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Capitalism with a Human Face

The UN Global Compact

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Addressing poverty is still the greatest social challenge of our time. It requires that governments, business and civil society each contribute a reasonable share of their resources, skills and know-how to jointly achieve sustainable solutions. Today, the most respected platform in this regard is the United Nations Global Compact. However, the role of non-governmental organisations in this initiative has been given far less attention than the role of business. While there is no simple causal relationship between a corporation's contribution to the common good and its reputation, companies competing with integrity need acknowledgement from society. NGOs' apparent reluctance to acknowledge the efforts of leading companies creates the risk of 'corporate responsibility fatigue', with the result that companies retreat to a legalistic, compliance-oriented approach. To avoid this, constructive dialogue is necessary to entice corporate management into the public debate on pragmatic solutions to the socioeconomic challenges arising from 'failing markets' and 'failing states'. The UN vision of a more sustainable and inclusive global economy can be achieved only in cooperation with the business sector, not against it.

- UN Global Compact
- Corporate responsibility
- Corporate citizenship
- Civil society
- NGOs
- Corporate reputation
- Poverty
- Business and society

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Corporate responsibility in context

IN SPITE OF NEARLY HALF A CENTURY OF NATIONAL AND INTERNATIONAL endeavours to alleviate poverty, and despite significant socioeconomic progress, the global community must face the sad reality that more than 2 billion human beings still live on US$2 or less a day. Given the scale and complexity of this, the greatest social challenge of our time, addressing poverty requires that national governments, the international community, business and civil society each contribute a reasonable share of their resources, skills and know-how to achieve sustainable solutions (UN General Assembly 2005; UN Global Compact and Global Public Policy Institute 2005).

Experience shows that a nation's economic and social success is at its greatest where there is a clear division of labour and responsibility between the different members of civil society together with a common understanding and shared values with respect to overall societal goals. No one can assume responsibility for everything; no one can claim sweeping rights; and no one should bear the brunt of all the duties of society.

The primary responsibility for human development continues to rest with national governments and their administrations. Sustainable success depends on governments being as effective as possible with the resources available (Leisinger 2004). Whatever opportunities the global economy offers, whatever resources are made available by the international community, good governance remains the single most important factor for human development; that is: transparency in policy and social decision-making; responsiveness to priority needs; accountability for the policies and work undertaken by state employees; the rule of law; an independent and efficient judicial system; as well as institutional pluralism and participation of the people in all decisions affecting their lives.

Business enterprises, too, have specific duties and responsibilities in society's division of labour. Above all, this is to provide goods and services that succeed in meeting customer demands and can be sold at prices that are competitive and in the best interest of the corporation while adhering to law and regulation. The goods and services made available through markets provide society with many different kinds of social value: for example, in the case of pharmaceutical corporations, medicines that reduce the severity of diseases, protect life by reducing morbidity, improve quality of life for patients (less pain, less disability, fewer side-effects) and allow for a (relatively) normal private and professional life (National Cancer Institute 2003; American Cancer Society 2004).

Successful entrepreneurial engagement is one of the most important drivers of economic growth. Economic growth increases choice, widens opportunities and renders all other development efforts easier to achieve (Birchenhall 2007).[1] By creating employment and income, providing technical and managerial skills, generating social benefits, paying taxes, contributing to pension funds and deriving innovative solutions to economic, social and environmental problems, corporate management can be a substantial force for good: 'It is companies, not abstract economic forces or governments, which create and distribute most of a society's wealth, innovate, trade and raise living standards' (Birkinshaw and Piramal 2005). The profits obtained by successful companies are usually not the result of a zero-sum game in which all other actors lose: corporate success stimulates economic growth through linkage effects into other sectors—triggering further economic activities and more income and thus making 'the cake' bigger. In a number of emerging countries, business engagement has created substantial

1 For the record: policies to improve income distribution in the context of economic growth will help to 'lift more boats'. For an introduction to this debate, see Chenery 1974.

employment and income and thus contributed significantly to poverty reduction (Dollar and Kraay 2002).[2]

Of course, it is not entrepreneurial engagement per se that is desirable. It is entrepreneurial engagement conducted in a responsible manner that makes the development impact positive. Collateral damage of a social, environmental or political kind can tip the development balance sheet to the negative side—as many civil society actors allege is happening on a wide scale.

The state of corporate reputation

Corporate conduct is not always as one might want it to be; there have been and still are notorious examples of poor corporate behaviour.[3] This is highly regrettable, mainly because of the harm done to people and the planet—but also because the worst cases have a disproportionately negative impact on the reputation of the private sector as a whole. A majority (59%) of citizens in 47 industrial and emerging countries perceives that global corporations do not work in the best interest of society (GlobeScan 2002, 2004). The concern that globalisation offers incentives for a 'race to the bottom' in social, environmental and other standards remains widespread.

Corporate scandals offer at least part of the explanation of why corporate responsibility belongs to the top five global issues of increasing importance (GlobeScan 2005: 15). Globalisation-critical NGOs, meanwhile, who constitute a driving force behind the debate, rise phoenix-like from the ashes of burned corporate reputations; the same survey underlining distrust of (predominantly multinational) corporations reveals that 65% of interviewees think that NGOs—mainly the corporate 'watchdogs' and anti-globalisation advocates—work in the best interests of society.

But when flagrant individual cases of corporate misconduct are considered with the objectivity they require, it becomes clear that a one-sidedly negative view cannot do justice to the substantially more diverse and subtle reality of globalisation and corporate engagement. As in any complex process, there is light and there is shadow. The business community, states the former UN Secretary-General Kofi Annan, is 'not a monolithic bloc; it has leaders and laggards; and leaders should be encouraged when they take positive steps, even though they may occasionally stumble, and not be frightened off from trying in the first place'.[4] The tarring of all companies with a general brush of suspicion and the assumption that illegitimate corporate behaviour is the rule do not do justice to reality: indeed, a number of in-depth analyses by UNO-ECOSOC (UN Economic and Social Council) come to quite positive conclusions about corporate impact on development.[5]

2 While absolute poverty decreased, disparities of income increased; see Wade 2004.

3 See for example Corporate Crime Reporter's list of 'The Top 100 Corporate Criminals of the 1990s' (www.corporatecrimereporter.com/top100.html) using 'the most narrow and conservative of definitions—corporations that have pled guilty or no contest to crimes and have been criminally fined'. The '100 corporate criminals' fell into 14 categories of crime: environmental (38), antitrust (20), fraud (13), campaign finance (7), food and drug (6), financial crimes (4), false statements (3), illegal exports (3), illegal boycott (1), worker death (1), bribery (1), obstruction of justice (1), public corruption (1) and tax evasion (1). A list highlighting that modern corporate governance is not just about avoiding crimes, but about participating in an open debate about legitimate courses of action, is currently updated by the Business and Human Rights Resource Centre (see www.business-humanrights.org/Documents/Chart-Responses.doc).

4 www.un.org/News/Press/docs/2004/sgsm9387.doc.htm, accessed 21 September 2007.

5 See various annual reports of the World Investment Report of UNCTAD (www.unctad.org/wir, accessed 21 September 2007).

The challenge for companies competing with integrity[6] is to distance themselves from negative generalisations, to strive for flawless corporate responsibility performance—and to hope for corresponding acknowledgement from society.

Entry-level corporate responsibility: do no harm

People may differ in what they aim for in social life, but are very much alike in what they find harmful or strive to avoid. Corporations must thus give priority to the minimisation of harm over other organisational concerns (Keeley 1988).[7] This makes compliance management of vital importance—but corporate responsibility leadership is not just about 'doing no harm'.

A majority of people in modern societies expect leading corporations to achieve benchmark financial results and not only to avoid scandal but to consistently meet social, ecological and political standards that bear the scrutiny of a fair-minded, impartial third person (Smith 1984).[8] In practice, this 'impartial observer' seems to combine rising expectations with a degree of scepticism. A recent Swiss poll shows that a clear majority of the public expects companies to go beyond fulfilling legal duties and to contribute to a better world. Where companies do so, however, few appreciate those efforts as a genuine motive to make the world a better place and instead accuse companies of simply polishing their image (Institut für Nachhaltige Entwicklung der Zürcher Hochschule Winterthur 2006). To overcome this implicit distrust flawless corporate conduct ought to be amended by institutionalised dialogue and better communication.

Enlightened companies have long recognised that unfair labour conditions, destructive environmental standards or 'collateral damage' to human rights are unacceptable. For them, the fact that inadequate national legislation lends low standards 'legality' is not an excuse for deficits in corporate responsibility. Instead, they apply intelligent self-restraint by avoiding morally ambivalent business contexts and paying the costs (investment, training and compliance monitoring) necessary to avoid substandard corporate conduct.

Advanced-level corporate responsibility: do the right thing

Legitimacy and stakeholder awareness

Mainstream business ethics and the bulk of the corporate responsibility literature suggest that acting in a responsible way means favouring a 'legitimacy' over a 'legality' approach. While effective legislation and regulation at the national level are important pillars to prevent corporate ruthlessness, reference to law and regulation alone is a partial solution. Law represents the ethical minimum and legality is in some cases insufficient to lend legitimacy to corporate conduct. Reliance on law alone triggers legalistic, compliance-based attitudes and, where the quality of law is inadequate, entails vulnerabilities even for corporations acting legally. Legitimate corporate conduct, by contrast,

6 See the title of a book that still merits being read (De George 1993): *Competing with Integrity in International Business*.

7 Keeley (1988: 222ff.) argues that this implies that potential harm should be detected and dealt with preventively.

8 Close to this 'theoretical' observer's view come surveys or polls such as GlobeScan 1999 or expert surveys such as GlobeScan 2005.

is being seen to do the right thing beyond legal minima. Given the diversity of pluralistic societies, however, opinions about what constitutes 'the right thing' vary substantially.

In a European Commission green paper, corporations qualify as socially responsible if they voluntarily take on commitments that go beyond common regulatory and conventional requirements, and if they endeavour to raise the standards of social development, environmental protection, respect fundamental rights and embrace open governance, reconciling the interests of various stakeholders in an overall approach to quality and sustainability (European Commission 2001: 4). Just like the UN Global Compact, the European Commission sees stakeholder relations as an integral part of corporate responsibility. The idea behind a 'stakeholder-aware' corporate responsibility approach is that requests from different societal constituencies become part of corporate policy.

As there is no universally accepted definition of 'the right thing' to do and as the expectations placed on successful companies by modern, pluralistic societies are steadily expanding, the goalposts are constantly moving. Prominent observers have characterised corporate responsibility as a religion with too many priests.[9]

At the root of the problem lies a challenge identified by Archie Carroll many years ago (Carroll 1993: 14). There is a rift between society's expectations *vis-à-vis* business capacity to address social problems and actual corporate performance. A growing number of people in modern societies expect (and most NGOs demand) that large companies become more involved in seeking solutions to broader societal problems such as poverty alleviation or health improvements, which lie outside companies' core competences and direct sphere of influence. Showcasing hands-on examples of corporate responsibility and philanthropic achievements does little to heal this rift: the emergent corporate responsibility is a much more comprehensive concept and should not be confused with straightforward philanthropy.[10]

Trespassing conventional limits

If one looks at the academic literature on corporate responsibility as an early indicator of the trajectory that future stakeholder demands will take, there is a new tendency: given the notion that (especially large, multinational) corporations are institutions as powerful as, if not mightier than, governments (of poor countries), companies will be increasingly expected to assume additional, governmental-like responsibilities (Wettstein 2005). Not only do companies face the obligation to do business responsibly, but must increasingly step outside the boundaries of conventional corporate activity:

- A (large) company is expected to take action where it is capable of influencing an outcome and not 'only' where there is proximity to the problem or a causal link between the problem and the corporation (Kline 2003). While John Kline restricts his arguments, for the time being, to 'political actions', a growing acceptance of the 'capability, not causality or proximity' approach indicates a paradigm change in corporate responsibility thinking

9 In a slightly different context this was the title of an interview with Michael Porter by Mette Morsig (Porter 2003). For the great variety of concepts behind the term, see Economist Intelligence Unit 2005. Interestingly, the tenor of this *Economist* publication is much more positive towards corporate responsibility than 'The Good Company' (Crook 2005).

10 This was stated 'in the year of the lord 1916' by J. Maurice Clark, and he specifically emphasised that charity should not repair the damage done by irresponsible corporate conduct (Clark 1916: 229). For an updated discourse on corporate philanthropy, see Leisinger 2007.

- Corporations enter the arena of citizenship at the point of government failure in the protection of citizenship. More precisely, they are *expected to partly take over those functions with regard to the protection, facilitation and enabling [of] citizen's rights—formerly an expectation placed solely on governments*. [. . .] If a term such as 'corporate citizenship' makes any sense in the proper meaning of the term, 'corporations' and 'citizenship' in modern society come together at exactly the point where the state ceases to be the only guarantor of citizenship (Matten *et al.* 2003: 116, authors' emphasis)
- Under certain conditions, transnational corporations are seen to have a (moral) 'duty of assistance' to people in 'burdened societies', where socioeconomic circumstances make it difficult or impossible to live decent lives (Hsieh 2004)[11]

The gap between societal expectations and concrete corporate responsibility deliverables poses an issue of societal acceptance of company actions. Just as in the distinction between 'felt' and 'measurable' temperatures, there is a 'measurable' corporate responsibility (expressed by what is actually delivered) and a 'felt' corporate responsibility (assessing what is delivered against what is expected). The proposed solution of changing the corporate social responsibility 'game' through 'focused commitment to reaching a goal that exceeds societal expectations'[12] is easier said than done.

Extending the definition of corporate responsibility raises both valid and vexing questions for even the most enlightened management. Can corporations work from the assumption that 'citizenship'—and therefore 'corporate citizenship'—is first and foremost a normative concept, implying not only economic rights, but also social duties? By refusing to accept such a concept would management by definition be acting irresponsibly? Or, conversely, does such an extended definition represent a waste of corporate resources and therefore bad management practice? Should corporate executives who feel compelled to assume such responsibilities do so not with corporate resources, but instead devote part of their personal income to the causes they personally regard as worthy?[13]

An important part of the answer to these questions lies in the nature of the feedback corporations receive from society for corporate responsibility excellence. But, before turning to this issue, let us have a look at today's most respected common denominator for responsible corporate conduct: the UN Global Compact.

The UN Global Compact as a framework for corporate responsibility

Launched by former United Nations Secretary-General Kofi Annan, the UN Global Compact (UNGC) is a corporate responsibility initiative based on the conviction that weaving universal values into the fabric of open global markets and corporate practices will help advance broad societal goals. By 2007 over 3,000 companies from all regions of the world, along with many international labour and civil society organisations, were

11 Hsieh is building his arguments on John Rawls's account of the 'Law of the People'; see Rawls 1999.

12 So argued Mark Kramer and John Kania of FSG Social Impact Advisors (www.fsg-impact.org, accessed 21 September 2007) on the occasion of a Corporate Philanthropy Summit in New York, 6–7 June 2006 (www.corporatephilanthropy.org/summit, accessed 21 September 2007).

13 This argument of Milton Friedman's famous article 'The Social Responsibility of Business is to Increase its Profits'—concluding that one could refer to some of these responsibilities as 'social responsibilities' but as those of individuals and with their personal resources, not of business with shareholders' money (Friedman 1970)—still recurs; see for example Crook 2005 in the special section of *The Economist* on 'The Good Company'.

engaged under the UNGC.[14] The Global Compact covers internationally accepted norms in the areas of human rights, labour standards, environmental care and anti-corruption. Companies committing to these norms must incorporate them into their corporate policies and management processes. In addition, they should strive to extend adherence to the UNGC philosophy to third parties within their defined sphere of influence (Leisinger 2003).

Responsible corporate conduct is based on ten principles which participating companies are expected to embrace, support and enact in their sphere of influence.

Human rights

- Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights
- Principle 2. Businesses should make sure they are not complicit in human rights abuses

Labour

- Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- Principle 4. The elimination of all forms of forced and compulsory labour
- Principle 5. The effective abolition of child labour
- Principle 6. Eliminate discrimination in respect of employment and occupation

Environment

- Principle 7. Business should support a precautionary approach to environmental challenges
- Principle 8. Undertake initiatives to promote greater environmental responsibility
- Principle 9. Encourage the development and diffusion of environmentally friendly technologies

Transparency and anti-corruption

- Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery

14 www.unglobalcompact.org, accessed 21 September 2007.

Applying Global Compact principles in business practice

Define 'the right thing', set goals and achieve these using management processes

For companies competing with integrity the basic question has already been answered: they want to be 'part of the solution' not 'part of the problem'. For such companies, illegal conduct and wilful harm to human beings or the environment are simply not options. But what, in the light of the ten principles, can additionally be expected from a responsible company? The Global Compact principles provide only a grid for reflection, not the precise content of a corporate responsibility strategy.

Socrates once surmised that the 'truth' is in every human being; he or she just needs to recognise it. Here, moral philosophical discourse has been assigned a 'midwife' function to give birth to truth. Self-critical reflection on corporate responsibility in the light of the Global Compact principles can perform precisely this function for companies: all core business ethics aspects are covered by the ten principles. Management can therefore ask itself the following sorts of question:

- What, in the light of the ten principles and beyond legal compliance, are our main weaknesses and vulnerabilities with regard to human rights-related issues, labour and environmental standards as well as in relation to anti-corruption?
- How do we define the 'sphere of influence' within which we acknowledge responsibility for human rights-related, social and environmental standards and where do we draw the limits?
- Who are our relevant stakeholders? What are their stakes and expectations? How do we deal with them?
- How do we proceed if the expectations of civil society conflict with those of the financial community?
- What does 'support and respect the protection of internationally proclaimed human rights' mean in the area of economic, social and cultural rights?

Reflection on such questions by top management is, in my experience, the single most important element of the Global Compact process. Dialogue with internal and external stakeholders helps to reach informed decisions about the content, scope and limits of corporate responsibility. Companies thereby become familiar with the pluralism of demands from different stakeholders. Management is challenged by values, concerns, views of the world and perceptions of corporate obligations that may differ substantially from its own. This learning experience—as challenging as it may sometimes be—enhances the social competence of corporate management. And, as dialogues are reciprocal, civil society stakeholders, too, have the opportunity to learn about the mind-set of managers and their way of making decisions against the background of business fundamentals and hence can better understand the limits and non-negotiable essentials for profit-oriented corporations.

Responsible decisions are usually taken as the result of three steps: making the right value choice, assessing the facts and choosing the right norms.

Making the right value choice

Controversy over what constitutes the right thing to do generally arises from the fact that different parties base their norms on diverging values, personal experiences and vested interests (often held implicitly). What one group holds to be of highest importance, another may dismiss as a minor issue. For example, financial analysts—although increasingly appreciative of 'triple-bottom-line' philosophy—still focus predominantly on the profitability data of businesses when determining benchmarks for measuring best-in-class. For those engaged in the fight against poverty diseases, in marked contrast, profitability issues are of secondary concern when it comes, for example, to ensuring access to drugs for the 2.5 billion people living in absolute poverty. Those who must meet the expectations of financial markets will inevitably question the logic of giving away products at cost or for free—at least under an open-ended and unlimited commitment. The fact that a business manager has to do what is economically right does not make him or her morally inferior to those requesting free medication for the world's poor. Business corporations and NGOs have different tasks to fulfil—both are important. Sustainable solutions for complex issues, however, involve all relevant stakeholders and their resources, and corporations are just one player among many and thus can offer only some of the 'stones' for the composition of the 'solution mosaic'.

Assessing the facts

Even where there is broad consensus over a given value, such as the quality of human life with good health as its precondition, conflicts may arise through a failure to distinguish between perception and real facts. Take the controversy over patents and their impact on lack of access to medicines for poor people in developing countries. The argument that patents are the main obstacle impeding access to medicines for people living in poverty is not borne out by the facts. Of the 319 products on the World Health Organisation's Model List of Essential Drugs, only 17 are patentable (5%) and most are not actually patented, bringing the final proportion of patented drugs to 1.4%, of which most are concentrated on larger markets (Attaran 2004). Those who argue that patents are the main problem for the poor in developing countries tend to ignore or at least underestimate the importance of other critical access issues: the lack of doctors, nurses and laboratories for appropriate diagnosis, lack of logistical essentials (e.g. peripheral warehouses and refrigerators), lack of general health infrastructure (to reduce walking distances for sick people to reach health centres) and assurance of patient compliance with complex and long-term therapies—especially in cases of stigmatised diseases (HIV, TB, leprosy) where lack of compliance can result in resistance to available drugs.

Choosing the right norms

The essence of moral discourse is that it indicates to duty bearers the right course of action. Moral norms are more likely to be filled with practical life if and for as long as they appear self-evident to the party who is expected to act. But what can reasonably be demanded of a company beyond legal compliance and where does the buck stop?[15] While it is evidently morally wrong to accept or initiate human rights violations for the sake of increasing profits, opinion on the corporate obligation to fulfil the 'right to health' of poor people is more divided. It is relatively easy to impose demands on 'Big Pharma' by highlighting the misery of those living in absolute poverty while criticising the size of corporate profits. It is less easy to shoulder the cost of meeting the needs of patients who lack the purchasing power to buy medicines through markets. The 'right to health' debate demonstrates clearly how moral oversimplification can distort a complex human

15 This has been the title of a report by IBLF on the boundaries of business engagement in global development challenges (to be downloaded on www.iblf.org/resources/general.jsp?id=57, accessed 21 September 2007).

development challenge—and how such distortion affects the way responsible corporate conduct is perceived.[16]

These difficulties notwithstanding, once corporate moral norms have been established they have to be translated into codes of conduct and corporate responsibility guidelines. Thereafter, the implementation process is 'business as usual': that is, making use of normal corporate management procedures (e.g. target setting, performance appraisals, compliance monitoring, verification and reporting).

A practical approach to corporate responsibilities

To help operationalise the concept of corporate responsibility, a Dahrendorf model with three levels of classification can be used, comprising a *must* dimension, an *ought to* dimension and a *can* dimension—each with specific moral qualities and material content (see Fig. 1).[17]

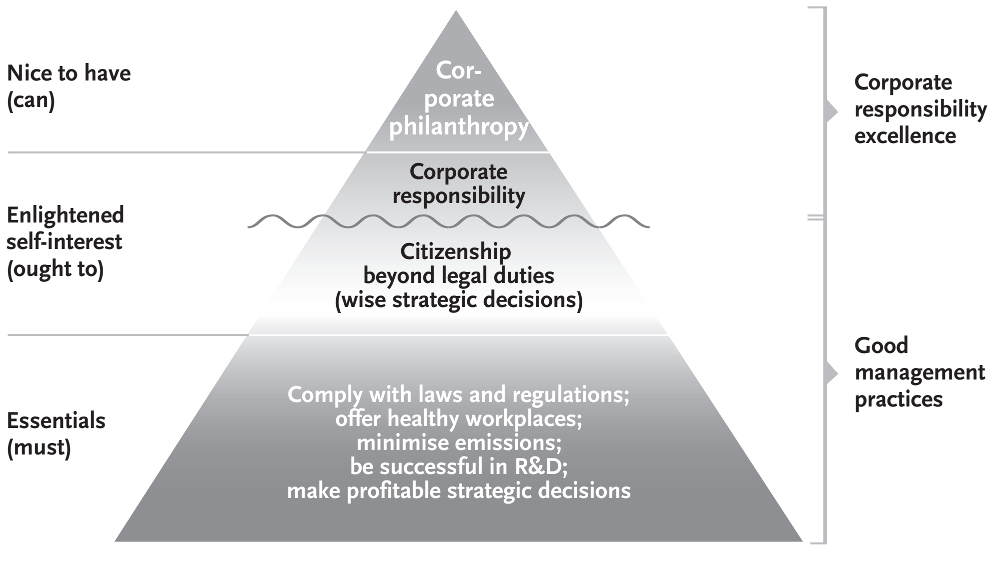

Figure 1 THE HIERARCHY OF CORPORATE RESPONSIBILITIES

The *must* dimension covers non-negotiable corporate duties which include, for example, compliance with national law and regulation and avoidance of deception or fraud. This includes protection of the environment, as well as the health and safety of employees, customers and neighbours according to applicable law. Shareholders expect a fair return on their investment and employees expect fair wages. In this dimension, corporate societal responsibilities include the creation of jobs, tax payments and contributions to insurance and pension funds. Where companies provide training and further education on the job, employees improve their employability and value in the job market. Companies also add value to society and the national economy by providing products and services that meet immediate customer needs or enhance their quality of life.

16 For a detailed analysis of the right to health debate in a corporate context, see Leisinger 2005.
17 For an approach distinguishing social norms according to different degrees of obligation, see Dahrendorf 1959: 24ff.; for a similar differentiation of corporate responsibilities, see Carroll 1993: 35.

The *ought to* dimension refers to those aspects over and above legal compliance which are commonly expected by people in modern societies. In countries where the quality of law is state-of-the-art and enforced, legality can be deemed to satisfy in large measure the requirements of responsible corporate conduct. In regions where this is not the case, however, responsible companies will exceed legal minima by applying higher corporate norms: for example, through the use of state-of-the-art environmental technology and social policies, even where local law would permit lower standards.[18] Other examples include the provision of free or heavily subsidised meals, corporate health services for employees and their families, nursery schools for single working mothers, free training opportunities using company infrastructure, or scholarship programmes for the children of low-income employees. Finally, companies competing with integrity will strive to avoid profiting from unhealthy or otherwise unfair working conditions of third parties and will bring their influence to bear wherever possible.

The *can* dimension covers philanthropic corporate social investments: for example, through pro bono research, community and neighbourhood programmes, volunteerism and donations. Although such corporate deliverables can engender greatly beneficial outcomes for underprivileged communities—and are therefore often given a high profile in corporate communications—this dimension of the corporate responsibility portfolio will always be voluntary in the sense of being 'nice to have' and would in no way compensate for a lapse of responsible conduct under the two previous dimensions.

The process by which corporate management reflects on what to do and where to set limits will bring up a variety of highly specific issues that would probably not otherwise come to light. If properly done, an open-minded SWOT (strengths, weaknesses, opportunities and threats) analysis can bring elements to management's attention which might otherwise be considered marginal or niche issues beyond the conventional corporate perception. A quick search on the internet highlights numerous incidences where corporate management's perception of potential issues has been at odds with that of civil society. Key words for respective areas are 'human rights and business' issues, 'supply chain responsibilities', or 'fairness' issues, for example with regard to remuneration.

Companies under normal circumstances will look at competitive remuneration to attract the most competent and educated employees. In emerging economies, they might be confronted with minimum wages imposed by the state: for example, for workers in production facilities, on farms or in particular industrial sectors. Appropriate reflection on corporate duties in the context of economic rights, however, will lead management to the concept of **living wages**, raising an entirely new set of questions:[19]

- What is a reasonable definition of a 'living wage' and who says so?

18 See in this context the old Kantian differentiation between 'legality' and 'morality' (Kant 1785: section 'The Relation of the Faculties of the Human Mind to the Moral Laws').

19 Living wages, even as a dynamic concept, refer to a 'basic needs' basket, which is defined along relatively narrow parameters. Whatever remuneration goes beyond these parameters must be justified by a corporate desire to hire better-than-average employees and not by social idealism. Although critics will argue otherwise, several UN World Investment Reports have established that, as a rule, transnational corporations with their headquarters in Europe or the US pay much higher salaries and wages and offer substantially more benefits. This could also be viewed as a problem, as it attracts the best national talents and hence puts national firms at a competitive disadvantage. Another argument to be taken seriously in this context is the fact that most workplaces in the industrial sector pay substantially higher incomes than those in subsistence agriculture or local handicraft. Hence, caution must be applied when comparing remuneration packages. See, as a company-specific case study, Brokatzky-Geiger *et al.* 2007.

- What constitutes fair content for the basic needs reference basket? For example, should it contain savings or contributions to social security institutions?
- Which parts of a social package considered 'normal' in the corporation's home country (e.g. pension fund) should a company 'export' through its business practices to developing countries with very different average income levels and institutional settings?

While management has no option when it comes to adhering to laws and regulations, and while 'good management practices' may be driven by enlightened self-interest, corporate citizenship deliverables above and beyond a certain standard remain at the sole discretion of management. From a purely economic point of view, it could be argued that every dollar spent on corporate responsibility beyond legal requirements and basic standards of decency is a dollar diverted from potentially profit-generating activity.

In other words, there are opportunity costs associated with corporate responsibilities that extend beyond conventional good management practices—mainly in the form of benefits not realised through alternative investments. Doubt over the question of whether companies should go out of their way to define and promote wider, self-chosen objectives is part of the ongoing corporate responsibility discourse.[20] This is why, eventually, every company has to draw the line on what it can assume responsibility for. While dialogue with open-minded stakeholders will help to sharpen awareness about social, political and environmental problems, the ultimate decision on how far a company extends its 'responsibility frontier' remains the prerogative of informed top management. This frontier, however, can be extended if and when there is a business case for going beyond the conventional border between good management practice and corporate responsibility excellence (represented by the undulating line in Fig. 1).

Returns on corporate responsibility investments

Corporate responsibility literature suggests two sets of reasons for corporations to apply standards higher than the legal minimum: **intrinsic rightness** and the **business case**. Both are valid. It is intrinsically right not to accept in one's sphere of influence the violation of human rights, the exposure of employees to unhealthy and unfair working conditions, the infliction of damage on the environment or corruption as a means to promote business or avoid regulation. The 'moral footprint' matters and is a simple and indisputable fact.

The second set of reasons to encourage greater corporate responsibility is largely instrumental in nature, entailing strategic business advantages such as:

- Prevention, or at least reduction, of legal, financial and reputational risks entailing significant punitive damage costs
- Attraction, retention and motivation of above-average employees as well as enhanced corporate morale
- Enhanced corporate reputation and corporate branding

20 Milton Friedman's famous phrase 'the business of business is business' (Friedman 1970) is frequently quoted in this respect; however, often not in the appropriate context. Friedman argues that 'there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud'. With regard to today's corporate responsibility debate one might say that 'the rules of the game' have changed.

- Creation of goodwill among ethically minded investors and consumers[21]
- Preservation of corporate freedom

For some observers, the discussion is closed. Marjory Kelly announced in 2004 the discovery of the (statistical) 'Holy Grail'—eagerly sought but previously never found. Kelly argues that *socially responsible companies perform better financially* (Kelly 2004: 4ff.). The way Kelly summarises the meta-analysis performed by Orlitzky *et al.* (2003) is plausible. Indeed, the authors were able to answer in the affirmative the question they picked up from a *Business Week* special section in 1999: 'Can business meet new social, environmental and financial expectations and still win?' A closer look, however, reveals that a number of conceptual issues remain unaddressed. Yet these are of great significance in determining the corporate response to stakeholder demands and, hence, eventually, the extent of social responsibility deliverables (Orlitzky *et al.* 2003). The meta-analysis is unclear about whether the positive statistical correlation is:

- Explained by good management practices, i.e. cutting-edge managers taking corporate responsibilities seriously and therefore anticipating and solving problems before they have an impact on the bottom line

Or:

- A result of superior financial performance, allowing for more, deeper and broader corporate responsibility investments

Orlitzky *et al.* also fail to differentiate between corporate responsibility endeavours that 'do no harm' and those striving to 'do good'.

While there is in all likelihood a corporate responsibility business case, it is far from easy to establish this empirically and make it measurable for neutral observers. Margolis and Walsh found in their analysis that the 'clear signal that emerges from thirty years of academic research—indicating that a positive relationship exists between social performance and financial performance—must be treated with caution' (Margolis and Walsh 2001a: 13).[22] And, according to the Institute of Business Ethics (2003: 9), 'the relationship between good financial performance and other indicators of corporate responsibility . . . is (at best) positive but not definitive'. Nikolay Dentchev (2004) found 'various positive and negative effects' linked to initiatives meant to contribute to society and the natural environment. The relationship between financial performance and corporate responsibilities extending beyond legal compliance, however, was found to be 'inconclusive, complex and nuanced'. This is no surprise: if the correlation between excellent corporate responsibility and excellence in economic results were so clear-cut and undisputable, there would be no case to argue.

Whereas the 'costs' of beyond-compliance corporate responsibility efforts—sometimes in terms of forgone sales—can, in most cases, be clearly quantified as additional investments,[23] the 'return' on corporate responsibility is difficult to establish, particularly in the short term. The avoided costs of accidents, labour disputes, negative media exposure, public criticism or additional regulatory burdens are as difficult to quantify as the opportunity benefits achieved when disasters are averted and negative issues circumvented through precautionary or preventive investments. Note, for example, the

21 This argument makes the assumption that consumers and investors have sufficient information about the corporate responsibility policy to make informed purchasing and investment decisions—the validity of which is not clearly established; see Whitehouse 2006: 280.

22 For the methodological difficulties, see also Margolis and Walsh 2001b: 9ff.

23 For example, additional training of employees, management processes and corporate guidelines or improvement of corporate social services, and environmental protection.

case of environmental expenditure: while the upfront cost is all too clear, the savings gained as a result of environmental accidents that did not happen are unquantifiable.

Fluctuations in share prices, too, can usually be explained more by general bullish or bearish movement on financial markets and sector-wide trends than by the moral quality of a specific corporate action. Notorious cases such as Enron, Arthur Andersen, WorldCom, Tyco and others underscore the ultimate price of non-compliance, however. At the very least, the cost of good management can be viewed as an insurance premium to prevent corporate crises and negative publicity.

Innovation, efficiency, effectiveness, the ability to make the most of market potential and interpret trends correctly, as well as the art of saving unnecessary costs and spending available resources in the right place at the right time, will retain their overriding importance as preconditions for business success. But there is growing plausibility in the view that corporations that assume responsibility beyond the legal minimum (*must* dimension) by applying good management practice well into the *ought to* dimension are likely to run lower risks and fare better with their employees, investors and customers. It also seems logical that companies that are considered by the public as 'part of the solution' will be better placed to argue for entrepreneurial freedom than those considered to be 'part of the problem'.

Corporate responsibility investments along these lines—up to a certain limit (denoted by the undulating line in Fig. 1)—are likely to create a win–win situation for society and the corporation. The societal benefits of higher incomes, better health, education, training and employability are matched by corporate benefits such as higher work motivation, higher productivity and lower absenteeism. Investments up to the point where none of the participating subjects (or institutions) can be made better off without another subject being made worse off (in absolute terms) are therefore good management practices. Economists refer to this point as the Pareto Optimum. So far, so uncontroversial. But this is not the cutting edge of today's corporate responsibility debate.

Stakeholder feedback on corporate responsibility excellence

Mainstream stakeholder theory suggests that maintaining dialogue with a variety of corporate stakeholder groups, and satisfying their demands to the highest possible degree, will yield positive results for the company.[24] The rationale for this is strategic in nature:

- Closer contact with diverse stakeholders and NGO networks deepens understanding of societal expectations in the context of social, political and ecological issues
- Dialogue enhances the efficiency of a corporation's adaptation to societal demands
- Dialogue provides direct knowledge of constituencies and their opinion leaders
- Dialogue fosters higher sensitivity to broader societal goals through a willingness to assess and address the multiple claims of civil society

Good stakeholder relations are seen to be advantageous to the company because they serve as an 'early warning system' for societal expectation trends and thus help to develop corporate social competence. Social competence in turn makes a company's top management better able to anticipate external changes and deal with them before they exert a negative impact on its business environment. Finally, accepting and fulfilling stake-

24 A representative selection of the most important literature in this respect includes: Freeman 1984, Carroll 1993, Clarkson 1998, Donaldson and Dunfee 1999, Post *et al.* 2002 and Phillips 2003.

holder demands through additional investments of corporate resources is anticipated to have a positive effect on corporate reputation. From this theoretical perspective, commitment to excellence in corporate responsibility should yield even better reputational benefits. Improved reputation can be an advantage with regard to customer loyalty, employee recruitment and retention, investment by ethical investment funds and a company's standing within the political landscape.

Bearing in mind the general state of corporate reputation, however, and recalling the issue Archie Carroll (1993: 14) identified many years ago—namely, that society's expectations of business performance *vis-à-vis* the big social problems tend to be far removed from actual corporate performance—there is no simple causal relationship between a corporation's contribution to the common good and its reputation—at least not in the short term. Part of this discrepancy has to do with political dynamics within the NGO community and with the fundamental ideological resistance of some constituencies to the corporate sector, capitalism and globalisation in general. As in the corporate world, there is significant heterogeneity and not every stakeholder is as open-minded or dedicated to the common good as one might wish.

On the one hand . . .

There can be no doubt that today's world is a better place thanks to the many highly committed people working in dedicated civil society groups to induce changes in public and corporate policies. Putting aside for a moment their immense diversity, these groups will, for simplicity's sake, be summarised here under the term 'NGOs'. NGO initiatives have undeniably contributed significantly towards improvements in the social, environmental and political quality of corporate conduct (e.g. Reverend Leon Sullivan's Principles, the Global Reporting Initiative, the Valdez/CERES Principles or, more recently, Clean Clothes Campaign, Equator Principles, Extractive Industry Transparency Initiative as well as the Business Leadership Initiative for Human Rights). In many cases these initiatives came from small, enlightened minorities. Some, it is true, have resorted to highly unorthodox methods and innovative actions, but many of the causes such NGOs were fighting for 30 years ago have become standard procedure in enlightened corporations today.

No company or institution is perfect and management can take undue risks or make errors of judgement which—with the benefit of hindsight—are regrettable. No single actor has all the answers. The definition of what is perceived to be 'legitimate' changes over time. Heightened sensitivity and enhanced social competence can help to steer onto the right path policies and procedures which may have been state-of-the-art, but are now outdated. From this point of view, NGOs exposing perceived or actual corporate misdeeds may be regarded as part of a creative societal process which eventually brings about changes for the better. Engaging in strategic stakeholder relations can therefore be considered a good investment of corporate time and resources even if the process is sometimes a difficult one.

. . . on the other hand

For many NGOs and their spokespersons, globalisation per se is, for a number of cultural, ecological, social and other reasons, an undesirable trend. As a consequence, the multinational corporations, perceived as the main drivers of globalisation, are by definition part of the problem. Multinational companies are commonly perceived as simply being too big and—since size is equated to power—excessively powerful and hence evil.[25] Twinning this view with the 'worst case' misdeeds of a few corporate wrongdoers, some NGOs portray multinational corporations in general as the prime culprits responsible for virtually all political, social and ecological evils. The insinuation is that multinational companies are often run by immoral, unscrupulous and exceedingly greedy managers who enrich themselves at the expense of the common good and the human development opportunities of the world's poor.

Even those companies competing with integrity and striving to put their 'house' in order by closing the gap between legality and legitimacy are not, as a rule, exempt from this broad-brush criticism. Perversely, 'good' companies can find themselves the focus of negative attention and suspicion, their motives questioned by a mind-set that essentially denies 'earned reputation' for responsible conduct.[26] Particularly in Europe, even corporate philanthropy activities may be attacked with allegations of 'hidden market agendas', 'PR in the guise of charity', 'diversion tactics to mask poor corporate conduct' or 'profit motives masquerading as altruism'.[27]

Maintaining independence versus outright rejection

Of course, NGOs need to maintain their independence from the corporate and political sectors and, in a free society, anyone has the right to demand greater corporate responsibility—as long as this is done in a non-violent way. NGOs engaged in joint projects with companies must, moreover, tread a fine line in their dealings with the corporate world if they want to avoid 'capture' and minimise the risk of being smothered in a corporate public relations embrace. As self-appointed corporate watchdogs and whistle-blowers, NGOs run a risk to their own credibility by appearing to be too close to the very institutions they set out to monitor and hold accountable. Finally, it is a fact that the media prefer scandal, controversy and accusations over reports on corporate 'good deeds'; as media attention is a significant tool in the NGO fight for financial contributions, the temptation to manipulate it is considerable. Given the media-savvy nature of many activists, the result is that media coverage of 'anti' NGOs is much more extensive than that of more moderate institutions whose campaign tactics are less confrontational and more partnership-oriented.

Well-founded criticism of reckless corporate behaviour underpinned by informed public debate is quite distinct from generalised corporate bashing on ideological grounds.[28] Some more even-handed NGOs silently condone being perceived as part of the fundamentalist faction; others signal semi-public support for particular critical positions so long as this helps them to raise their profile. Within some public interest groups individuals particularly gifted at articulating radical demands and accusations are sometimes deployed at high-visibility events—even while a more moderate position is advo-

25 See, for example, in a special issue of *New Academy Review* on 'Business and Human Rights', 'Business interests . . . have been antagonistic to human rights' (Swithern 2003: 50) or 'MNCs . . . also undermine the ability of individual states to protect people from human rights abuses' (Kinley *et al.* 2003: 92).

26 A telling example is that, of the five chemical companies in Basel (Switzerland), only one, Novartis, has pledged support to the UN Global Compact. The other four companies have not been questioned about why they do not commit to global corporate citizenship guidelines; rather it is Novartis that has faced insinuations of 'blue-washing': that is, abusing the UN logo for public relations purposes.

27 The picture is different in the US where corporate philanthropy enjoys a high degree of appreciation and is accompanied by much goodwill, with the result that substantially more resources are dedicated to corporate philanthropy than in Europe; see www.corphilanthropy.org (accessed 21 September 2007).

28 Of course generalised corporate prejudices about NGOs are equally unhelpful and intellectually shoddy.

cated in their published contributions. Most significant of all, perhaps, is that, in the perception of corporate management, very few public interest groups openly applaud excellence in corporate responsibility or distance themselves from unfair criticism of those corporations who are on record as striving for leadership, for example, in the implementation of the Global Compact's ten principles.

The reluctance to grant leading companies any reputational kudos for their corporate responsibility efforts may backfire on campaigners, however, by weakening the willingness of corporations to aim higher on the corporate responsibility pyramid and come up with deliverables beyond the *ought to* dimension. Campaign strategies that seek to undermine corporate integrity in the interest of sensationalism not only represent a lack of intellectual integrity but are also likely to lead to 'corporate responsibility fatigue' resulting in companies falling back to a legalistic, compliance-oriented approach.[29]

I do agree with Jeffrey Sachs's observation, that many of the

> . . . antiglobalisation leaders have the right moral fervor and ethical viewpoint, but the wrong diagnosis of the deeper problems, [and that] anticorporate, antitrade attitudes have also resulted from a knee-jerk antipathy to capitalism that reflects a more profound misunderstanding. Too many protesters do not know that even Adam Smith shared their moral sentiments and practical calls for social improvement, that even proponents of trade and investment can also believe in government-led action to address the unmet needs of the poor and the environment. Too many protesters do not know that it is possible to combine faith in the power of trade and markets with understanding of their limitations as well. The movement is too pessimistic about the possibilities of capitalism with a human face, in which the remarkable power of trade and investment can be harnessed while acknowledging and addressing limitations through compensatory collective action (Sachs 2005: 356-57).

At the risk of appearing patronising to radical NGOs and activists, I see a number of questions that deserve to be asked. Is it unreasonable for stakeholders to:

- Avoid extrapolating from worst-case breaches of corporate responsibility to level sweeping accusations at all (multinational) companies?
- Accept the existence of a fair societal division of responsibility and acknowledge the economic and social benefits resulting from conventional business activities?
- Acknowledge corporate responsibility excellence and award reputation capital to those who deserve it while curbing expectations of what corporations can deliver?[30]
- Be 'solution-driven' and participate constructively in the search for answers, instead of resorting to political rhetoric (such as 'End globalisation!') and moral condemnation of corporate actors?

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29 There are already developments that could be interpreted as signs of corporate responsibility fatigue: A number of companies which for years made special efforts in sustainability reporting are changing their attitude and going back to a legal compliance-based approach (personal communication with members of the Hertie School of Governance research team, Berlin, 29 August 2006).

30 The bar is continually raised until it is eventually knocked down in a vicious circle of self-fulfilling prophecies from the groups most critical of multinationals, through an inversion of proof. An example is the case of Médecins sans Frontières and Novartis's anti-malarial *Coartem* provided at US$1—below production cost—to the WHO (World Health Organisation) for distribution to poor societies. Médecins sans Frontières attacked the company publicly for not 'walking its talk' when Novartis announced problems with the production of unexpectedly high quantities of *Coartem*, over and above the production capacity based on the forecast of the WHO. One component of the combination product *Coartem* is a plant whose production depends on a long agricultural cycle and problems developed because of issues that were beyond the company's control. When—after substantial additional investments and efforts to overcome the bottlenecks—production targets were eventually surpassed, no public retractions were made by those who had accused the company.

Tackling these issues is essential to encourage constructive dialogue and to entice corporate management into the public debate on pragmatic solutions for the complex issues arising from 'failing markets' and 'failing states'. Neither companies nor NGOs—and even less the governments of poor countries—will be able to bring today's complex social problems towards a sustainable solution without engaging with each other and developing innovative kinds of symbiosis which do not discredit the legitimate objectives of structurally different institutions.

The significance of positive feedback for deserving companies is underlined by the fact that few are fortunate enough to have such socially sensitive management that will do the right thing simply as a result of its own deep-rooted values. Corporate managers who allocate resources strictly according to return on narrow financial investment criteria are today in a clear majority—and are likely to remain so in the foreseeable future. For them there are currently few incentives to do more than what the law, the market and common decency demand. Hence, they will not invest in programmes arising from a holistic definition of corporate responsibility—and certainly not in poverty-oriented corporate philanthropy. The fact that human nature and markets respond to positive incentives is likely to have positive effects from the perspective of individual senior managers, and motivate allocation of more resources for corporate responsibility deliverables beyond the 'normal business case'.[31]

Greater civil society appreciation for corporate endeavours beyond the 'normal business case' would create reputation capital for 'good' corporations and could change the equation for the business case.[32] This would create a new dimension of competition between companies competing with integrity and lead to more and better corporate responsibility deliverables beyond the conventional business case.

Stakeholders with a genuine interest in solving the plethora of economic, social and ecological problems will acknowledge that business can play a significant role in the solution of major global issues—and, if circumstances are right, is willing to listen, learn, compromise and cooperate. Increasingly, enlightened NGOs are becoming involved in a constructive manner to help cope with major challenges. A new MNC–NGO collaboration paradigm—one combining and pooling skills, experiences and resources beyond those of any individual actor—would undoubtedly lead to improved societal conditions, without calling into question the identity of the involved parties and the particularity of their interests. All participating actors retain 'ownership' of the reciprocal relationship, of the negotiation process and of the results achieved, allowing constructive changes to be implemented or, at the very least, areas of dissent to be reduced. Best practice today, in this respect, is illustrated by WWF and by Transparency International, as well as by the Amnesty International Business Group. Those public interest groups and other civil society institutions willing to apply a (reciprocal) fairness principle in relations with the private sector are likely to play an increasingly pivotal role. While maintaining their identity, integrity and independence, NGOs giving positive public feedback to those who deserve it and working together with the private sector create synergies for better solutions in a shorter period of time.

Those sitting on the fence and voicing undifferentiated criticism against globalisation and the multinationals will have to ask themselves whether they do their best to reach one of the most important objectives of the UN Global Compact: to use 'collective

31 This is not meant to insinuate that people act morally only if there are strong incentives to do so. Our argument is based on Amitai Etzioni's thesis that people's behaviour is influenced by two factors: first, by what they perceive to be their moral obligation and, second, by what they perceive to be in their interest. Etzioni (1988) acknowledges significant differences in the extent to which these factors work with different personalities.

32 In addition to reputation capital, other 'rewards' might include price differentials in public tenders, preference given in international/institutional procurement, and so on.

action . . . to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation' (Global Compact Office 2007). The realisation of the UN's vision—a more sustainable and inclusive global economy—as well as sustainable successes in reaching the Millennium Development Goals can only be achieved in cooperation with the business sector, not against it.

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