich. Both books identify a political role for the private corporation in contemporary capitalism globally. The review article concludes with some remarks on the implication of both books for a future research agenda in management studies in general and the business and society field in particular.

**Keywords:** *business and politics; corporate political action; disaster capitalism; supercapitalism*

These are fascinating times for scholars in the business and society field. For one, if you ever suffered from not being understood when explaining what you do to your dad or the person next to you on the plane, these times are definitely over now. Heightened by the recent turmoil on the financial markets, the issues of ethics and responsibility in business are high on the agenda. Most people one talks to have a pretty good idea of your work if, for instance, you tell them that your research is in corporate social responsibility (CSR) or business ethics. Not only is there a growing interest in the conspicuous role of corporations in literature, fine arts, or film, but increasingly the press and a growing body of nonfiction literature are exploring roles and (ir-)responsibilities of corporations in contemporary capitalism.

This review essay takes a closer look at two recent examples from the bookshelf: Robert Reich’s *Supercapitalism* and Naomi Klein’s *The Shock*

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*Doctrine*, both of which are of interest for scholars in business and management for two main reasons. First, they provide a specific analysis of the current influence and power of corporations in contemporary society that reflects fairly widespread concerns and anxieties about the main object of study in management as an applied scholarly discipline. Second, both accounts cast a specific light on the growing area of CSR (and related concepts); most notably, Reich dedicates an entire chapter to the concept. This second aspect, however, makes for both books not being an entirely pleasant read, particularly for scholars working in the business and society field: While Reich explicitly dismisses the concept as misguided, Klein's account of contemporary "corporatism" (the way she coins it) leaves little space for locating socially responsible and ethically desirable corporate actions.

## The Nature of the Corporation in the 21st Century

So what is a corporation this day and age? Reich's answer makes for a fascinating read as he provides an astute and succinct account of the evolution of the (American) corporation over the past 100 years. He provides a brilliant characterization of American capitalism in the "golden age" between 1945 and the late 1960s that was characterized by large oligopolies, limited competition, strong labor unions, and a powerful welfare state representing interests of wider society. This account of American capitalism—in Reich's terminology "democratic capitalism"—is particularly eye opening for non-U.S. readers who all too often think of the United States as the country of free markets, competition, small government, and limited welfare state institutions. Reich shows though, that this hyperbolic view of the U.S. economy and society is rather a product of the more recent phase in American capitalism: Due to technologic advances in transport and communication technology, lower trade barriers and deregulation of financial markets, the U.S. economy changed fundamentally; from an economy governed by large corporations, labor unions, and a strong government, "supercapitalism" represents a corporate world that is chiefly governed by the interests of just two constituencies: *consumers* and *investors*. This shift in focus has particularly disenfranchised two other important communities or "stakeholders" of corporations: *Employees* have suffered pay cuts and decline in representations of their interests, if not outright loss of jobs due to global outsourcing. The *wider public*, Reich argues further, has become more and more disenfranchised and marginalized as the traditional political institutions in Washington have become increasingly

representatives of corporate—rather than citizens’ and the electorate’s—interest. It is the latter point that is Reich’s key concern and dominates much of the second half of the book:

Democracy and capitalism have been turned upside down. As we have seen, capitalism has invaded democracy. Legislation is enacted with public rationales that bear little or not relation to the real motives of the corporations and their lobbyists who pushed for them . . . . Regulations, subsidies, taxes, and tax breaks are justified as being in the “public interest” but are most often the products of fierce lobbying by businesses or industries seeking competitive advantage over one another. . . . Citizen voices are drowned out. The public rationales mask what’s really going on—which companies and industries gain and which lose. (Reich, 2007, p. 207)

Here is Reich’s main diagnosis of the current role of the modern corporation: Through lobbying, campaign financing, revolving doors between business and government and other more subtle mechanisms, the political processes in the United States are dominated by private corporations and their interests. Reich’s book then finally amounts to this: Unlike in the golden age of democratic capitalism where corporations accommodated political imperatives set by governments and representatives of powerful stakeholders such as employees, corporations are now dominating the very institutions of politics and have thus become the dominant political actors in the United States. Though he does not put it explicitly this way and remains highly critical of this role, Reich’s book sketches out the political role of the corporation as its dominant feature in 21st-century capitalism.

It is exactly at this point where Reich’s book—however different in approach, tone, and focus—resonates with Klein’s portrait of “disaster capitalism.” In short, her well-researched account of the past 35 years of the global spread of contemporary capitalism identifies a new setup of business, economics, and society that she characterizes by the term *corporatism*. She defines *corporatism* as

a system that erases the boundaries between Big Government and Big Business. . . . Its main characteristics are huge transfers of public wealth to private hands, often accompanied by exploding debt, an ever widening chasm between the dazzling rich and the disposable poor, and an aggressive nationalism that justifies bottomless spending on security. (Klein, 2007, p. 18)

In a review of Klein's book for an academic audience we would hasten to state right away that this quote gives away two aspects that might cause some readers to part company with any further discussion of her writings from the outset. The first caveat is that Klein writes neither as an academic nor for an academic audience, and it comes as no surprise that her definition of corporatism is somewhat at odds with what has been a rather well-defined concept in the academic debate (see, for instance, Molina & Rhodes, 2002, for an overview). The second caveat is of course that—unlike Reich who writes as an academic and, to a lesser degree, expolitician—Klein is an activist, drawing on a specific political agenda and with regard to language, choice of examples, and use of metaphors, and aims at a wider public audience—at the expense of separation of normative and descriptive claims as well as political objectivity. This said, however, Klein's book is meticulously researched and provides a stunning account of the degree to which private corporations have taken over a host of responsibilities, tasks, and functions, which, for most of the 20th century, have been considered to be governmental roles and responsibilities.

Klein's book, if anything, deserves attention by management scholars chiefly for its empirical contribution. Drawing on well-researched empirical case studies from at least 14 countries (Bolivia, Chile, China, Indonesia, Iraq, Israel, Philippines, Poland, Russia, Sri Lanka, South Korea, South Africa, the United Kingdom, and the United States), Klein sketches out the conspicuous role of corporations in contemporary capitalism. Three aspects stand out: First, the book provides stunning evidence about the scale, scope, and degree to which traditional, postwar Keynesian welfare state institutions have been weakened and privatized not only in the United States, the United Kingdom, and other Anglo-Saxon economies, but in most other countries in Europe and—most strikingly—many developing and transitional economies as well. Second, her analysis takes stock of the most recent developments in privatization of what has been regarded as core functions of government even in the most liberal economies. Though her account focuses on the United States under the Bush administration, she also provides ample evidence of the degree to which private corporations have become involved in delivering military services, homeland security, disaster relief, health care, and education. It is here where Klein reveals a new quality of privatization of core governmental functions that go far beyond the privatization of telecommunications, air traffic control, or welfare state-related governmental tasks. Third, Klein's analysis, in particular with regard to postcommunist and developing countries reveals the degree to which private corporations have become pivotal players with a degree of political influence that rivals, if not eclipses, the

influence and power of governments. Key examples are the ways in which large parts of the former state-owned industries in Russia or Poland have been privatized, creating a whole new class of capitalists or oligarchs whose private wealth not only contrasts with simultaneous increases in poverty for larger parts of the population in those countries but also provided them with crucial influence on political processes.

Slightly more controversial might be the reasons, Klein gives for these developments. At the core of it, she sees the power of the economic theories of the Chicago School, most notably Milton Friedman, whose influence she traces in all the different countries forming the backdrop of her analysis. Quoting early statements of Friedman, Klein then finds a typical pattern that in all countries where these neoliberal ideas have been introduced, these policies were applied in the aftermaths of “shock” events (hence the title of the book). These shocks—needed to convince people to introduce widely unpopular economic policies—could be either deliberate events, such as Pinochet’s coup d’état in Chile, the Tiananmen massacre in China, the occupation of Iraq, the fall of the Berlin Wall—or they could be natural disasters, such as Hurricane Katrina or the 2004 tsunami. Though her account here is again meticulously researched, not everybody will be convinced by the account of contemporary capitalism being introduced in the wake of “disasters” (hence the subtitle). Certainly Reich’s account of these developments assigns much less emphasis in particular to the power of ideas of one influential academic school of thought on the regulatory process.

However controversial the logic behind these changes admittedly might be, both Klein and Reich present us with a well-documented and well-researched account of the political power, influence, and dominance of private corporations in most economies globally. It is from this perspective that both books provide ample food for thought for management scholars. Before moving to this topic, however, let us have a brief look to what we learn about CSR from both books.

## **The Status of CSR in Contemporary Capitalism**

Klein’s book does not mention CSR, business ethics, or any of the related concepts at all. This silence in itself is conspicuous as it points to a vision of society where responsibility for the wider well-being of society should be located in the hands of governments rather than private corporations, which, in Klein’s account, are little more than self-interested predators. Though Reich’s account here amounts roughly to the same conclusions,

his approach is somewhat more subtle. He dedicates an entire chapter to the surge of CSR in the United States that, for him, “is related to the decreasing confidence in democracy” (Reich, 2007, p. 169). Quoting the president of the World Resource Institute arguing that “government is failing to provide leadership on environmental concerns, and industry has grown more willing to address them” (Reich, 2007, p. 169), Reich sees CSR as a result of “politics diverted” (the chapter title): The very companies who have contributed to disenfranchise citizen’s power on the democratic process, through their domination of the very institutions of government, are now offering the remedy by responding to their stakeholders through practicing CSR. In 40 pages, we learn that not only are corporations ill-equipped to substitute government but in fact most of their CSR is just a cynical plot to appease and maximize their goals with regard to their prime constituencies, namely, customers and shareholders. So far so good.

Many scholars in the business and society field will not be convinced specifically by Reich’s account of CSR, and rightly so. A clear weakness of supercapitalism is a lack of emphasis on shifts in governance at national and global level and the idea that a nostalgic retreat into a Keynesian post-war world is indeed an option. However, the value of Reich’s—however pessimistic—perspective on CSR is the link he sees between CSR and the political role of the private corporation. For better or for worse, his analysis of what firms actually do when they practice CSR unmask the political nature of these activities: Reich characterizes CSR—be it environmental protection, disaster relief, support of schools, or provision of healthcare for employees—as activities that used to be responsibilities of democratically elected and legitimized governments. Though Reich sees this substitution as a problem, the contribution of his analysis lies in identifying the political dimension—if not nature—of CSR (and related concepts, such as corporate citizenship or sustainability).

### Suggested Solutions

Given the extensive analysis and detailed research presented in both books, the sections on the suggested solutions to the problems are somewhat anticlimactic. Reich dedicates some 15 pages to a “Citizen’s Guide to Supercapitalism” where he suggests some institutional reforms, all with the goal to keep capitalism and democracy as two distinctly divided sectors of society. Though he might be forgiven for this utopian scenario as an academic, it is the more puzzling to read this suggestion from the pen of a

former politician. Not only does the analysis of his book suggest that the very corporations who have led us in this situation will use all their political means described in detail on the earlier pages to never allow these reforms to happen. But there are also more systematic shifts in governance of modern societies (Moon, 2002) that will make this return to a preglobalized world a rather utopian venture.

This said, the relative modest helping of solutions is not so much a criticism of Reich's book, as it is indicative of the fact that actually both books' main contribution lies in analyzing aspects of the contemporary empirical reality of the global economy. It is not surprising then that Klein's sketch of solutions to her rather daunting picture of contemporary capitalism is equally limited, and, it has to be said, equally unconvincing. She particularly points at the recent surge of the political left in Latin America as a reaction to decades of failed economic policies and dependence on the United States in these countries. However, whether the muscle flexing of Venezuela's Hugo Chavez or the expropriation plans of Bolivia's Evo Morales represent viable political alternatives is more than questionable. More realistically than Klein also argues on the final pages of her book that recent failures of nation-states to address catastrophes such as the tsunami or Katrina have given rise to new forms and levels of civil society engagement.

Both books then in their conclusions are in fact fairly similar. Reich and Klein both suggest that we return to the simple Keynesian postwar world, where the spheres of *politics* and *business, democracy, and corporations*, were still neatly separated and kept apart. Their vision is one of increased and, admittedly, sophisticated regulation that would limit and curtail the current influence of business interests on political decision making. In short, theirs is a project of the *depoliticization* of the corporation. The question then remains, whether this prospect is anywhere near to becoming a reality?

It is our view that this depoliticization is not going to happen. For one, these solutions have to be generated by a political system dominated by those whose influence and power would be diminished by these measures. And even if nation-states would be successful in addressing some of the issues, the question would still remain with regard to global issues and corporate influence at the transnational level. No, the sophisticated analysis in both books sketches out the political role of the corporation and the dearth of real solutions in both accounts points to just one simple fact: It is time to grasp the thorny nettle of admitting, that corporations are political actors, that they participate in governance, that they influence democracy and have in some areas replaced government. We might not like this political reality, but it is a fact and it is not going to go away.

This reality is nowhere more visible than in the financial crisis that began to emerge in fall 2008. The reason that the U.S. government and those of many other countries became active in rescuing banks is precisely that, for instance, having a roof over your head or some basic provision for old age used to be viewed as a civic entitlement of citizens. And as such they deserve at least some protection by the government—if they are not directly managed by governments, as it is still the case in some countries in Europe and elsewhere. Though both books were published before fall 2008, both Klein and Reich have commented on the financial crisis and the various proposed bailouts along the lines of their respective arguments.<sup>1</sup>

Klein's reasoning follows her analysis in *The Shock Doctrine* by highlighting the bailout as the final attempt (“pillaging”) of the Bush administration to shift substantial amounts of public funds to private companies and individuals. She sees similar patterns to prior shifts in privatizing substantial contracts for security, military projects, and reconstruction in Iraq, not at least by revealing that the initial coordinator of the banking bailout was the same person who oversaw the private contracts for the U.S. government in Baghdad's Green Zone some years back. Reich's comments are mostly focused on conditions and institutional reforms linked to the bailout proposals arguing for stricter terms and conditions for providing funds to troubled companies. Though he seems to trust the basic mechanisms of free markets more than Klein, who argues for a (partial) nationalization of the banking sector, the gist of both their thinking about solutions then is fairly similar: The goal has to be to depoliticize the corporate sector while reempowering government to represent the interests of the wider public. Though the unfolding events at the time of writing this review preclude a final judgment, it might be fair to say that most likely none of the approaches proposed by both authors stands a realistic chance of implementation.

## What Can We Learn as Management Scholars?

The key implication from both books seems to be clear: Business, certainly in the United States and most Western democracies, has become deeply involved in politics and the boundaries between the governance spheres of *government* and *politics*, on the one hand, and *private corporations* and *markets*, on the other, have become more and more indistinguishable. Though institutional reforms toward a stronger differentiation of both spheres seem largely unrealistic, certainly in the context of globalization, it is fairly obvious that the conspicuous role of corporations in the political sphere is here to stay.

Therefore, the central contention of both books is that business has gained influence over politics that is severely damaging the democratic process in Western democracies. As management scholars, reading such damning accounts of the contemporary role of business raises the immediate question whether and to which degree these new public debates on the role of our central object of study have been able to inform the research agenda in our discipline. Though there is consensus about the *economic*, and maybe *social*, role of business, the *political* dimensions and effects of corporate activity are yet to be embraced as a legitimate field of inquiry in management studies. In one of the very few recent studies of this area, Barley (2007) suggests that the management literature has yet to take such a proposition seriously:

Since the 1960s, organizational theorists have spent most of their time developing theories of how environments affect organizations and, more recently, how organizations affect each other. It is time for organizational theorists to pay much closer attention to how organizations alter and even create their environments, especially institutional sectors that lie outside the economy and that get little attention. (p. 214)

In Barley's terminology, the key institutional sector that we are talking about here is the political sphere. We would argue that management studies, including the literature on CSR and business–society relations, has so far been largely characterized by what Hanlon (2008) terms *the denial of politics*. As Barley (2007) argues, the silence of most of the management literature “is particularly troubling, given that organizations, in general, and corporations, in particular, now wield inordinate political power” (p. 201).

The blindness and inadequacy of our discipline with regard to the issues raised in Klein's and Reich's books are maybe nowhere more visible than in the subfield closest to the issues. There is a sizable literature on “corporate political activity” (CPA) that has studied those “nonmarket” strategies of companies. Looking at the field, though it is somewhat incomprehensible to see, the political dimension of business activity—and the problematic implications of corporations becoming involved in politics—is not even mentioned or problematized (Mantere, Pajunen, & Lamberg, 2009). In an overview article of the CPA field, Hillman, Keim, and Schuler (2004) define the field as “*corporate attempts to shape government policy in ways favorable to the firm*” (p. 837, italics in original). This literature, as the review article by Hillman et al. illustrates, shows next to no awareness of the fact that though business may *use* the political sphere to realize its strategic goals, this influence has fundamental and highly problematic

consequences for democracy, the public good, and some vital principles of political representation and decision making. Talking about ways of managing “widely salient issues,” Bonardi and Keim (2005) provide us with the typical flavor of recommendations resulting from this strand of research:

Firms can then try to work upfront, especially by financing new research by experts likely to support their views, in an attempt to change the thresholds at which some other experts falsify their opinions and therefore prevent adversarial public policies. (p. 573)

This explanation reads largely like the script book of what major oil companies have tried to achieve for a long time in denying the existence of global warming as a man-made phenomenon (Kolk & Pinske, 2007; Livesey, 2002). So what Reich and Klein—and large parts of society and the media—are concerned about regarding the political role of corporations could be interpreted as a direct implementation of research published in the highest echelons of our discipline.

This interpretation raises some serious questions, analogous to the debate about the role of business schools and research in the wake of the corporate scandals in the late 1990s at Enron, WorldCom, or Tyco. Back then, key commentators such as the late Sumantra Ghoshal (2003, 2005) argued that business schools share the blame for Enron as a narrow focus on shareholder value and the behavioral assumptions of agency theory—which for a long time dominated our discipline—were exactly the factors encouraging irresponsible behavior of top business schools’ MBA graduates such as, at Enron, Andrew Fastow, or Jeffrey Skilling. Looking at the influence of corporations on the political process, it would not be completely unimaginable to expect similar criticism directed at the way management studies as a discipline have so far addressed these issues.

This comment said, there is a small but growing literature examining the corporation as a political actor (Banerjee, 2008; Barley, 2007; Crane, Matten, & Moon, 2008; Levy, 2008; Norman & Néron, 2008; Scherer & Palazzo, 2008). Partly triggered by the popularity of this language in business, some of these contributions have used the concept of citizenship to discuss the political dimension of corporate behavior. Some authors have in particular focused on identifying the political role of corporations in those activities generally referred to as CSR (Matten & Crane, 2005; Scherer & Palazzo, 2007). Such a political role of corporations, however, is anything but uncontested as the debate on some of these contributions has surfaced (Jones & Haigh, 2007; van Oosterhout, 2005, 2008; Willke & Willke, 2008;

Wood & Logsdon, 2008). Following Maitland's (2008) critical comments on the debate, two tasks seem to be particularly at hand. First, we need to make the empirical case solid: What elements in contemporary corporate behavior are we exactly talking about when alluding to a political role of the corporation? How do companies influence the political process? What are the effects of corporations on the quality of democratic decision making? Second, we need to address the normative implications of such a political role—if at all it exists. Questions here would be about the adjacent responsibilities of corporations as political actors, degrees of transparency and accountability to the public, and, ultimately, potential avenues of democratizing the political role of private business. The debate in our discipline has just about started, and it will be challenging to see where next steps will take us.

## Note

1. The best overview can be found on the authors' respective Web sites: [www.naomiklein.org](http://www.naomiklein.org) and [www.robertreich.blogspot.com](http://www.robertreich.blogspot.com).

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