

■ Towards a framework for business ethics

In Chapter 1 we defined the subject of business ethics as 'the study of business situations, activities, and decisions where issues of right and wrong are addressed'. In order to address issues of right and wrong, the crucial starting point for businesses is the question of whether companies are actors that have to make decisions beyond simply producing goods and services on a profitable basis. After all, if companies provide us with great products that we want to buy, employ workers to produce them, and pay taxes to government, are they not already providing a sufficient contribution to society? It is the definition and justification of these potentially wider responsibilities that is the subject of this chapter.

We begin by addressing the fundamental nature of the modern corporation in order to answer the question of whether corporations can have a moral responsibility in the same way as individual people do. We then proceed to discuss key themes in the literature on the social role of business, namely corporate social responsibility, stakeholder theory, and corporate accountability. We finish the chapter by exploring the notion of corporate citizenship. We argue that although this is a new concept to have emerged from the literature, and it can be interpreted in a number of different ways, in its fullest sense it can be extremely useful for framing some of the problems of business ethics in the global economy that were raised in Chapter 1.

■ What is a corporation?

It may seem like an obvious question, but the practical and legal identification of the corporation within any given society has significant implications for how, and indeed whether, certain types of responsibility can be assigned to such an entity. Corporations are clearly not the same as individual people, and before we can decide what responsibilities they might have, we need to define exactly what they are and why they exist in the first place.

The corporation is by far the dominant form of business entity in the modern global economy. Although not all businesses (such as sole traders) are corporations, and many corporations (such as charities and universities) are not-for-profit businesses, we shall be concentrating primarily on business in the corporate form.

Key features of a corporation

So what is it that defines a corporation? A corporation is essentially defined in terms of legal status and the ownership of assets. Legally, corporations are regarded as independent from those who work in them, manage them, invest in them, or receive products or services from them. Corporations are separate entities in their own right. For this reason, corporations are regarded as having *perpetual succession*, i.e. as an entity, they can survive the death of any individual investors, employees, or customers—they simply need to find new ones.

This legal status leads to the second key defining feature of corporations. Rather than shareholders or managers owning the assets associated with a corporation, *the corporation owns its own assets*. The factories, offices, computers, machines, and other

assets operated by, say, Samsung, are the property of Samsung, not of its shareholders. Shareholders simply own a share in the company that entitles them to a dividend and some say in certain decisions affecting the company. They could not, for instance, arrive at Samsung's HQ and try to remove a computer or a desk and take it home, because it is Samsung that owns that computer or desk, not the shareholder. Similarly, employees, customers, suppliers, etc., deal with and agree contracts with the corporation, not with shareholders.

The implications of this situation are significant for our understanding of the responsibilities of corporations:

- **Corporations are typically regarded as 'artificial persons' in the eyes of the law.** That is, they have certain rights and responsibilities in society, just as an individual citizen might.
- **Corporations are notionally 'owned' by shareholders, but exist independently of them.** The corporation holds its own assets, and shareholders are not responsible for the debts or damages caused by the corporation (they have limited liability).
- **Managers and directors have a 'fiduciary' responsibility to protect the investment of shareholders.** This means that senior management is expected to hold shareholders' investment in trust and to act in their best interests. As we shall see in Chapter 6, the exact nature of the duty this imposes on managers and how it is legally structured actually varies across different parts of the world.

This establishes a legal framework for corporations to be open to questions of responsibility in that a company is legally responsible for its actions in the eyes of the law. However, this is not quite the same as assigning a *moral* responsibility to corporations. After all, it is one thing to say that a person feels a sense of moral responsibility for their actions, and can feel pride or shame in doing the right or wrong thing, but clearly we cannot claim the same for inanimate entities such as corporations. Hence, we need to look a little more closely at the specific nature and responsibilities of corporations.

Can a corporation have social responsibilities?

In 1970, just after the first major wave of the business ethics movement in the US, the Nobel-Prize-winning economist Milton Friedman published an article that has since become a classic text, questioning the alleged social role of corporations. Under the provocative title 'The social responsibility of business is to increase its profits', he vigorously protested against the notion of social responsibilities for corporations. His arguments, which have been rehearsed by many corporate responsibility sceptics over the years (see for example Karnani 2010), boil down to three concerns:

- **Only human beings have a moral responsibility for their actions.** The first substantial point is that corporations are not human beings and therefore cannot assume true moral responsibility for their actions. Since corporations are set up by individual human beings, it is those human beings who have moral responsibility for the actions of the corporation.

- **It is managers' responsibility to act solely in the interests of shareholders.** The second concern is that as long as a corporation abides by the legal framework society has set up for business, the only responsibility of the managers of the corporation is to make profit, because it is for this task that the firm has been set up and the managers have been employed. Acting for any other purpose constitutes a betrayal of their special responsibility to shareholders and thus essentially represents a 'theft' from shareholders' pockets.
- **Social issues and problems are the proper province of the state rather than corporate managers.** The critics' third main point is that managers should not, and cannot, decide what is in society's best interests. This is the job of government. Corporate managers are neither trained to set and achieve social goals, nor (unlike politicians) are they democratically elected to do so.

We will deal with the second and third points shortly. First, however, we will examine the proposition that a company cannot be morally responsible for what it does, since its decisions are essentially those of individual people.

Can a corporation be morally responsible for its actions?

Is a corporation just a loose collection of individuals who work together under the same roof, or is it a distinct entity of its own which can actually assume moral responsibility for the rights and wrongs of its actions? We suggest four considerations that have contributed to a situation where most scholars, and indeed the wider public, would nowadays answer this question in the affirmative.

- **Legal identity.** Perhaps the strongest case for assigning responsibility to a corporation comes from the legal perspective because corporations have a distinct legal identity. Corporations enter into contracts, they are subject to a host of legal requirements, including paying taxes, ensuring the safety of their products and meeting environmental obligations. Corporations can sue other entities, and vice versa, and they can be subject to all sorts of legal prosecutions. Corporations can also claim a number of rights. Indeed, the scope of corporate rights in the US has been significantly enlarged in recent years through rulings that grant corporate rights to free speech under the First Amendment, including the ability to limitlessly fund political campaigns.¹
- **Agency.** Corporations can also be said to decide and act independent of their members (Moore 1999). This argument is based on the idea that every organization has a *corporate internal decision structure* that directs corporate decisions in line with predetermined goals (French 1979). Such an internal decision structure is manifested in various elements—such as corporate policies and procedures—that, acting together, result in the majority of corporate actions being regarded as the result of corporate, not individual, decisions. This does not completely deny individual agency and there are still quite a number of decisions that can be directly traced back to individual actors. The crucial point is that corporations have an organized framework of decision-making that establishes an explicit or implicit *purpose* for these decisions.

- **Organizational culture.** A further argument supporting the moral dimension of corporate responsibility is the fact that all companies not only have an organized corporate internal decision structure, but also a set of beliefs and values that set out what is generally regarded as right or wrong in the corporation—namely, the *organizational culture* (Moore 1999). As we shall see in Chapter 4, these values and beliefs are widely believed to be a strong influence on the individual's ethical decision-making and behaviour. Hence, many of the issues discussed in this book for which corporations receive either praise or blame can be traced back to the company's culture. For example, the executive director of Ethisphere, which produces an annual list of the 'world's most ethical companies' argues that 'a culture of ethics is crucial to sustainable excellence' (Smith 2013).
- **Functional identity.** Finally, on a more general level we observe that corporations present themselves and interact with customers and other stakeholders as if they were distinct persons. Often associated with their brand, companies interact with customers as objects of affection (e.g. McDonalds' 'I'm lovin' it' slogan), or companionship (e.g. Jack Daniels' 'Become a friend of Jack' feature)—or just put up a human face as the brand to begin with, such as Colonel Sanders (Kentucky Fried Chicken) or Mr Clean (Procter & Gamble). As we will see later in this chapter, many corporations refer to themselves as corporate 'citizens' and espouse the aspiration to act as a good neighbour and partner with other members of society.

We can therefore conclude that corporations do indeed have some level of moral responsibility that is more than the responsibility of the individuals constituting the corporation. In the following sections, we will take a closer look at the second argument brought forward by Friedman (and many of his followers). This questions any social responsibilities a corporation might have beyond those that are based on the duty to produce profits for shareholders. In order to do so, we shall primarily discuss the two most influential concepts to have arisen from the business ethics literature to date: corporate social responsibility and stakeholder theory.

■ Corporate social responsibility

The systematic reasoning about a conceptual framework for corporate social responsibility (CSR) started in the US more than half a century ago (Carroll 2008). During this time many different concepts and principles have been aired and debated in relation to CSR. Such debates have focused on two key questions:

1. Why might it be argued that corporations have social as well as financial responsibilities?
2. What is the nature of these social responsibilities?

Let us look at each of these two questions in turn.

Why do corporations have social responsibilities?

This first question has raised enormous amounts of controversy in the past, but it is by now fairly widely accepted that businesses do indeed have responsibilities beyond simply making a profit. This is based on a number of distinct, but related, arguments,

many of which tend to be couched in terms of *enlightened self-interest*, i.e. the corporation takes on social responsibilities insofar as doing so promotes its own self-interest. Such a 'business case for CSR', is commonly advanced using four main arguments (Davis 1973; Mintzberg 1983; Smith 2003; Kurucz et al. 2008):

- **Enhance (long-term) revenues.** Corporations perceived as being socially responsible might be rewarded with extra and/or more satisfied customers, while perceived irresponsibility may result in boycotts or other undesirable consumer actions. Just consider the commercial success that automotive companies Toyota and Tesla have had with hybrid and electric cars, respectively. Similarly, employees might be more attracted to, and committed to, corporations perceived as being socially responsible, giving such companies more effective workforces (Greening and Turban 2000).
- **Reduce costs.** CSR can reduce costs as it helps in saving energy, reducing waste and cutting out inefficiencies. Wal-Mart, for instance, is expected to have achieved savings of \$1 billion by 2020 due to such CSR-related measures in particular with regard to enhancing its environmental performance.²
- **Manage risk and uncertainty.** Voluntarily committing to social actions and programmes may forestall legislation and ensure greater corporate independence from government (Moon and Vogel 2008). A more responsible approach to the safety of their offshore drilling might have saved BP the \$20 billion it had to spend in the aftermath of the Deepwater Horizon Accident in the Gulf of Mexico in 2010. Furthermore, in the aftermath of the Rana Plaza factory collapse in 2013 in Bangladesh, many Western retailers with links to suppliers there feared damage to their brands and reputation.
- **Maintaining the social licence to operate.** A considerable driver for CSR in resource-based industries is the necessity for gaining and maintaining the consent of local communities, employees, and governments. Such actors can effectively provide or revoke a social licence to operate to business. More broadly, making a positive contribution to society might be regarded as a long-term investment in a safer, better-educated and more equitable community, which subsequently benefits the corporation by creating an improved and stable competitive context in which to do business (Porter and Kramer 2006).

These are primarily good *business* reasons why it might be advantageous for the corporation to act in a socially responsible manner. Case 2 provides an example of American Apparel, a company that positions itself clearly as a responsible company in the fashion industry and that has reaped some success in doing so. In arguing against CSR, Friedman (1970) in fact does not dispute the validity of such actions, but rather says that when they are carried out for reasons of self-interest, they are not CSR at all, but merely profit-maximization 'under the cloak of social responsibility'. This may well be true, and to a large extent depends on the *primary motivations* of the decision-maker (Bowie 1991). It is not so much a matter of whether profit subsequently arises from social actions, but whether profit or altruism was the main reason for the action in the first place. However, corporate motives are difficult, sometimes impossible, to determine. Also, despite numerous academic studies, a direct relationship between social responsibility and profitability has been almost impossible to unambiguously 'prove'.³ Even though the overall weight of evidence seems to suggest some kind of positive relationship, there is still the issue of causality (Orlitzky 2008). When successful companies are seen to be operating CSR

programmes, it is just as reasonable to suggest that CSR does not contribute to the success, but rather the financial success frees the company to indulge in the 'luxury' of CSR.

Hence, in addition to these business arguments for CSR, it is also important to consider further *moral* arguments for CSR:

- **The externalities argument:** Externalities are the positive and social impacts of an economic transaction that are borne by those other than the parties engaging in the transaction. Corporations create a variety of externalities of one sort or the other. Whether through the provision of products and services, the employment of workers, or through their ubiquitous advertising—corporations cannot escape responsibility for these impacts, whether they are positive, negative, or neutral. Many regard corporations to have a moral responsibility to deal with, in particular, the negative externalities they cause, such as pollution, resource depletion, or community problems, insofar as these are not dealt with by governments.
- **The power argument:** Another important argument is that as powerful social actors, with recourse to substantial resources, corporations should use the power and resources responsibly in society. Some refer to this as the Spiderman maxim: 'with great power comes great responsibility'.
- **The dependency argument:** Corporations rely on the contribution of a much wider set of constituencies, or stakeholders in society (such as consumers, suppliers, local communities), rather than just shareholders, and hence have a duty to take into account the interests and goals of these stakeholders as well as those of shareholders.

Given this range of moral and business arguments for CSR, the case for CSR is on a reasonably secure footing, although as we shall discuss later in the chapter, there are also problems with this, particularly in terms of the accountability of corporations (see Implications of CC: corporate accountability and transparency, p. 76). Our next question though is: if corporations have some type of social responsibility, what form does that responsibility take?



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Theories of CSR suggest there are both business and moral reasons for engaging in social initiatives. Go to the website of one or two companies of your choice and find the section dealing with social issues (the page may be headed CSR or sustainability, or perhaps corporate citizenship) and see what kinds of reasons the corporations give for their involvement in CSR. Is there a balance of business and moral reasons, or does one type of reason predominate? How do you explain this?

Corporate social responsibility

The attempt by companies to meet the economic, legal, ethical, and philanthropic demands of a given society at a particular point in time.

What is the nature of corporate social responsibilities?

Probably the most established and accepted model of CSR that addresses our second question is the 'Four-part model of corporate social responsibility', as initially proposed by Archie Carroll (1979), and subsequently refined in later publications (e.g. Carroll 1991; Carroll and Buchholtz 2015). This model is depicted in **Figure 2.1**.

Carroll regards **corporate social responsibility** as a multilayered concept, which can be differentiated into four interrelated aspects—economic, legal, ethical, and philanthropic responsibilities. He presents these different responsibilities as consecutive layers

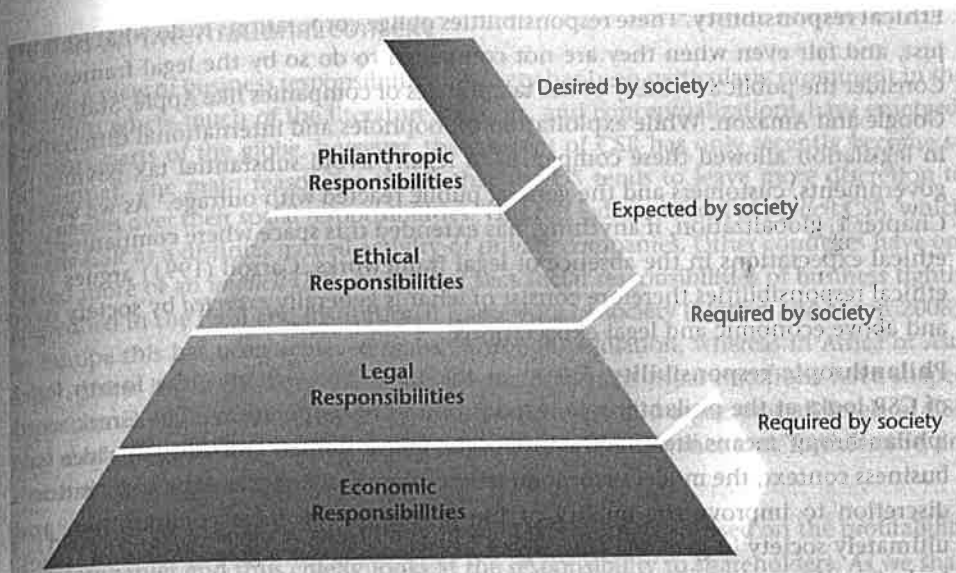


Figure 2.1 Carroll's four-part model of corporate social responsibility

Source: Adapted from Carroll, A.B. 1991. The pyramid of corporate social responsibility: toward the moral management of organizational stakeholders. *Business Horizons*, 42, Fig. 3.

within a pyramid, such that 'true' social responsibility requires the meeting of all four levels consecutively, depending on the expectations present in society at the time.

- **Economic responsibility.** Companies have shareholders who demand a reasonable return on their investments, they have employees who want good jobs, and they have customers who want their products to satisfy their needs. So the first responsibility of business is to be a well-functioning economic unit and to stay in business. This first layer of CSR is the basis for all the subsequent responsibilities, which rest on this (ideally) solid basis. According to Carroll (1991), the satisfaction of economic responsibilities is thus *required* of all corporations. In the extreme this leads to the idea that some large banks are 'too big to fail' because their basic economic functions are so vital to society that they should be 'bailed out' by governments and taxpayers when in trouble.
- **Legal responsibility.** The legal responsibility of corporations demands that businesses abide by the law and 'play by the rules of the game'. Laws, as we have seen in Chapter 1, are the codification of society's moral views, and therefore abiding by these standards is a necessary prerequisite for any further reasoning about social responsibilities. In some ways this may sound trivial if we talk about CSR, but the frequent news about court cases against corporations show that compliance with the law is by no means self-evident. Consider the scandals around mislabelled meat in Europe in 2013, faking of safety certificates in the Korean nuclear industry, or the massive \$13 billion fine JP Morgan accepted in the US for misleading investors in mortgage-backed securities⁴—legal responsibilities appear to be an ongoing challenge in discharging CSR. As with economic responsibilities, Carroll (1991) suggests that the satisfaction of legal responsibilities is *required* of all corporations seeking to be socially responsible.

- **Ethical responsibility.** These responsibilities oblige corporations to do what is right, just, and fair even when they are not compelled to do so by the legal framework. Consider the public's scrutiny of the tax policies of companies like Apple, Starbucks, Google and Amazon. While exploitation of loopholes and international differences in legislation allowed these companies to legally avoid substantial tax payments, governments, customers and the general public reacted with outrage.⁵ As we saw in Chapter 1, globalization, if anything, has extended this space where companies face ethical expectations in the absence of legal frameworks. Carroll (1991) argues that ethical responsibilities therefore consist of what is generally *expected* by society over and above economic and legal expectations.
- **Philanthropic responsibility.** Lastly, at the tip of the pyramid, the fourth level of CSR looks at the philanthropic responsibilities of corporations. The Greek word 'philanthropy' means literally 'the love of the fellow human'. By using this idea in a business context, the model incorporates activities that are within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society in general. This aspect of CSR addresses a great variety of issues, including things such as charitable donations, the building of recreation facilities for employees and their families, support for local schools, or sponsoring of art and sports events. According to Carroll (1991: 42), philanthropic responsibilities are therefore merely *desired* of corporations without being expected or required, making them 'less important than the other three categories'.

The benefit of the four-part model of CSR is that it structures the various social responsibilities into different levels, yet does not seek to explain social responsibility without acknowledging the very real demands placed on the firm to be profitable and legal. In this sense, it is fairly pragmatic.

However, its main limitation is that it does not adequately address the problem of what should happen when two or more responsibilities are in conflict. For example, the threat of plant closures and/or job losses often raises the problem of balancing economic responsibilities (of remaining efficient and profitable) with ethical responsibilities to provide secure jobs to employees. A typical example is a company that relocates its operations from the global North to a developing country. While this satisfies the economic level in terms of boosting profits for shareholders and providing employment for hitherto unemployed workers in the developing world, it can clash with ethical responsibilities in terms of abandoning long-standing ties to workers and communities in the North and exploiting lower environmental or social standards overseas.

☒ Skill check

Applying the CSR Pyramid. The pyramid of CSR is a useful tool for analysing the specific societal expectations that a corporation faces. Effective application of the pyramid enables a more refined and comprehensive analysis of relevant social responsibilities.

the second part of the book, when we move on to focusing on each stakeholder group individually. However, at this stage, it is important to recognize that there are not only different ways in which a stakeholder approach can be implemented, but there are actually quite different *forms* of the theory itself.

Different forms of stakeholder theory

The popularity of stakeholder theory in the business ethics literature has meant that quite different forms of the theory have emerged, and it is important to be able to distinguish between them.⁹ Thomas Donaldson and Lee Preston (1995) provide a convincing argument that there are in fact three forms of stakeholder theory:

- **Normative stakeholder theory**—this is theory that attempts to provide a reason why corporations *should* take into account stakeholder interests.
- **Descriptive stakeholder theory**—this is theory that attempts to ascertain whether (and how) corporations *actually do* take into account stakeholder interests.
- **Instrumental stakeholder theory**—this is theory that attempts to answer the question of whether it is *beneficial for the corporation* to take into account stakeholder interests.

In the preceding discussion, we have mainly used the first two types of argument to present the case for a stakeholder approach—that managers should and indeed do (at least to some extent) take into consideration interests beyond narrow shareholder concerns. However, we will develop a deeper normative basis for our arguments regarding specific stakeholder groups in Part B of the book. The instrumental argument—that considering the interests of stakeholders is in the best interests of the corporation—is largely akin to the argument for enlightened self-interest that we presented earlier in this chapter (see Why do corporations have social responsibilities? on pp. 48–50), and will be explored in more detail in Chapter 5.

By now it should be fairly evident that Friedman's (1970) first and second arguments against the social role and responsibilities of the corporation face considerable dissent from those advocating a CSR and/or stakeholder position. However, there is still one final aspect of his argument that we have not yet addressed, namely whether corporate managers should be involved in decisions about public welfare.

■ Corporate citizenship—the firm as a political actor

In Friedman's view, corporations should not undertake social policies and programmes because this is the task of government. Governments are elected by the public to pursue social goals whereas corporate managers are acting on behalf of shareholders, so their accountability is primarily to shareholders not to the public. Friedman therefore proposes a strict political division of labour in society—corporations to pursue economic goals, governments to pursue social goals. Although it could potentially be argued that Friedman's argument was defensible when his article was published, more recently the question of the wider responsibilities of business has become far more vexed. The main challenge to Friedman's view comes from the fact that corporations today have taken on a role in

society that overlaps and interferes quite substantially with that of governments. Let us consider three main areas where this has happened:

- **Governments retreating from catering to social needs.** Throughout the twentieth century, many societies saw the provision of water, electricity, education, health care, basic transportation, public safety or telecommunication as part of what governments provided to their citizens. In many countries, however, these services have been privatized and are now in the hands of private companies. It is very clear then that companies that take responsibility for people's health, for heating their homes or keeping them safe have a somewhat more complex social responsibility. In fact, companies in these new areas face many of the social expectations hitherto directed at governments and the political sphere in general.
- **Governments unable or unwilling to address social needs.** In some contexts, especially in less-developed countries, business often faces governments that lack the resources to cater effectively for basic social needs. Mining companies that build roads, housing, schools and hospitals for the communities where they operate often do this for the 'business case' reasons for CSR discussed earlier. As a result though corporations often 'play government' in these contexts and face social expectations that in Western democracies would be placed on the government.
- **Governments can only address social problems within their reach.** When we discussed globalization in Chapter 1 we already encountered some of the limits of governments. Global financial markets, the climate of the planet, or the internet are new social spaces that no single government can reach. On the contrary, these spaces are often influenced and governed by businesses. Hence the expectation towards business in addressing climate change, internet privacy or uncontrollable financial markets are a natural consequence of their global reach.

All three basic developments have led to a situation where it is business that today often finds itself facing many social expectations that are similar to those usually reserved for political authorities. This raises a host of ethical problems for businesses and for those who work in or with them. **An Ethical Dilemma 2**, for example, describes a situation where business has become involved in the funding of universities (previously a purely governmental function in most countries), and the ethical challenges this can raise for university employees such as professors. It is from this perspective that the business ethics literature has increasingly started to reconsider again the political division of labour between business and government (Mäkinen and Kourula 2012). A key concept addressing this shift is corporate citizenship (CC).



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Think about the concept of globalization that was discussed in Chapter 1, and our characterization of globalization as 'the ongoing integration of political, social and economic interactions at the transnational level'. How might this influence the failing of government and increasing power of corporations?

The concept of corporate citizenship

Towards the middle of the 1990s, the term 'corporate citizenship' emerged as a new way of addressing the social role of the corporation. Initially favoured primarily by practitioners (Altman and Vidaver-Cohen 2000), CC has also increasingly been introduced into the academic literature. Although again, the shift in terminology largely started in the US, numerous companies in Europe, Asia, and elsewhere have since committed themselves to CC (see Figure 2.5), and various consultancies and research centres based around the concept of CC have been founded across the globe.

However, as the literature on CC is relatively new, there seems to be quite a variety of usages of the terminology (Matten and Crane 2005; Crane, Matten, and Moon 2008). In a 'limited view' of CC many refer to philanthropy as the main activity of a virtuous corporate citizen that shares its wealth with its 'fellow citizens'. Others refer to CC in a way that mainly is synonymous to CSR, equating good neighbourly behaviour to a responsible role of business in society. In the context of the political nature of the corporations as outlined so far in this section, however, we prefer to use the 'extended view' of CC proposed by Matten and Crane (2005) which deliberately embraces the political elements of business ethics (also sometimes referred to as 'political CSR', see Scherer and Palazzo 2011). The extended view of CC takes as its starting point the notion of 'citizenship', and the dominant idea in most industrialized societies that citizenship is defined as a set of individual rights (Faulks 2000: 55–82). Following the still widely accepted categorization by T.H. Marshall (1965), liberal citizenship comprises three different rights:

- **Social rights**—these provide the individual with the *freedom to* participate in society, such as the right to education, health care, or various aspects of welfare. These are sometimes called 'positive' rights since they are entitlements towards third parties.
- **Civil rights**—these provide *freedom from* abuses and interference by third parties (most notably the government); among the most important are the rights to own property, to engage in 'free' markets, or exercise freedom of speech. These are sometimes called 'negative' rights since they protect the individual against the interference of stronger powers.
- **Political rights**—these include the right to vote or the right to hold office and, generally speaking, enable the individual to participate in the process of governance beyond the sphere of his or her own privacy.

The key actor for governing these rights for citizens is the government. Thus, at first glance, it is somewhat hard to make any sense of something like 'corporate citizenship' since citizenship is about relations between individuals and governments. Although, as we saw earlier, corporations are regarded as 'artificial persons' and so do enjoy some of the rights and obligations of other citizens (rights to own property, for example), it is hard to imagine corporations claiming most of the social and political rights that individual citizens enjoy. However, corporations enter the picture not because they have an entitlement to certain rights as a 'real' citizen would, but as powerful public actors that—for better or for worse—can have a significant impact on those 'real' citizens' rights. That is, the failure of governments to fulfil some of their traditional functions, coupled with the rise in corporate power, has meant that corporations have increasingly taken on a role in society that is similar to that of traditional political actors. Hence, corporations enter the arena of citizenship at the point where traditional governmental actors fail to

3. How should Ballistico proceed, and what can he realistically do to prevent similar problems arising in the future?
4. What are the wider ethical concerns regarding corporate involvement in funding universities and other public institutions?
5. In light of this example, give a critical assessment of the benefits and drawbacks of corporations stepping into roles often played by governments, such as the funding of higher education.

be the only 'counterpart' of citizenship. Quite simply, corporations can be said to partly take over those functions with regard to the protection, facilitation, and enabling of citizens' rights. Let us consider some examples:

- **Social rights.** Many companies have pursued initiatives formerly within the province of the welfare state: feeding homeless people, helping head teachers in managing school budgets, enhancing the employability of the unemployed, or improving deprived neighbourhoods. For example, the British retailer Marks and Spencer has for more than a decade operated its 'Marks and Start' programme to help people facing barriers to employability (such as single parents, people with disabilities, and the homeless) to gain work experience and skills that improve their employment prospects.¹⁰ Similarly, in developing countries where governments simply cannot (or do not want to) afford a welfare state, the task of improving working conditions in sweatshops, ensuring employees earn a living wage, providing schools, medical centres, and roads, or even providing financial support for the schooling of child labourers are all activities in which corporations such as Shell, Nike, Levi Strauss, and others have engaged under the label of CC.
- **Civil rights.** Governmental failure again becomes particularly visible in developing or transforming countries in the arena of civil rights. Corporations can sometimes play a crucial role in either discouraging or encouraging governments to live up to their responsibility in this arena of citizenship or directly protecting or infringing people's civil rights. Consider Facebook, which faced several court cases in the 2010s because of alleged infringements of the rights to privacy of its users.¹¹ On the other hand, companies such as Google have sometimes held themselves up as guardians of people's rights to free speech in the face of government restrictions. As a global space not governed by any single government, the internet is therefore a good example of one of those areas where corporations are exposed to dealing with core civil rights of individuals.
- **Political rights.** Voter apathy in national elections has been widely identified in many industrialized countries, yet there appears to be a growing willingness on the part of individuals to participate in political action *aimed at corporations rather than at governments* (Hertz 2001a). Whether through single-issue campaigns, anti-corporate protests, consumer boycotts, or other forms of sub-political action, individual citizens have increasingly sought to effect political change by leveraging the power, and to some extent vulnerability, of corporations. Returning to the McEthics case in Chapter 1, when anti-obesity campaigners have sought to draw attention to the social problems of poor health and nutrition among young people, they have achieved international coverage for their efforts not by tackling national governments, but by attacking the McDonald's corporation.

Hence, given this emerging role for corporations in the administration of civil, social, and political rights, the extended view suggests that **corporate citizenship** is essentially about how corporations govern the rights of individual citizens.

These rights are governed by the corporation in different ways. With regard to social rights, the corporation basically either supplies or does not supply individuals with social services and hence largely takes on either a *providing* or an *ignoring* role. In the case of civil rights, corporations either capacitate or constrain citizens' civil rights, and thus can be viewed as assuming more of an *enabling* or a *disabling* role. Finally, in the realm of political rights, the corporation is essentially an additional conduit for the exercise of individuals' political rights—hence, the corporation primarily assumes a *channelling* or a *blocking* role. This extended conceptualization of CC is shown in Figure 2.6.

It is evident that corporate citizenship may be the result either of a voluntary, self-interest-driven corporate initiative, or of a compulsory, public pressure-driven corporate reaction—either way it places corporations squarely in a political role rather than just an economic one. Most firms actually claim to not want to take on such a political role in society, yet it seems that increasingly they do, either because of pressure from activists or sometimes simply out of necessity. If an apparel company needs to make sure the children of its staff working in a poor African community get an education, it may need to build its own schools centre because the local authorities may not have the resources to do so. The point is that we do not need to know the motivation to label something an act of 'extended' CC. This is because this view of CC is essentially a *descriptive* conceptualization of what does happen, rather than a *normative* conceptualization of what should happen. Ethics in Action 2.2 provides the opportunity to examine this perspective in the context of corporate initiatives in developing countries.

Corporate citizenship
The corporate role in governing citizenship rights for individuals.

✓ Skill check

Corporate citizenship analysis. A CC analysis is a useful tool in a situation where corporations face expectations from society that are similar to those normally directed towards governments. Analysing the three types of citizenship rights will help you to identify the extra expectations society places on corporate activities in this context.

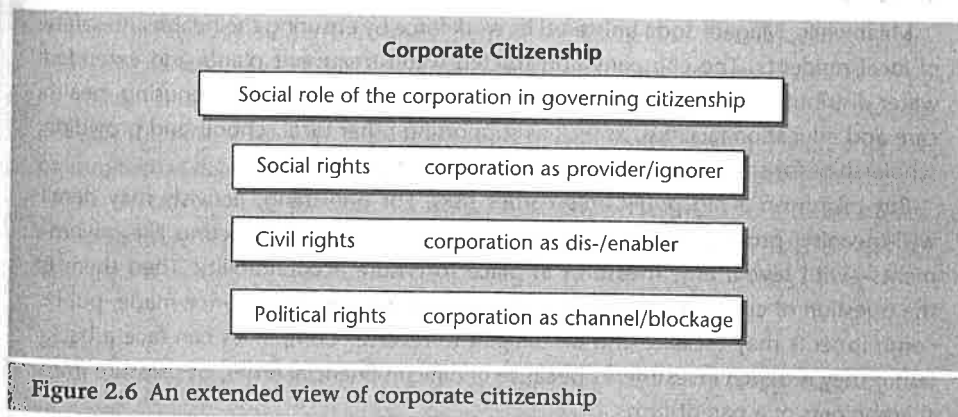


Figure 2.6 An extended view of corporate citizenship



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In which way are the companies in Kenya and Russia mentioned in this case implementing the 'extended view of corporate citizenship'? What are the new responsibilities arising from this role and what are the limits of this approach?

Implications of CC: corporate accountability and transparency

The debate on such a proposed political role of the firm has been quite rich and controversial (Scherer and Palazzo 2007, 2008b, 2011; Crane et al. 2008; Willke and Willke 2008; Néron 2010). The central problem behind such a role is clearly visible though: does political involvement by companies represent a risk to democracy? Since many important decisions appear to be no longer taken by governments (and hence also no longer indirectly by individual voters) but by corporations (who are not subject to a democratic vote), there is considerable unease with the implications this has for democratic accountability.

The question of **corporate accountability** is therefore integral to assessing the pros and cons of any shift to extended CC. The central points here are the questions of *who controls corporations* and *to whom are corporations accountable*. There are those like Friedman, as discussed above, who see it as a given that corporate managers are only accountable to their shareholders, provided they comply with the laws of the countries in which they do business. Governments are accountable to the public and therefore it is they who are the 'proper guardians of the public interest ... accountable to all citizens' (*The Economist* 2005). However, there are also good arguments for the view that since corporations now shape and influence so much of public and private life in modern societies, in effect they are already *de facto* political actors, so they *have* to become more accountable to society.

One avenue for greater corporate accountability is the market itself. Hertz (2001a) and others suggest that given the power of large corporations, there is more democratic power in an individual's choice as a consumer (for or against certain products) than in their choice at the ballot box. As Craig Smith (2014) contends, consumption choices are to some extent 'purchase votes' in the social control of corporations. However, as we shall discuss in more detail in Chapter 8 when we cover business relations with consumers, one should also recognize the limitations of the individual's power to affect corporate policy through purchase choices. There is little guarantee that consumers' social choices will be reflected in their consumer choices, or that such social choices will be even recognized, never mind acted on, by corporations. After all, not only do corporations benefit from a massive power imbalance compared with individual consumers, but consumers are also constrained in executing their voting rights by the choices offered by the market. Perhaps most importantly, consumers are just one of the multiple stakeholders that corporations might be expected to be accountable to.

This has led to further questions regarding how corporations can be made more accountable to the broad range of relevant stakeholders for their actions. One important stream of literature has examined the possibility for corporations to audit and report on their social, ethical, and environmental performance through new accounting

Corporate accountability
A concept that refers to whether a corporation is answerable in some way for the consequences of its actions.

procedures, such as environmental accounting and social reporting (Owen and O'Dwyer 2008). Another important stream of literature has looked at broader issues of communication with stakeholders, and development of stakeholder dialogue and stakeholder partnerships (e.g. Bendell 2000; Crane and Livesey 2003). We shall look at these developments in more detail later in the book, most notably in Chapters 5 and 10. However, the key issue here is that in order to enhance corporate accountability, corporate social performance should be made more visible to those with a stake in the corporation. The term usually applied to this is **corporate transparency**.

Although transparency can relate to any aspect of the corporation, demands for corporate transparency usually relate primarily to social as opposed to commercial concerns, since traditionally corporations have claimed that much of their data are commercially confidential. However, it is evident that many social issues cannot be easily separated from commercial decisions. For example, Nike long claimed that the identity and location of its suppliers could not be revealed because it was commercially sensitive information that Nike's competitors could exploit. However, concerns over working conditions in these factories led to demands for Nike to make the information public, which in 2005 it eventually agreed to do.

According to Schnackenberg and Tomlinson (2014) the quality of corporate transparency depends on three elements:

- **Disclosure**—whether relevant information is made available in a timely and accessible manner.
- **Clarity**—the degree to which information is understandable to relevant stakeholders.
- **Accuracy**—whether the disclosed information is correct and reliable.

Calls for increased transparency—i.e. enhanced disclosure, clarity and accuracy in how companies communicate their social impacts—are all about being able to hold corporations accountable for their actions. Only if stakeholders know what companies are doing can they seek to influence them to change their behaviour or make decisions about whether to continue to support them.

For example, most consumers believe that 'ingredient transparency' is an important factor in their purchase decisions across a range of product categories including food, household products, and beauty products.¹² Frequently, however, providing credible information is difficult for companies in the realm of social and political impacts, because they do not always know the facts themselves. Consider the case of mica, a mineral commonly used in cosmetics. The largest deposit is in the Indian state of Jharkhand, where the remote jungle landscape means that monitoring programmes are unable to determine whether child labour is used in its production. As a result, the UK cosmetics firm Lush announced in 2014 that it was committed to removing mica from its products because it could no longer guarantee transparency in its supply chain (Fearn and Nesbitt 2014).

While increased transparency is certainly no panacea for restoring public trust (see, for example, O'Neill 2002), the tenor of current demands for greater openness from corporations suggests that increased attention to issues of transparency might no longer be just an option for many corporations. Increasingly, corporate accountability and transparency are being presented as necessities, not only from a normative point of view, but

Corporate transparency
The degree to which corporate decisions, policies, activities, and impacts are acknowledged and made visible to relevant stakeholders.

also with regard to the practical aspects of effectively doing business and maintaining the trust of stakeholders (Schnackenberg and Tomlinson 2014).

Assessing CC as a framework for business ethics

Having set out the concept of CC and explored some of its implications in terms of accountability and transparency, we need to consider whether the concept of corporate citizenship really represents a useful new way of framing business ethics—or at least whether it offers us anything different or better compared with CSR, stakeholder theory, and the other concepts we have discussed in this chapter. CC does seem to add something significant that helps us frame business ethics in new ways:

- The extended view of CC helps us to see better the *political role* of the corporation and clarifies the demand for *corporate accountability* that is such a prominent feature of contemporary business ethics thinking.
- By providing us with a way of understanding business in relation to common rights of citizenship across cultures, CC in this sense also helps us to better understand some of the challenges presented by the context of *globalization*.
- These rights of citizenship, which include rights to equality, participation, and a safe and clean environment, also have strong links to the goal for business ethics of *sustainability*.
- Finally, although the notion of CSR has been widely adopted all over the world, the extended view of CC provides us with a more critical perspective on the social role of business.

Of course, one downside to the extended view of CC is that it is both new and not yet widely accepted within the mainstream discourse of business ethics. However, that is changing as it becomes increasingly apparent that the traditional concepts of CSR and stakeholder theory may not be adequate to deal with broader changes in the roles of business, government, and civil society.

■ Summary

In this chapter we have discussed business ethics in relation to the social role of the corporation. We have outlined the nature of corporations and argued that confining corporations to their initial purpose of producing goods and services in a way that yields a maximal profit for the shareholders of the corporation is too limited. We subsequently analysed different perspectives on CSR, stakeholder theory, and CC, and assessed their relevance in an international context.

Our argument is that the shifts and changes in the global economy in recent years have brought to the surface the necessity for a new framing of business ethics. The extended perspective on CC—which ultimately sees the corporation as a political actor governing the citizenship of individual stakeholders—helps to bring some much-needed definitional clarity to the CC debate. Perhaps more importantly though, it helps us to conceptualize the emerging role of corporations in the global economy, as well as to clarify the ethical expectations increasingly placed upon them.

regional space. It is therefore no surprise that the regular meetings, for instance of the WTO, in which new regulation is discussed, are heavily lobbied by business, which often even has a direct mandate to take part in these negotiations (Woll and Artigas 2007).

One of the most influential regional bodies is the EU, as quite considerable legislative powers have been delegated from the member states to EU level. This not only concerns a lot of regulation on health, safety, and the environment, but the EU Commission is particularly active in making sure that fair competition is upheld in European markets for goods and services. This becomes particularly visible in the case of mergers and acquisitions, where the EU has a legacy of forbidding many planned mergers for fear of creating monopolies in certain markets.

■ Corporate citizenship and regulation: business as key player in the regulatory game

As we have seen in this chapter, the situation for companies is that imperative regulation at the national level remains important, but has decreased in intensity, whilst transnational regulation is still limited but has intensified. These transitions, coupled with concerns about 'over-regulation' stifling business innovation, have led to a fertile debate about how to improve the rule-making process governing social and environmental issues in business.

As a result, various innovations and new styles of regulation have emerged. These innovations pose a significant challenge to corporations in terms of how they might think about the notion of corporate citizenship. Specifically, new regulatory approaches usually include business (next to other actors) in the regulatory process itself, namely through private regulation (or 'self-regulation'). And because regulation is essentially about creating rules to benefit society, private regulation inevitably involves corporations more heavily in the governing of citizenship rights. In Chapter 2 we likened this to a political role for corporations in the era of globalization.

As we have explained, the central idea in private regulation is that private actors such as corporations and CSOs are involved in setting up rules and systems of monitoring and enforcement rather than these being solely in the hands of government. A typical example here is the regulation of financial markets in many countries, such as the UK, where this is handled by the Financial Conduct Authority—a self-regulating industry body rather than a government organization. Much of this regulation is *voluntary* in that business gets involved in these regulatory processes not because they are forced to do so by government, but because they see it as being in their own self-interest (Van Calster and Deketelaere 2001). Private regulation might therefore be regarded as 'softer' and more flexible since it can adjust reasonably easily to new circumstances, issues, and actors (Martínez Lucio and Weston 2000), and is frequently based on market mechanisms rather than hierarchical authority.

As Orts and Deketelaere (2001) point out, the greater involvement of companies in regulation is foremost a European approach, and one that has only fairly recently been adopted in other parts of the world and, most notably, on the global level. This collaborative approach has a long tradition in Europe and is often referred to by the term *corporatism* (Molina and Rhodes 2002). In particular, then, it has been countries such as France, Germany, and the Netherlands that have been among the early adopters of this approach since the 1970s.

There are a number of reasons why these forms of regulation have emerged. According to van Calster and Deketelaere (2001), the main goals for those trying to introduce new types of rule-making in this area are:

- **Encouragement of a proactive approach from industry.** Industry as an addressee of regulation (and hence the one that has to adapt to it) has typically been integrated rather late into the rule-making process—if at all. This means that governmental regulation has not always offered much encouragement for business and has not usually been very enthusiastically welcomed by companies. Self-regulation, therefore, has tried to encourage earlier and more proactive engagement from industry in the rule-making process, and has tried to make more use of the market to encourage ethical behaviour.
- **Cost-effectiveness.** Another goal of private regulation is to cut down on bureaucracy and costs on the part of government. To give an example: rather than telling companies which technology to use, or to measure the emissions at every single smoke stack, the introduction of a limited amount of tradable emission certificates for a certain industry has the same result without the costly administration and compliance control (Smalley Bowen 2003).
- **Faster achievement of objectives.** The average time for a proposal to be adopted by the EU is two years, followed by another two years for transposition by the member states. One of the motivations to change the regulatory process is to shorten this time lag. When engaging industry in regulation, the assumption is that the aims are attained faster since it offers a shortcut through the different institutions.

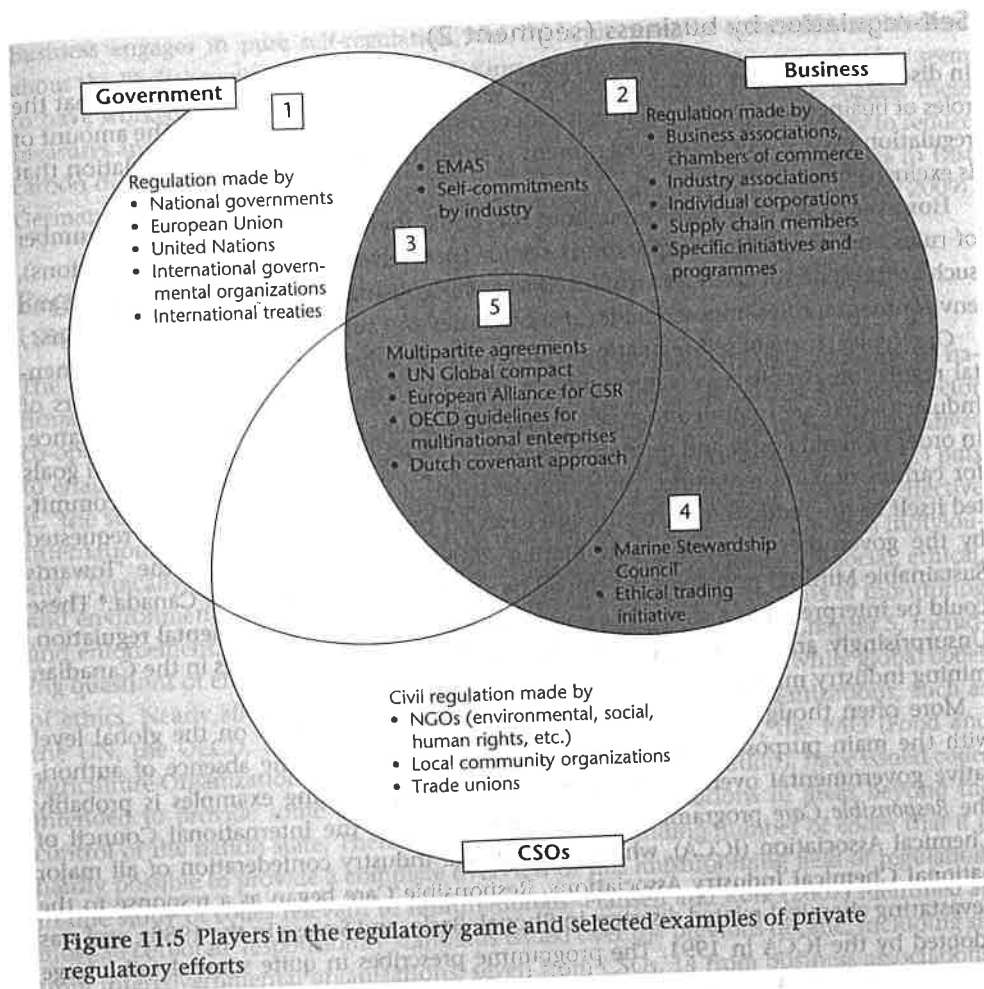
Figure 11.5 provides an overview of the changing field of regulation affecting business. It is based on Figure 10.1 in Chapter 10, which depicts the three main institutional sectors in society—government, business, and civil society. Figure 11.5 shows the relevant actors in each sector and gives some typical examples of the regulatory processes they are involved in. We have shaded the business sphere because this is the area that relates specifically to business involvement in private regulation.

☒ Skill check

Distinguishing forms of business regulation in a global context. Determining the different constellations of actors involved in specific forms of global governance enables you to identify and evaluate alternative modes of regulation.

Governments as regulators (segment 1)

First of all, we find governmental bodies as key actors in regulation. As we indicated earlier in this chapter, imperative regulation by government is still quite widely practised. This certainly applies to *national* governments, and while there is still some debate about the power and future of nation states it is certainly evident that the regulatory power of nation states, although diminished by globalization, will continue to be a significant influence on business (Taplin 2002). An example of a reinvigorated appetite of nation states to regulate business is the 2010 Dodd–Frank Act in the US that we discussed in Chapter 6



(Reforming corporate governance around the globe, pp. 255–259) as a reaction to the financial crisis of the late 2000s. But we see this appetite also in the area of law enforcement where, for instance, the EU Commission in recent years has significantly enhanced its scrutiny of antitrust behaviour in a number of industries, most notably pharmaceuticals (Esposito and Montanaro 2014). The ongoing EU antitrust investigations against Google and other technology companies are just another example of this trend (Arthur 2014).

What we see then is a growing importance for governmental bodies above the national level (sometimes called the ‘supranational’ level) such as the EU, treaty systems such as NAFTA, or supranational bodies such as the G20. However, if we analyse the role of governmental organizations with global scope, such as the UN or the OECD, we see that these organizations lack efficient mechanisms for sanctioning non-compliance with their regulation. An example are the ongoing efforts of the G20 to crack down on tax havens which have proven largely ineffective so far (Johannessen and Zucman 2014). Exceptions, however, are the World Bank and the IMF (International Monetary Fund), since they have the power to either grant or withdraw considerable amounts of money to/from developing nations (Woods 2001), and through this, also have considerable leverage on companies doing business in these countries.

Self-regulation by business (segment 2)

In discussing the roles of various actors in the field of regulation, it is apparent that the roles of business and government have increasingly become intertwined. The amount of regulation exclusively set by government is shrinking, as is the share of regulation that is exclusively set by business.

However, as we have seen throughout this book, there are still a considerable number of rules and norms that corporations set for themselves (and for other corporations), such as the codes of conduct introduced to govern business behaviour, or the social and environmental rules imposed on local subsidiaries and suppliers by large corporations.

One typical form of self-regulation which works as a direct counterpart to governmental regulation is collective agreements or commitments by industry—often sectors of industry—that are intended to avoid, forestall or soften potential laws: so, for instance, in order to avoid costly and restrictive regulation in the realization of the national goals for carbon dioxide reduction, the Confederation of German Industry (BDI) committed itself to the reduction of greenhouse gases far beyond the level originally requested by the government (Eberlein and Matten 2009). Another example is the 'Towards Sustainable Mining' principles developed by the Mining Association of Canada.⁸ These could be interpreted as a straightforward attempt at avoiding governmental regulation. Unsurprisingly, an attempt by parliament to make responsible practices in the Canadian mining industry mandatory was voted down in 2010.

More often though we observe new business-driven regulation on the global level with the main purpose of addressing the vacuum created by the absence of authoritative governmental oversight. One of the most long-standing examples is probably the *Responsible Care* programme.⁹ This was initiated by the International Council of Chemical Association (ICCA), which is the global industry confederation of all major national Chemical Industry Associations. Responsible Care began as a response to the devastating chemical-related disasters in Bhopal, Basle, and Seveso in the 1980s, and was adopted by the ICCA in 1991. The programme prescribes in quite some detail a large array of measures, practices, and policies intended to ensure responsible management in the industry. Member firms of the industry's national associations have to adopt these measures in order to be allowed to use the Responsible Care logo. As of 2015, the chemical industry associations of 60 countries worldwide had adopted the programme, thereby making its implementation for member firms mandatory.

An equally important standard that has been developed by industry is the *ISO 14000* standard series of the International Standard Organization in Switzerland.¹⁰ These standards basically accredit environmental management systems for business as a way of setting rules for good practice in environmental management (Tari et al. 2012). This is the most widely implemented environmental standard on a global level, mainly due to the fact that many corporations, especially multinationals, specify ISO 14000 certification for their suppliers (Corbett and Kirsch 2001; To and Lee 2014). The outcome of these standards, however, are by no means uncontested. Since many such standards, most notably ISO 14000, do not prescribe outcomes rather than management processes, recent research has cast doubt on their real effectiveness (Aravind and Christmann 2011; Delmas and Montes-Sancho 2011).

The ISO standards are a good example of how regulation and governance are changing. More recent standards, most notably ISO 26000 on social responsibility, show that business self-regulation gains legitimacy when it is drawn up in collaboration with governments and civil society groups—which we will discuss in the next section. In fact, where

business engages in pure self-regulation, the literature remains somewhat ambivalent about the likely benefits (e.g. Tapper 1997; King and Lenox 2000). These approaches seem to have worked primarily in situations where corporate self-interest would suggest these measures anyway. So, for instance, the self-commitment of the German industry to reduce carbon dioxide emissions was easy to fulfil because large producers of these gases in East Germany were about to close down anyway in the early 1990s (Eberlein and Matten 2009).

Regulation involving business, governmental actors, and CSOs (segments 3, 4, and 5)

The design and implementation of regulation across sectors, whether at regional, national, or transnational levels, has become increasingly common. Although multi-sector co-operation is in itself not entirely new, it is the emergence of multi-sector initiatives to enact *global governance* that is most notable here. As David Detomasi (2007: 321) puts it, 'the strengths of state, market, and civil society actors combine to create an effective international governance system that overcomes the weaknesses afflicting each individually'. Typically, the main instrument used in such networks to regulate the social, ethical, and environmental impacts of business are codes of conduct and systems of monitoring and enforcement. We have already discussed these at some length in Chapter 5, including questions of effectiveness and the plausibility of developing worthwhile global codes of ethics. Nearly all large global governmental and multi-partite organizations, such as the UN, the OECD, the ILO (International Labour Organization), the FAO (Food and Agriculture Organization), and the WHO (World Health Organization), have issued codes intended to provide some degree of rule-setting for corporations in areas beyond the control of the nation state. There is such a rapidly expanding number of codes that it is hardly possible to provide a complete overview of this mushrooming field of regulation. In one study of codes relevant to multinationals, Fransen and Kolk (2007) identified almost 50 corporate responsibility standards issued over the previous decade, including six from intergovernmental organizations, seven from CSOs, 14 from business associations, and a further 22 multiple-stakeholder standards. This, of course, is in addition to the hundreds of individual company codes operated by companies across the globe.

Discussing these new forms of global business governance, two aspects seem worth highlighting. First, we see a growing number of regulatory frameworks where business is clearly stepping into policy fields that hitherto have been more the prerogative of governments. Examples are the Global Business Coalition for HIV/AIDS¹¹ or the Guiding Principles on Business and Human Rights¹²—both of which cover what are substantially public policy issues. This reflects what we discussed in Chapter 2 as the new role of business practising an extended view of corporate citizenship.

A second aspect is that a growing number of these global, private regulatory frameworks are no longer just trying to mimic traditional governmental regulation. Again, the ISO 26000 standard on 'social responsibility',¹³ published in 2010, is a good example of a number of trends that have been emerging in this space of shared global governance between business, governments, and civil society more recently:

- **Deliberate rather than dictate.** While most standards were drawn up either unilaterally by business, or by business together with some NGOs and governmental agencies, a new generation of standards is characterized by increasing collaboration between all relevant stakeholders. In the case of ISO 26000 this resulted in a nine-year long process

between a host of stakeholders from business, government and civil society representing not only all relevant constituencies but also representing all relevant regions of the globe (Balzarova and Castka 2012; Helms et al. 2012). The core goal of such a process is to enhance the legitimacy of the resulting standard.

- **Process rather than outcome orientation.** The core approach of many of these new standards is not so much to provide a tool that standardizes, monitors and benchmarks social or environmental performance. Rather the goal is to prescribe management processes which can be implemented in individual businesses and can guide management practices that then will be able to lead to the desired changes in performance (Hahn and Weidtmann 2012). This rather pragmatic approach is informed by the experience that widespread adoption of many standards has been hampered by firms' reluctance to accept binding forms of prescribed outcomes and measures.
- **Frameworks rather than specific norms.** In the process of global governance, multiple actors have to work together on a basis of mutual consent in the absence of the imperative authority that a single government would traditionally be able to exert. Therefore, such processes of deliberation, negotiation and experimentation cannot be prescribed by fixed rules and clear goals. Here this new generation of standards serves as a framework for guiding responsible business behaviour while leaving individual actors the space to adapt and implement these ideas on the ground. Globalization has created awareness for the global impacts of business from an ethical perspective; however, it appears that many of the solutions—as we have seen in many of the examples and cases in this book—are heavily dependent on local context. ISO 26000, for instance, has been used as a framework for local standards governing responsible business practices in countries as diverse as Australia, Brazil, Denmark, or Spain (Hahn 2013).

Ethics in Action 11.2 discusses the UN Global Compact as another of the more recent attempts to explore a different trajectory to fill the lack of regulatory bodies at the global level.



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ETHICS IN ACTION 11.2

The UN Global Compact: talking about global regulation

In 2000 the UN launched the Global Compact in an attempt to address the ethical problems linked to corporate activities on a global scale. Rather than pursuing the top-down approach of earlier regulatory efforts, the UN Global Compact starts from the bottom up by working directly with corporations. As it states on the organization's webpage, the initiative is 'an initiative that provides collaborative solutions to the most fundamental challenges facing both business and society. The initiative seeks to combine the best properties of the UN, such as moral authority and convening power, with the private sector's solution-finding strengths, and the expertise and capacities of a range of key stakeholders'.

The UN Global Compact asks companies 'to embrace, support and enact, within their sphere of influence, a set of core values'. These are articulated in ten core principles in the areas of human rights, labour standards, the environment and anti-corruption.

In the final analysis, it would appear that the whole area of business involvement in self-regulation is multifaceted, multi-level, and highly dynamic. That business is involved in regulation is clear—thereby providing support for the argument that corporations have increasingly become involved in the protection (or otherwise) of citizens' rights and interests. What remains unclear, though, is whether voluntary initiatives by corporations can ever succeed in providing suitable and sufficient protection for citizens. While business conduct has clearly improved as a result of private regulation, particularly in respect of accepting responsibility for social and environmental conditions in the supply chain, its impact on the root problems it has been designed to address has been limited (Vogel 2010). Evidence suggests that the background presence of state regulatory capacity—or the 'gorilla in the closet'—is often a necessary precondition for effective enforcement (Verbruggen 2013). In the final section we shall address these questions in the specific context of sustainability.

■ Governments, business, and sustainability

In Chapter 1 we defined sustainability as 'the long-term maintenance of systems according to environmental, economic, and social considerations'. This definition certainly captures the broad understanding of the concept in business, politics, and wider parts of society. Reaching towards the end of the book, however, we should add that this definition by no means satisfies everybody, nor is it how it was originally thought of. Sustainability was certainly first considered a pre-eminently *ecological concept* prescribing rules and principles for the usage of natural resources in such a way that allows future generations to survive on this planet (see Pearce and Turner 1990).

A central idea of sustainability is to prescribe and implement changes to the usage of natural resources (Turner 1993). With regard to *renewable resources*, such as wood, agricultural products, water, or air, the key principle would be not to use those resources beyond their capacity of regeneration. With *non-renewable resources*, however, such as coal, oil, minerals, metals, and other key resources of modern industry, the original rules of 'strict' sustainability would suggest that none of these resources should be used if they would put future generations at a lower level of ability to meet their needs than the present generation. In the case of metals and other recyclables, this would result in fairly strict rules for circulating these resources in the economy; with regard to oil or coal, the consequences are more severe. Since resources such as these will ultimately be depleted, we have to be extremely cautious about their use, especially since they have major effects on the climate. Some have argued that sustainability does not allow their further usage at all. The Climate Tracker Initiative, for instance, promotes the concept of 'unburnable carbon' on the basis that burning today's known reserves of fossil fuels would lead to a greater than 2° Celsius increase in global warming—which is the level committed to by governments in 2010 in order to prevent the worst effects of global climate change from occurring.¹⁴

Without going into too much detail, sustainability in this sense is quite a tough and—from a business perspective—somewhat threatening concept. This applies particularly to industries that rely on non-renewable or carbon-intensive resources, such as the mining, oil and gas, or chemical industries. There has been some research that shows that the mutation of the sustainability concept from the original ecological view towards a