Chapter One

The Corporate Stake in Social Responsibility

Roy Culpeper and Gail Whiteman
Canada is the world’s eighth largest trader, with US$192 billion of merchandise exports in 1995, or 4 percent of the global total. In terms of services like insurance and tourism, Canada ranks 15th as an exporter with a 1.7 percent share, earning US$18.4 billion. And while our trade is heavily concentrated on the United States, Canadian trade with developing countries accounts for almost a third—some $39.5 billion in imports and exports—of our trade with the rest of the world (see Statistical Annex, Table 6, p. 139).

Trade, in fact, has supplanted aid as the main channel of relationship between Canada and countries of the South. Trade in both directions has grown greatly during the past 20 years, and investment even more in recent years. This is likely to continue: securing trade is set down unambiguously in the Canadian government’s 1995 foreign policy document, *Canada in the World*.

This shift in relationship gives rise to a number of questions concerning the role and responsibilities of the private sector in developing markets. Do conscience and commerce mix? Should businesses help improve human rights, labour standards, environmental stewardship? Is it even possible? Do corporations have the ability or power to influence (for good or ill) social equity and environmental standards? As the private sector rapidly becomes a pre-eminent actor, both domestically and in the international marketplace, answers to such questions are increasingly urgent.

Problems of social inequity and environmental degradation are exceedingly complex. Their solution will therefore require persistent, ingenious, and multi-faceted interventions and demand the active participation of businesses, governments, and civil society. If the policies and actions of any one of these actors alone is likely to be inadequate, corporations have a particular stake in social responsibility. In today’s global markets, business must be part of the solution rather than part of the problem—social responsibility is both good for society and for business. For this to happen, however, the dominant culture and practices of business must change. In particular, the prevailing ethic of competitively driven self-interest must give way to a more cooperative ethos in which the benefits accruing to society and the environment are integrated into business policy and decision-making along with the more conventional profit motive.

There are promising signs that the prevailing culture and ethical practices of corporations are changing. Perhaps foremost is that business people now openly acknowledge that corruption and bribery (with respect to foreign as well as domestic governments) are ethically reprehensible. Indeed, an international consensus on the issue has resulted in the adoption by the Organisation for Economic Co-operation and Development (OECD) of an international code to limit such conduct (see Box 1). Progress on other forms of ethically objectionable corporate behaviour—child labour, oppressive or exploitative working conditions, etc.—lags behind, although there is a considerable amount of discussion about the issues. On yet other issues, such as the relationship between corporate behaviour and human rights, there is little consensus. However, the launching of the International Code of Ethics for Canadian Business by a group of Canadian firms in late 1997 is a step in the right direction (see Box 2). Finally, many leading corporate executives are speaking out on the need for businesses to demonstrate social and environmental responsibility.

Globalization has become the seemingly unstoppable force governing international economic and political relations. Private markets today drive the global economy and dominate North-South economic relations.

Globalization can be a tremendous force for good: it can generate employment, income, and economic growth. It can help develop or use human resources, transfer technology, and increase productivity. It can thus help raise standards of living and vastly improve the quality of life. Globalization has the potential of making the world a better place in which to live for all its inhabitants.

**Chapter One**

**The Corporate Stake in Social Responsibility**

My fundamental hypothesis is that if the Canadian business community can come together in a commitment to making a difference in building the society of the next millennium, then Canadian corporations will be able to make a meaningful difference in shaping a society that is better for all of us—business, employees, the environment, our communities.

Courtney Pratt, Chairman, Noranda Inc.
Address to the Canadian Club of Toronto, September 29, 1997

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Box 1  OECD Convention Against International Corruption

Corruption and bribery occur in both the developed and developing world. But while experts agree that the problem is widespread, its actual dollar impact is unknown.1 Corrupt practices affect not only the global trading system, but can also lead to a misallocation of scarce public resources, particularly in the developing world, and help sustain corrupt authoritarian regimes.2 Transparency International3 defines corruption as “the abuse of public power for private gain.”4 Canadian firms have two reasons for combating global corruption: first, a level playing field that does not tolerate corruption allows them to compete fairly and openly in the global marketplace; and second, Canadians have an obligation to help foster transparent and democratic accounting systems and noncorrupt business practices.5 While corruption is not believed to be widespread in Canada, it is perceived to be in some countries where Canadian firms operate, such as Indonesia and Nigeria.6

On December 17, 1997, 29 leading industrial countries (OECD members), and five nonmember countries (Argentina, Brazil, Bulgaria, Chile, and the Slovak Republic) signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. All signatory countries agreed to make the bribery of foreign officials a crime wherever it occurs.7 Before the signing of this Convention, only the United States, through its Foreign Corrupt Practices Act, made it a criminal offense for a US firm to pay bribes abroad.8 OECD member countries have agreed to introduce domestic legislation to implement the Convention and to ratify it by the end of 1998.

The OECD Convention focuses on “active corruption” or “active bribery”—meaning the offence committed by the bribe giver. The Convention establishes a standard to be met by signatory countries and “seeks to assure a functional equivalence among the measures taken.”9 Actions that are not prohibited by the Convention include small “facilitation” payments made in some countries to induce public officials to perform their functions—an activity which is to be addressed by individual countries in support of good governance—and payments to political parties. In addition, it is not an offence if an “advantage is permitted or required by the written law or regulation of the foreign public official’s country, including case law.”10 Culprits may receive criminal sanctions, including fines and imprisonment.11

According to the nonprofit NGO, Transparency International, there are a number of outstanding issues. Like any international code, a key problem is effective monitoring. Since the Convention adopts a “soft law” approach—a recommendation for action by national governments that is not legally binding—effective implementation at the national government level needs to be evaluated at an international level. In addition, monitoring corporate compliance is difficult since, in many cases, neither party may willingly admit to corrupt practices. Instead, the Convention will help companies that are unwilling to participate in bribery by providing them with international grounds for nonparticipation. In addition, Transparency International believes that the OECD initiative will help strengthen domestic anti-corruption movements in developing countries.

Notes
3 A nonprofit NGO which operates at both an international and national level through its National Chapters, Transparency International emphasizes the need for increased public transparency and accountability in international business activities and public procurement. The organization also provides international Standards of Conduct. To contact Transparency International Canada, e-mail Dr Wes Cragg at ti-can@busy.yorku.ca
6 Ibid.
7 In OECD countries like Japan and Germany, companies are not held responsible for criminal acts. Instead, the Convention outlines the need for penalties as a meaningful deterrent. See Transparency International, Press Release, November 5, 1997.
8 Ibid.
10 Ibid, p. 2.
11 Canada, Department of Foreign Affairs and International Trade (DFAIT), News Release (No. 214), December 18, 1997.
Box 2 International Code of Ethics for Canadian Business

Canadian business has a global presence that is recognized by all stakeholders as economically rewarding to all parties, acknowledged as being ethically, socially, and environmentally responsible, welcomed by the communities in which we operate, and that facilitates economic, human resource, and community development within a stable operating environment.

**BELIEFS**

We believe that:
- we can make a difference within our sphere of influence (our stakeholders)
- business should take a leadership role through establishment of ethical business principles
- national governments have the prerogative to conduct their own government and legal affairs in accordance with their sovereign rights
- all governments should comply with international treaties and other agreements that they have committed to, including the areas of human rights and social justice
- while reflecting cultural diversity and differences, we should do business throughout the world consistent with the way we do business in Canada
- the business sector should show ethical leadership
- we can facilitate the achievement of wealth generation and a fair sharing of economic benefits
- our principles will assist in improving relations between the Canadian and host governments
- open, honest and transparent relationships are critical to our success
- local communities need to be involved in decision-making for issues that effect them
- multistakeholder processes need to be initiated to seek effective solutions
- confrontation should be tempered by diplomacy
- wealth maximization for all stakeholders will be enhanced by resolution of outstanding human rights and social justice issues
- doing business with other countries is good for Canada and vice versa

**VALUES**

We value:
- Human rights and social justice
- Wealth maximization for all stakeholders
- Operation of a free market economy
- A business environment which mitigates against bribery and corruption
- Public accountability by governments
- Equality of opportunity
- A defined code of ethics and business practice
- Protection of environmental quality and sound environmental stewardship
- Community benefits
- Good relationships with all stakeholders
- Stability and continuous improvement within our operating environment

**PRINCIPLES**

A/Concerning Community Participation and Environmental Protection, we will:
- strive within our sphere of influence to ensure a fair share of benefits to stakeholders impacted by our activities
- ensure meaningful and transparent consultation with all stakeholders and attempt to integrate our corporate activities with local communities as good corporate citizens
- ensure our activities are consistent with sound environmental management and conservation practices
- provide meaningful opportunities for technology cooperation, training and capacity-building within the host nation

B/Concerning Human Rights, we will:
- support and promote the protection of international human rights within our sphere of influence
- not be complicit in human rights abuses

C/Concerning Business Conduct, we will:
- not make illegal and improper payments and bribes and will refrain from participating in any corrupt business practices
- comply with all applicable laws and conduct business activities in a transparent fashion
- ensure contractor’s, supplier’s and agent’s activities are consistent with these principles

D/Concerning Employee Rights and Health & Safety, we will:
- ensure health and safety of workers is protected
- strive for social justice and promote freedom of association and expression in the workplace
- ensure consistency with universally accepted labour standards, including those related to exploitation of child labour

**APPLICATION**

The signators of this document are committed to implementation with their individual firms through the development of operational codes and practices that are consistent with the vision, beliefs, values and principles contained herein.

**NOTES**

1. Thirteen Canadian companies developed the Code in September 1997: Alcan Aluminum Ltd; Beak International Inc.; Cambior Inc.; Chauvco Resources Ltd; John Neville Inc.; Komex International Ltd; Liquid Gold Resources Inc.; Proco Resources Ltd; Pulsonic Corp.; Reid Crowther International Ltd; Sanduga & Associates; Shell Canada Ltd; and Wardrop Engineering Inc.

2. Should include: local communities, Canadian and host governments, local governments, shareholders, the media, customers and suppliers, interest groups, and international agencies.

Source: http://www.uottawa.ca/~hrrec/busethics/codeint.html
inhabitants. But even proponents of globalization admit that it has definite downsides: unemployment, widening income disparities, and environmental degradation have so far accompanied globalization. So how, in a world dominated by global market forces and private sector interests, can social and environmental equity flourish?

Market capitalism is nearly universal today. This may suggest that there is global consensus about the advantages of market-based economies. But it is evident that there is not just one “model” of market capitalism: the market economy in the United States differs from Canada’s more “mixed” economy and considerably from Western Europe’s and Japan’s. In each, there is a different balance between the responsibilities of states, market agents, communities, and households.

The demise of the communist system throughout much of the world makes it possible to ask searching questions about the market-based economy. How “fair” are free markets? Given widening income disparities in the industrial countries during the past 20 years, how equitably distributed are the benefits of market-based economies? What is their impact on different segments of society—workers, households, and communities? What are corporations’ rights and responsibilities toward society? Toward common-property resources and the natural environment? How does diminishing state power affect all?

Searching questions have also been raised about corporate governance. Are major shareholders a corporation’s only, or even the primary, “stakeholders?” What responsibilities do corporations have toward their customers and clients? toward consumers generally? toward their employees and the communities in which they operate? toward future generations and the environment?

In a market-driven global economy, issues of corporate conduct, ethics, and governance have come to the fore. These issues are both more stark and complex in developing countries where standards, legal systems, and customs differ from those in industrialized countries.

The Growing Role of Private Foreign Investment in Development

Developments Over the Last Decade

Since the late 1980s, the role of private foreign investment in developing countries has expanded greatly, both in relative and absolute terms. This is due to a number of overlapping developments: global official development assistance (ODA) has substantially declined; the level of foreign direct investment (FDI) in the developing world has increased significantly, as has that of portfolio investment; and there has been an ongoing move toward a deeper and broader form of economic integration between developed and developing worlds. Private investment flows have been highly concentrated in about one dozen developing countries, however.

The 1980s also witnessed changes of fundamental importance in North-South relations. First, the aftermath of the debt crisis led to a wave of economic liberalization, reform, and openness to foreign investment. Second, developing countries in East and Southeast Asia experienced unprecedented economic growth, based primarily on higher investment rates and export promotion. Until the recent financial crisis in Asia, this model seemed successful and highly attractive to other developing countries, which have begun to actively compete for foreign direct investment. Finally, a wave of political liberalization resulted in the spread of democracy through many of the non-OECD countries. These combined events set the stage for a strong commitment to privatization, which created many new opportunities for private sector firms.

The increase in private investment flows to developing countries has been both swift and dramatic. Corporations have actively entered new and expanded markets. The postwar domination of private by official flows has been overturned in the first half of the 1990s (Table 1), returning perhaps to the pattern that existed before the Great Depression. Most countries, including the remaining centrally planned communist states such as the People’s Republic of China, have now embraced market-based economies. As a result, the linkages between rich and poor countries are driven by private

<table>
<thead>
<tr>
<th>Table 1 Aggregate Net Long-Term Resource Flows to Developing Countries, 1990-96 (US$ billions)</th>
<th>1990</th>
<th>1993</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Net Resource Flows</td>
<td>100.6</td>
<td>212.0</td>
<td>284.6</td>
</tr>
<tr>
<td>Official Development Finance</td>
<td>56.3</td>
<td>55.0</td>
<td>40.8</td>
</tr>
<tr>
<td>Total Private Flows</td>
<td>44.4</td>
<td>157.1</td>
<td>243.8</td>
</tr>
<tr>
<td>of which: FDI</td>
<td>24.5</td>
<td>67.2</td>
<td>109.5</td>
</tr>
<tr>
<td>Portfolio Equity Flows</td>
<td>3.2</td>
<td>45.0</td>
<td>45.7</td>
</tr>
</tbody>
</table>

The global economy, with its borderless flow of goods, capital and ideas, cannot function without a global ethic.

John Dalla Costa,
"Moral crisis behind Asian mess,“ The Globe and Mail, March 26, 1998

investment, trade, and commerce even more so than before. (It should be noted, however, that the poorest countries, particularly those of sub-Saharan Africa, remain largely outside the ambit of these new global markets.) One indicator of the relative importance of the private and public sector linkages is captured in Table 1.

The Decline in Official Financing for Development

From 1990 to 1996 there was a sharp drop in official flows (comprising both ODA and other official flows, such as bilateral and multilateral loans). After a sharp fall in 1993 and a partial recovery in 1994, ODA dropped by nearly 10 percent in real terms (adjusted for inflation and exchange rates) in 1995. As a share of the gross national product (GNP) of OECD Development Assistance Committee (DAC) members, ODA fell to 0.27 percent, its lowest level in 45 years. The ODA/GNP ratio fell in 15 out of 21 DAC member countries, including all the G-7 countries. Huge cuts in the United States ODA program reduced that country from one of the more committed aid donors until the 1990s, cut its aid budget by 40 percent between 1989 and 1997.

There are strong reasons to believe that private foreign investment, even without numerous questions about its social responsibility and impact, is not and will not be a perfect substitute for foreign aid (publicly funded official development assistance). Private investment has, in fact, generally complemented ODA: for example, two of the key sectors of interest to foreign investors are natural resources and manufacturing, sectors not traditionally given much support through ODA. In other sectors, such as infrastructure, private foreign investment is replacing ODA. But this substitution may come at a price.

For several reasons, over the past decade, aid agencies have backed away from infrastructure projects in developing countries. These reasons include dwindling funds and the costliness of infrastructure projects. Moreover, much negative publicity has surrounded the adverse environmental and social impacts of poorly planned or implemented infrastructure projects. In response to criticisms, the World Bank and other agencies have implemented procedures to assess, monitor, and limit environmental and social impacts. As a result, the replacement of ODA-financed infrastructure by privately and locally financed infrastructure is likely to raise many of the same issues. There is a danger that, without the involvement of public aid agencies in infrastructure projects, environmental and social standards will be laxer.

The Rise of Private Foreign Investment

Investment by transnational corporations—a central, defining feature of globalization—has expanded enormously since the Second World War. Such investment facilitates “deep integration” between different countries and communities as global firms source inputs of manpower, capital, raw materials, and intermediate products from wherever it is best to do so, and sell their goods and services in all the major world markets.

In 1995 there were 45,000 transnational corporations (TNCs) with 280,000 foreign affiliates. Their estimated global sales were US$7 trillion; since 1987 such sales have exceeded exports of goods and services by a factor of 1.2 to 1.3. Most TNCs are headquartered in developed countries, although by 1995, 7,900 of the 45,000 were based in developing countries.

Foreign direct investment by transnationals—the activity through which they establish and grow their foreign affiliates—is now a major force shaping globalization. In 1996, these flows amounted to US$350 billion worldwide, and resulted in a global FDI stock of US$3.2 trillion. Of the $350 billion FDI total, some US$129 billion, or 37 percent, went to developing countries. A good proportion of FDI is concentrated in the hands of the 100 largest TNCs (ranked by the size of foreign assets), which own $1.7 trillion of assets in their foreign affiliates, controlling an estimated one-fifth of global foreign assets.

Since three-quarters of the investment of affiliates was financed by means other than FDI from their parents (e.g., through commercial banks and equity markets, both at home and abroad), their actual investment in 1996 was $1.7 trillion, about one-fifth of world gross capital formation. In other words, TNCs and their affiliates have a substantial role in global investment.

There has always been controversy over the role of FDI in development, and although the debate is muted in the 1990s, many of the underlying issues still remain (see Box 3). This is in part because of a heavy concentration of FDI among
FOREIGN DIRECT INVESTMENT AND DEVELOPMENT

Until the 1980s, Foreign Direct Investment (FDI) was one of the most hotly debated topics in North-South relations. It was viewed, at best, as a mixed blessing, and at worst, as a sort of neo-colonialism. As a result of such attitudes, nationalization and expropriation of transnational corporations’ developing-country assets was not uncommon during the first three postwar decades, imparting to FDI a high level of political risk. In the 1990s, the debate has cooled as many developing countries welcomed, even enticed transnationals (TNCs) to invest through favourable tax or other policies. TNCs and FDI are now widely seen as an effective route to modern technology and employment, to export markets and industrial growth. Nonetheless, some important underlying issues remain. For example:

- a favourable investment climate is a strong factor in attracting FDI, but the response to more liberal terms in developing countries is often overestimated;
- if tax incentives are offered, there is clearly a cost in terms of foregone revenues;
- an increasing part of world trade is internal to TNCs. While this is efficient for corporations, it may not be optimal for developing countries;
- transfer pricing of intra-TNC transactions remains an important problem, as developed-country hosts recognize, but most developing countries do not have the capability to deal with it effectively; and
- the terms on which FDI is provided to developing countries are likely to be the products of bargaining, in which TNCs typically have more bargaining power than their hosts.

Even though one of the key advantages of FDI is that it usually transfers technology to the host country—a rather attractive prospect for poorer countries striving to increase productivity—these advantages can also negatively affect the development of local technological capabilities and skills. Innovative activity by TNCs is typically concentrated in a few developed countries. Upgrading skills and capabilities in developing countries involves high learning and other costs which TNCs are typically unwilling to bear. Therefore, developing countries may be unwise to rely solely or principally on FDI (or more generally on markets) to encourage technological development and extension to the domestic economy, as well as local human development. Ultimately, the development of indigenous skills and technology must rely on local government initiatives.

The older debate on FDI is resurfacing in the context of a Multilateral Agreement on Investment (MAI) (see Chapter 3, p. 58). A cornerstone of that agreement, currently being negotiated principally among the developed member countries of the OECD, is the principle of national, nondiscriminatory treatment of foreign investors by host countries. This would in effect disallow many developing countries (if they were to become MAI signatories) from implementing policies adopted in the past, for example selective measures to protect domestic industry and technological development, as well as performance requirements (for example, on exports) on FDI to achieve specific developmental objectives.

Moreover, many developing-country critics have compared the proposal for an MAI—which would be legally binding upon signatory governments—with three past initiatives undertaken under the auspices of the United Nations, aimed at establishing codes of conduct for transnational corporations: industrialized countries insisted these would be nonbinding and voluntary. Finally, the fact that the MAI has been negotiated in a forum dominated by the developed countries (the OECD) rather than a more universal forum such as the World Trade Organization, adds to the developing countries’ apprehensions that the economic, social, and political objectives of development are likely to be marginalized in the treaty.

Notes


TABLE 2 Transnational Corporations’ Gross Revenues and Developing Countries’ GNP, 1994-95

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Revenues (US$ billions)</th>
<th>HQ*</th>
<th>Developing Country</th>
<th>GNP (US$ billions)</th>
<th>Population (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 General Motors Corp.</td>
<td>168.4</td>
<td>US</td>
<td>China</td>
<td>697.6</td>
<td>1,200</td>
</tr>
<tr>
<td>2 Ford Motor Company</td>
<td>147.0</td>
<td>US</td>
<td>Brazil</td>
<td>688.1</td>
<td>159</td>
</tr>
<tr>
<td>3 Mitsubishi Corp.</td>
<td>144.9</td>
<td>Japan</td>
<td>Korea</td>
<td>455.5</td>
<td>45</td>
</tr>
<tr>
<td>4 Mitsubishi Corporation</td>
<td>140.2</td>
<td>Japan</td>
<td>Russia</td>
<td>344.7</td>
<td>148</td>
</tr>
<tr>
<td>5 Itochu Corporation</td>
<td>135.5</td>
<td>Japan</td>
<td>India</td>
<td>324.1</td>
<td>929</td>
</tr>
<tr>
<td>6 Royal Dutch/Shell Group</td>
<td>128.2</td>
<td>UK/Neths</td>
<td>Argentina</td>
<td>281.1</td>
<td>35</td>
</tr>
<tr>
<td>7 Marubeni Corp.</td>
<td>124.0</td>
<td>Japan</td>
<td>Mexico</td>
<td>250.0</td>
<td>92</td>
</tr>
<tr>
<td>8 Exxon Corp.</td>
<td>119.4</td>
<td>US</td>
<td>Indonesia</td>
<td>198.0</td>
<td>193</td>
</tr>
<tr>
<td>9 Sumitomo Corporation</td>
<td>119.3</td>
<td>Japan</td>
<td>Thailand</td>
<td>167.1</td>
<td>58</td>
</tr>
<tr>
<td>10 Toyota Motor Corp.</td>
<td>108.7</td>
<td>Japan</td>
<td>Turkey</td>
<td>164.8</td>
<td>61</td>
</tr>
<tr>
<td>11 Wal-Mart Stores Inc.</td>
<td>106.1</td>
<td>US</td>
<td>South Africa</td>
<td>136.0</td>
<td>42</td>
</tr>
<tr>
<td>12 General Electric Co.</td>
<td>79.2</td>
<td>US</td>
<td>Saudi Arabia</td>
<td>125.5</td>
<td>19</td>
</tr>
<tr>
<td>13 Nippon Iron Corp.</td>
<td>78.9</td>
<td>Japan</td>
<td>Poland</td>
<td>117.7</td>
<td>39</td>
</tr>
<tr>
<td>14 N.T. &amp; T. Corp.</td>
<td>78.3</td>
<td>Japan</td>
<td>Greece</td>
<td>90.6</td>
<td>11</td>
</tr>
<tr>
<td>15 IBM Corp.</td>
<td>75.9</td>
<td>US</td>
<td>Malaysia</td>
<td>85.3</td>
<td>20</td>
</tr>
</tbody>
</table>

47 Low-Incomeb 316.9 1,050

Notes:
* Location of TNC’s head office.
* The world’s poorest countries other than India and China.


It would be a mistake, however, to consider economic globalization a phenomenon that involves only large transnational corporations. Because of modern information and telecommunications technology, small and medium-sized enterprises are also able to carry out business in remote markets, in a manner unthinkable even half a century ago. Individual private investors are also getting into the act. One of the most remarkable and unprecedented developments of the 1990s has been the growth of cross-border portfolio equity investment (see Table 1). The purchase of share capital, once almost wholly confined within national boundaries, now occurs between countries in a number of ways. And an increasing proportion of the transactions take place between industrialized and developing countries, many of which have opened their stock markets for investment by nonresidents for the first time—and in some cases established stock markets for the first time. Individual investors in industrial countries now participate in such cross-boundary transactions by purchasing and selling “emerging market” shares through mutual and pension funds, and through brokered deals involving particular Southern firms.

At the end of the 1990s, both the behaviour of TNCs and the role of FDI are changing. Traditionally, TNCs expanded their territorial horizons primarily to exploit their core competencies or competitive advantages. Increasingly, however, global firms seek to enhance their advantages by acquiring, or gaining access to, strategic assets, new resources, and capabilities—part of a phenomenon called “alliance capitalism” by John Dunning. Instead of the traditional hierarchical relationship (between parent and affiliate), such alliance behaviour often involves cooperative arrangements, whether for technical service or subcontracting agreements, or more informal inter-firm understandings.8

GLOBAL MARKETS AND SOCIAL EQUITY

DILEMMAS OF THE MARKET SYSTEM

Markets have existed as long as human communities, but it is only since the industrial revolution two centuries ago that the “market system” has increasingly dominated society—first at the national level, and now at the global level. Social theorists have long criticized the impact of the market system on society and, more recently, on the environment. In the 19th century, political economists such as Karl Marx

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and John Stuart Mill, social activists such as Robert Owen, and novelists such as Victor Hugo and Charles Dickens deplored the social inequities of the market system that took root with the industrial revolution. In the 20th century, John Maynard Keynes pointed out that a key lesson of the Great Depression was that the market system does not guarantee full employment—indeed it may result in an underemployment equilibrium that leaves a substantial portion of the population without a source of income. While the solutions proposed by some of these thinkers have come under considerable attack, that does not diminish their critique of the problems of the market system, many of which, including chronic unemployment and widening income disparities, continue to plague market-based economies.

Another 20th-century thinker, Karl Polanyi, argued in The Great Transformation that, with the market system, the economy became “dis-embedded” or separated from society for the first time in human history. The system of self-regulating markets that has emerged has turned labour and natural resources into commodities to be bought and sold, used, and sometimes destroyed. In Polanyi’s view, this dramatic transformation in relationships both among members of society, and between society and nature, has had such a wrenching impact that it has provoked “counter-movements” to protect society and the natural environment. These counter-movements have led to laws and regulations governing the way in which market actors behave, and establishing minimal labour and environmental standards.

Similarly, the eminent Canadian political economist C.B. Macpherson traced the rise of the concept of “economic justice” (the establishment of fair prices and just distribution of social income and wealth) to markets and merchants achieving relative autonomy from the state and other social relations, although he saw this beginning to happen two centuries before the industrial revolution. Like Polanyi, Macpherson held that the social order had to adopt defence mechanisms against the encroachment of markets on accepted notions of fair prices and a just distribution of wealth. In contrast to Polanyi, however, Macpherson was pessimistic about the future—he viewed the achievements of liberal and social-democratic states in the 20th century as temporary successes in the struggle for economic justice in a world increasingly dominated by markets and corporate power. However, he also thought that the huge disparities between the Third World and the developed countries would keep the concept of economic justice alive.

The issues of markets and social equity are contentious enough within a single political jurisdiction, such as the nation-state. They become far more complex when business transactions...
A company must establish an active social responsibility committee at the board of directors level. Its mandate must go well beyond corporate philanthropy and “assess the impact of the corporation on all its stakeholders and be a voice to urge balance.”

Richard J. Mahoney, ex-CEO of Monsanto
“Taking the initiative on stakeholder rights,” Business & Society Review, no. 97, 1996, pp. 21-25

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take place across jurisdictions in which the laws and regulations differ substantially. To the extent that the standards of corporate behaviour are prescribed by law or custom and commonly observed (and this may be far from being the case), there is little leeway within the nation-state to gain a competitive advantage in the domestic marketplace by diverging from the norms. But the globalization of trade and investment has profoundly changed the context of social norms in the marketplace.

Globalization has posed a basic conundrum for all international transactions. Whose standards of behaviour should apply—those of the home or host country? The dilemma is: if foreign investors or traders abide by lower host country standards (such as labour standards), they are open to the charge of exploitation. But if they abide by higher home country standards, they may lose the host market to third country competitors with fewer scruples.

Thus, accusations of “a race to the bottom” are levelled by labour critics against corporations’ investments in developing countries. On the other hand, business and advocates of economic liberalization accuse of “protectionism” those wanting to impose trade restrictions on goods produced with child labour or under conditions below acceptable Northern safety or environmental standards.

The driving force underlying many of these quandaries is competition on a global scale. The Group of Lisbon, a coalition of 19 distinguished scholars—many with strong links to the business community—from North America, Europe, and Japan, attributes to “excessive competition” the decline of the welfare state, increasing poverty and chronic unemployment, and/or widening income disparities in the industrial countries, and the further de-linking of the world’s poorest countries from the global economy. It issues a visionary call for “cooperative global governance” to ensure environmental sustainability, social solidarity among present and with future generations, the protection of cultural diversity and freedom, and participatory democracy.

Market Behaviour and Social Equity

Underlying the tension between market behaviour and social equity is an apparent conflict between the self-interested motivations of profit-maximization, pursued through competition, and the collective interests of society that result from cooperative behaviour. The pre-eminence of self-interest as the engine of economic efficiency in a competitive economy goes back two centuries to Adam Smith, the father of modern economics. The 20th-century version of the “Invisible Hand” doctrine was articulated by Milton Friedman. In a well-publicized essay in The New York Times Magazine, he provided an early definition of corporate social responsibility:

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. [For business to do otherwise is economically reprehensible and] fundamentally subversive... in a free society.

Friedman’s definition of corporate social responsibility, which defines the currently dominant view, albeit with much dissension, raises immediate questions. First, how are the “rules of the game” derived? The issue of the obligatory social responsibilities of firms is highly political, particularly since there may be disagreements concerning community standards on which to base the laws governing admissible corporate conduct. There is also a question of monitoring and enforcing the rules to prevent “deception and fraud.” Even with the best enforcement systems, however, one must expect that a value system in which self-interest is paramount will lead to a certain amount of both deception and fraud.

Critics of the dominant view begin with the fact that businesses do not exist in a vacuum, but must operate within a framework of laws, rules, and conventions. Indeed, the notion of “laissez-faire” underlying Friedman’s model is a serious misconstruction of what “free markets” actually require and entail. Free markets, and the system of private property, depend for their existence on law. Markets are a legal construct which facilitate certain transactions (such as contracts), while laws prohibit others (such as trespass). Moreover, the legal framework goes far beyond defining property rights and contract obligations to defining social norms that may also limit freedoms (for example, laws forbidding racial discrimination). Finally, businesses may also have “supererogatory” responsibilities—those beyond legal requirements—that they may be motivated to meet.

Even while Friedman expounded the 20th-century version of the Invisible Hand doctrine, it was under challenge by other mainstream
economists who demonstrated through game theory that cooperation can be superior to self-interested competition, not just for the welfare of society, but for the competitors themselves.\textsuperscript{15}

Similarly, scholars like Amartya Sen have pointed out that commercial or economic success is not simply a matter of the self-interested pursuit of profits, and that moral codes of behaviour can enhance corporate productivity and competitiveness.\textsuperscript{16} If so, the dichotomy between the interests of society and those of corporations is false, making plausible win-win combinations of corporate responsibilities and social interests.

Sen’s critique of the dominant view runs much deeper. One premise of this prevailing view holds that maximizing self-interest constitutes the only form of “rational market behaviour” and other forms of behaviour (involving duty, loyalty, goodwill, or ethically motivated conduct) will undermine the efficiency of markets. Both these assumptions are highly questionable: non-self-interested behaviour is neither “irrational,” nor does it necessarily undermine efficiency. Sen argues that standard economic models do not recognize the differences between cooperative and competitive behaviour, and therefore do not give guidance in many situations—for instance, when economic actors can choose either cooperative or competitive strategies to deal with issues that have collective impact.

Defenders of the dominant view assert even more strongly that self-interested behaviour approximates actual real world behaviour. This assertion, which usually underlies the conventional position on the social responsibilities of corporations, is equally contestable. In Japan, for example, which is a market-based economy, many commercial relationships are based on duty or loyalty, including labour market conventions such as lifetime employment. While they no doubt entail an economic cost, these relationships have arguably enhanced productivity and played an important role in Japan’s industrial competitiveness and extraordinary growth rate. At the same time, they have contributed to social cohesion, at least until the 1990s. The implication is that it is quite plausible for corporations to both compete in the marketplace and take on social responsibilities that enhance their commercial success.\textsuperscript{17}

Other social commentators have stressed that cooperative relationships are fundamental to wealth creation and social stability. Recently, author Francis Fukuyama underlined the importance of social solidarity, or trust, for long-run economic survival and productivity.\textsuperscript{18} Pointing to examples of industrial organization in Japan, Germany, and the United States, he asserts that certain forms of behaviour by firms, their workers, and clients cannot be explained by the motivations of profit-maximization and self-interest. Indeed, in many instances, such behaviour seems to be distinctly at odds with the self-interest of the parties involved. Fukuyama argues that the creation of economic wealth and stability depends on “social capital”—the ability of people to work together for common purposes in groups and organizations—which in turn requires shared norms and values and the subordination of individual interests to those of the larger group.

Even leading proponents of globalization, such as John Dunning, have concluded that cooperation is as important as competition for corporations seeking strategic assets as they position themselves in the global marketplace. However, Dunning’s conception of “alliance capitalism” where he sees cooperative behaviour taking place, is very restrictive. The strategic cooperation he refers to focuses primarily on the interaction between “wealth-creating constituents.” Such “cooperation” is not unlike oligopolistic or even collusive behaviour aimed at promoting the interests of the cooperators at the expense of nonparticipants. Of course, the same criticism can be levelled at Fukuyama’s model of “trust:” a firm may cooperate with its workers and suppliers primarily to get a competitive edge on rival firms.

**The Market Economy and the Environment**

Self-interested behaviour in a market system may not always, or typically, lead to the best outcome for society as a whole. For similar reasons, self-interested behaviour in a market economy may not be in the best interests of the natural environment in which the economy and society must operate.

Indeed, critics such as Herman Daly warn that a global economy based purely on competitive, self-interested behaviour portends grave, possibly devastating environmental consequences. Such critics argue that the environment is often treated by agents of the global market system as a free source of natural resources, and a free “sink” in which to dispose of waste products. The former leads to resource depletion and the latter to ecological degradation.
Instead, such critics urge the adoption of genuinely sustainable development strategies, in which the global economy is viewed as a “subsystem” of the global natural environment. As a subsystem, the economy cannot for long remove from (or inject into) the environment, without replacing (or withdrawing) resources that are necessary (or inimical) to life on the planet. Sustainability, therefore, is the ability of the economic subsystem to coexist in harmony with the larger environmental system.

What does this mean for corporate actors in the global market system? Visionary thinkers such as Paul Hawken speak about redesigning the economic and production systems to ensure “true cyclicity,” so that there is virtually no waste that cannot be digested by natural processes. Such thinking points in the direction of “natural capitalism,” where “natural capital” (the earth’s renewable and nonrenewable resources) is considered an integral part of the capital with which businesses must work.

Corporate Responsibility: Beyond Profits

Canadian corporations have far-reaching impacts on society and the health of the planet itself. Some of these impacts are positive, others are negative. Given that the marketplace does not always demand that corporations become more socially responsible, it is crucial that business culture recognizes this need internally. But a sustainable change in corporate culture requires commitment at all levels of the corporation, including its leadership. While any cultural change is challenging, the shift to social and environmental responsibility is not easy. But the adoption of global social and environmental responsibility can lead to many positive results. As Courtney Pratt, Chairman of Noranda Inc., suggests: “If the Canadian business community can come together in a commitment to making a difference in building the society of the next millennium, then Canadian corporations will be able to make a meaningful difference in shaping a society that is better for all of us—businesses, employees, the environment, our communities.”

The first step is for corporations to recognize why they need to move beyond Friedman’s fixation with the bottom line. There are at least three reasons for doing so.

First, the business world is unavoidably embedded within social and natural systems. Corporate activity affects much more than the bottom line. Business fundamentally changes and shapes society and the natural environment, in both positive and negative ways. While many of these costs and benefits are not currently included in a company’s financial statements, their effects are tangible. A business operates explicitly as an economic actor through the market system, but also implicitly as a moral and environmental actor as its economic actions permeate the related social and ecosystems.

Second, the marketplace cannot by itself resolve environmental and social issues. Some, including the Government of Canada, argue that a strategy of “constructive engagement” will eventually instill liberal values through trade and commerce, even with regimes that are socially repressive or environmentally irresponsible. For their part, corporate actors engaged in trade and commerce are typically unwilling or unable to influence social or environmental conditions in foreign countries.

Third, it pays to be responsible. Increasingly, corporate image is linked to profits—or net worth, to be more precise. There is an important relationship between corporate ethics and the perceived value of the firm: studies show that unethical corporate behaviour negatively affects stock performance. Increasingly, external stakeholders are demanding that business deliver sustainable results in more ways than return-on-investment. Companies like Nike Inc. have learned the hard way that a negative image in the public domain can affect sales, particularly when linked to the threat of consumer boycotts. On the other hand, companies that are perceived to be socially and environmentally responsible may gain a competitive advantage over more traditional firms. The Body Shop International PLC is an example of one firm whose profitability is further enhanced through its image of good corporate citizenship.

It is important to note, however, that increasing a firm’s net worth does not necessarily mean increasing its short-term profitability. Corporations must often incur costs when they choose to operate in a socially responsible manner. At first glance, in a market where other corporate actors choose to ignore broader responsibilities, socially responsible firms may seem at a competitive disadvantage. But socially responsible firms can survive, indeed thrive, in a competitive environment even if they incur higher costs. Socially responsible firms can enhance their long-run prosperity by increasing employee commitment,
building customer loyalty, generating cooperation among suppliers and subcontractors, differentiating themselves from the competition, and by lowering recruitment and labour costs (as employees acquire social value).25

Of course, those firms with market power or highly differentiated products will have greater flexibility to adopt supererogatory standards of behaviour and to act in a socially responsible manner. Firms operating in highly competitive markets and/or producing undifferentiated products may have much less latitude to go beyond what is required by law and custom. To do so may mean to go out of business. This important distinction brings us back to the key role of governments in establishing the rules of the game, in particular the social and environmental standards to which firms must adhere, thereby also determining the fixed or overhead costs that all firms must incur.

A mature corporation is one that evaluates both its intended and unintended economic, social, and environmental impacts. A responsible corporation seeks balance in its operations because it recognizes its moral obligation to do so. It also recognizes that such behaviour makes good business sense. Encouragingly, enlightened chief executive officers (CEOs) from around the world are beginning to understand the limits of short-term economic self-interest. As Noranda’s Courtney Pratt explains: “Business is a critical element of society. It inevitably has a great impact on how society develops. It has a responsibility to play that role with high ethical and moral standards, with consciousness and with purpose.”26

Toward Corporate Social and Environmental Responsibility

A recent study of a number of US firms that have consistently demonstrated social responsibility suggested some commonalities:27

• **Strong, progressive senior management.** This is a core attribute of a socially responsible company. These corporate leaders consistently demonstrate “moral imagination”—the ability to perceive the moral relationships behind competing economic relations.28
• **Catalysts for social change.** Companies assume this role by filling unmet social needs.
• **Responsible corporate practices.** These actions lead to competitive advantage in the marketplace.

Social and environmental responsibility can mean a variety of different things. For some, the definition stresses the social dimension of corporate responsibility, asking companies to become better “citizens” and to actively contribute to the development of equitable global communities. Environmental considerations are viewed through the lens of society, of the need to protect the natural environment for future generations. For others, corporate responsibility stretches beyond human self-interest and incorporates the millions of non-human stakeholders who share the earth. From such a perspective, ecological sustainability becomes the key criteria in business decisionmaking.

Vision is one thing. Action is another. A key challenge facing companies is how they can incorporate “corporate social responsibility” into daily operations and international management practices. We see at least four ways in which Canadian companies can become more socially and environmentally responsible.

### 1 Reintegrate Ethics into Business Culture

Ethics have always existed within the hallways of business. But in the mainstream business culture, ethics have often been viewed as separate from proper business practice. Many theorists (such as Chester Barnard and Milton Friedman) believed in a clear division between business and society, between the actions of a person acting on behalf of the corporation and the actions of that same person acting in private. In his or her private life, a business executive may indeed have social responsibilities, but these don’t usually intrude upon business life. As Milton Friedman suggested, “If there are social responsibilities, they are the social responsibilities of individuals, not of business.”29

As early as the 1930s, the prevailing culture demanded that corporate employees separate their personal ethics from their work.30 That is, “every participant in an organization may be regarded as having a dual personality—an organizational personality and an individual personality.”31 Business actions were “de-individualized” in the name of the corporation.32 When people became “company men and women” their personal ethic (and personality) was minimized. In many cases, this attitude is still pervasive in business and business education. Hence, the old adage: “It’s a business decision, not a personal decision.”
This corporate doctrine rationalized a sort of schizophrenia, a corporate culture that has separated employees and executives from their personal ethics and rewarded the development of dual personalities. In this milieu, corporations have tended to be governed by an “emergent morality,” which can resemble a labyrinth of “moral mazes.” By viewing the corporate actor as separate from the individuals who work for the corporation, a schism is perpetuated between business and personal ethics. Business actions are decoupled from the prevailing social system.

In such an environment, the unintended social and environmental side-effects of business activity which are cumulative and dispersed (as with global warming) or geographically distant (as in the developing world), become even harder to track—and easier to ignore.

John Darley of Princeton University argues that even the most ordinary corporations have the potential for “evil” or wrongdoing. Sunk costs and a commitment to an existing course of action, coupled with fragmented information and the diffusion of managerial responsibility, contribute to a business environment which can negatively affect society and the environment. Such effects can be both intended and unintended. Combined with the fact that adverse effects often seem abstract or intangible, while financial gains appear concrete, many seemingly benign business situations have the potential to become harmful.

Reintroducing personal ethics into business may be a partial solution. But because ethics are culturally determined, this may not be easy in a pluralistic society. On an international level, the situation becomes even more complex. Different cultural norms govern behaviour in different ways. What seems right here, may not be right there. This creates a dilemma for transnationals attempting to operate ethically.

**Box 5 Corporate Executives Need Ethics Training**

As KPMG Business Ethics and Integrity Services suggests, corporate executives need to be trained in ethical decisionmaking. Managers need to develop and utilize “moral imagination” alongside traditional business skills. Business ethicists recommend six key steps for corporations attempting to make moral business judgements:

1. **Use moral imagination.** Corporate executives need to develop the ability to effectively perceive the moral relationships behind competing economic relations. Role playing can be an effective means for developing more acute ethical perception.

2. **Identify and order the moral factors of a situation.** For executives to incorporate moral choices into business decisionmaking, they need to learn how to identify and then prioritize the moral impacts of a given decision. In many cases, decisions are not clear-cut and moral choices remain in a grey area.

3. **Evaluate the moral choices.** While difficult, moral choices often need to be made, whether operating at home or at the office. Increased transparency in moral evaluation can help executives effectively identify the trade-offs inherent in any situation. Clear corporate principles and processes help executives fully evaluate the moral outcomes of a decision.

4. **Build tolerance of moral disagreements and ambiguity.** In any moral choice, disagreements are bound to occur. There is usually no clear-cut “right” answer. In particular, decisions which cross international borders are bound to result in cultural criticisms. Executives should be trained to be tolerant of such disagreements and to expect ambiguities: corporate critics should not be seen as “enemies” who are “wrong.” Instead, tolerance and a desire for rapprochement should be instilled throughout the corporate culture.

5. **Integrate managerial competence and moral competence.** Moral issues in management are not an isolated phenomenon. Such issues permeate corporate life. Managers need to become as competent with moral management as they are with economic administration.

6. **Instill a sense of moral obligation throughout the organization.** Integrity and moral obligation are essential to management practice. These qualities can be consistent with the free enterprise system; corporate culture needs to recognize and embrace the coexistence of morals with profit.

**Notes**

1. See KPMG website at http://usserve.us.kpmg.com/ethics

3. The enterprise

3.1 Shareholders

3.1.P.1. The company’s corporate governance policies balance the interests of managers, employees, shareholders and other company stakeholders.

3.1.C.1. Ensuring shareholders’ participation and rights to information while protecting the interests of other stakeholders.

3.1.C.2. The company respects the right of shareholders to submit proposals for vote and to ask questions at the annual meeting.

3.2 Employees

3.2.B.1. The company has a comprehensive corporate code such as General Motors’ 28-point Guidelines for Corporate Governance. The code that the company observes must be at least as rigorous as the Cadbury Code of Best Practice (UK).

3.2.B.2. Shareholders are informed about significant and material violations of corporate policies (including codes of conduct), adverse decisions by tribunals or courts, and results of internal audits or analyses of corporate activity.

3.2.C.1. No discrimination in its policies of employment and remuneration, whether by race, age, sexual orientation, disability or religion.

3.2.C.2. Training, development, promotion, and advancement opportunities within the company are available to all employees.

3.2.C.3. All those who work within and on the company’s premises, whether permanent, temporary or contractual, shall receive equal protection especially in provision of equipment and information concerning their health and safety at work.

3.2.C.4. Employees are free to establish and join workers’ organizations without discrimination or interference and to engage freely in collective negotiations to regulate the terms and conditions of their employment.

3.2.C.5. Paying a sustainable wage to all employees.

3.2.C.6. The company provides equal pay for work of equal value, with goals and timelines to implement this policy.

3.2.C.7. The company provides social support to enhance women’s economic empowerment. This includes centres for child care, elder care and the care of persons with disabilities.

3.2.B.1. International Labour Organization (ILO) standards.

3.2.B.2. The Convention on the Rights of the Child as it relates to labour practices.

3.2.B.3. The ECCR Wood/Sheppard Principles on equal opportunity of employment for people from ethnic minorities or an equally rigorous code.

3.2.B.4. An appropriate and rigorous code with regard to equal opportunity of employment for women based around “Opportunity 2000” and the UN Declaration on Gender Equity.

3.2.B.5. A code for the employment of disabled persons at least as rigorous as the Code for the Employment of Disabled People produced in the United Kingdom.

3.2.B.6. The company respects the rights of its employees to organize in trade unions or other appropriate worker representative bodies to monitor working conditions and does not engage replacement workers during a dispute.

3.2.B.7. International Labour Organization (ILO) Conventions are compiled with: No. 29 (forced labour); No. 87 (freedom of association); No. 98 (right to engage in collective bargaining); No. 100 (equal remuneration); No. 105 (abolition of forced labour); No. 111 (prohibition of discrimination); No. 122 (employment policy); and No. 138 (minimum age).

3.2.B.8. The company shall have a process to establish a sustainable wage, such as a market basket survey or some other appropriate method.

3.2.B.9. Developing concrete goals to provide women with true and equal participation in decision-making.

3.2.B.10. Providing adequate technical training which contributes to advancement of all employees, particularly women.

3.2.B.11. The company encourages or participates in the creation of child-care centres and centres for the elderly or disabled where appropriate.

3.3 Customers, suppliers and contractors

3.3.P.1. The company ensures that its products and services meet customer requirements and product specification.

3.3.P.2. The company is committed to marketing practices which protect consumers and which ensure the safety of all products.

3.3.P.3. The company will not market its products to consumers for whom they are not appropriate.

3.3.P.4. There is a commitment to fair trading practices.

3.3.P.5. The company accepts its responsibility to use its purchasing power to encourage good corporate citizenship among its suppliers.

3.3.C.1. All advertisement and labeling of products is complete, fair and honest. Only claims which can be substantiated and fulfilled are made by the company, its employees and its agent.

3.3.C.2. Care is taken by the company not to disparage or supplant alternative natural products.

3.3.C.3. No engagement by the company in cartels, spheres of influence, or patent protection to the exclusion of others’ rights.

3.3.C.4. The company is scrupulous in its negotiations and contractual arrangements with other companies. This includes fair dealing, prompt payment and the avoidance of corrupt practices, bribes and questionable payment.

3.3.C.5. The company seeks out suppliers who meet the same standards on environmental and social grounds as the company sets for its own products.

3.3.C.6. The company will not enter into contracts with suppliers who use any form of forced or compulsory labour.

3.3.B.1. The company receives positive evaluations from independent consumer organizations.

3.3.B.2. Appropriate consumer codes are followed (cf. Infant Formula marketing codes).

3.3.B.3. Where either advertising standards legislation or codes exist, they are complied with and this compliance is regularly disclosed (see British Codes of Advertising and Sales Promotion).

REFERENCES

Proposed by the Ecumenical Committee for Corporate Responsibility (ECCR), the Interfaith Center on Corporate Responsibility (ICCR), and the Taskforce on the Churches and Corporate Responsibility (TCCR).

This document, prepared by three ecumenical associations, begins by recalling that the churches, through their own investments, are often shareholders, and thus partially owners of companies. This obligation as owners requires that greater care be given, not only to the financial situation, but to the impact of the activities of companies on general well-being. The document successively examines the wider community in the broad sense, the national communities, and the enterprise. In each of these parts, it establishes principles on action, criteria to be adopted, and references to be used in assessing the performance of enterprises in the light of the previously defined criteria. This box refers to the section dealing with the action of enterprises vis-à-vis shareholders, employees and clients, suppliers, and subcontractors.
Despite the complexity, Wharton University professor Tom Donaldson says that this is not an excuse for either cultural relativism or cultural imperialism. He believes that all businesses, whether at home or abroad, can follow three ethical principles:

- Respect core human values (respect for human dignity and basic rights, and good citizenship);
- Respect local traditions; and
- Consider the context of the situation.

While these principles are exemplary, a more critical question is how can they be implemented? For instance, Donaldson’s final principle of considering the local context could be used as a loophole to justify a business decision that may seem inappropriate from an external perspective. European management theorists Ian Jones and Michael Pollitt argue that there are at least three levels of integrity in business life: the personal, the corporate, and the macro-economic (or systemic). They acknowledge the obvious: that personal and societal ethics fundamentally interact with corporate ethics. A reintegration of the personal and communal into corporations is the first step to changing business culture. But it is only one step.

2 Adopt a System-centred Approach to Stakeholder Management

The term “stakeholder” has rapidly entered business vocabulary. Many firms talk of “their” stakeholders and how corporate activities address their needs. R.E. Freeman first identified a stakeholder in 1984 as “any group or individual who can affect or is affected by the achievement of the organization’s objectives.” But a company’s use of stakeholder analysis does not, in itself, constitute social or environmental responsibility. The firm’s motivation must be taken into account.

For example, stakeholder management can be firm-centred or system-centred. In the first instance, stakeholders are narrowly defined to reflect those groups that have “direct relevance to the firm’s core economic interests.” A firm-centred approach is often no more than a refinement of the old corporate strategy of self-interest and is more concerned with the bottom line and public relations than with genuinely satisfying external stakeholder claims. Corporations that talk of their stakeholders in this way may be missing key groups which do not have direct economic influence over the corporation. This approach to stakeholder management does not represent social and environmental responsibility.

In the second instance, stakeholders are identified in the broadest terms possible “in order to participate in a fair balancing of various claims and interests within the firm’s social system.” The system in question is a broad amalgam of the communities, as well as the numerous ecosystems in which the company operates or has an impact. Unlike the firm-centred approach, the company moves beyond its own interests, and recognizes that it shares social systems and the natural environment, which become more equitably represented. The Taskforce on the Churches and Corporate Responsibility (TCCR) adopted this approach in its Principles for Global Corporate Responsibility (see Box 6), which attempt to remove the corporation from the centre of the stakeholder model. (To our knowledge, no Canadian company has yet adopted these principles.)

If a company interacts with its stakeholders without clearly integrating business ethics, it is likely to follow a public relations approach whereby it may say the right things but not actually do them. If a company focuses solely on business ethics, it may miss other important stakeholder considerations because it is focused primarily on its own stake. By combining ethical management with stakeholder assessment, a company can more easily approach a sustainable system-centred approach to business.

3 Adopt International Codes of Conduct

Historically, Canadian corporate codes focused on issues of corruption and conflict of interest. Self-protection motivated the adoption of international codes. The focus on legal and economic issues is unquestionably still important, particularly as Canadian businesses increasingly operate abroad. Recently, for example, Bombardier Inc. lost a $450-million contract in Mexico, allegedly due to corruption, nepotism, and political interference. As this case illustrates, ensuring a level playing field continues to be a pressing issue for Canadian business.

Cor Herkstroeter, Chairman of the Committee of Managing Directors, Royal Dutch/Shell Group, addresses the Netherlands Association for International Affairs, Amsterdam, October 11, 1996.
(with head offices in OECD countries) with a legitimate reason for just saying “no.” It will also strengthen anti-corruption movements in developing countries. Despite potential limitations (such as the difficulty of effective monitoring and follow-up, and the failure to include all types of purchase of influence), the Convention holds promise.44

But corporations need to look beyond their own self-interest. Despite failed attempts to establish binding codes of conduct for transnationals,45 the existence of the Convention provides an important precedent for other international codes. With the proper motivation, legally binding international codes of conduct that address social and environmental inequities are now possible.

In late 1997, a group of 13 Canadian companies46 led by John McWilliams, Senior vice-president of Canadian Occidental Petroleum Ltd., developed an “International Code of Ethics for Canadian Business” (see Box 2). Praised by politicians and business groups (such as the Alliance of Manufacturers and Exporters Canada), this code has also been criticized for its voluntary nature and its lack of accountability mechanisms. The code contains four general principles concerning the community and environmental protection; human rights; business conduct; and employee rights, health, and safety. A compelling vision, the code does not provide direction for its application: its vagueness on how to monitor and enforce its guidelines is its chief limitation. It is nevertheless the first step in a difficult journey.

A 1996 survey47 of Canadian multinationals showed that only 21 of 98 companies surveyed had international codes of conduct, although 22 companies reported that they applied more rigorous environmental and labour standards than required by the local regulations. Overall, however, the survey suggested that, for Canadian business, social responsibility and human rights promotion were not a priority. In fact, only 14 percent of large Canadian transnationals had international codes that dealt specifically with human rights issues, 14 percent had guidelines for operating under repressive regimes, few had adopted all of the OECD core labour rights, 14 percent included effective mechanisms for accountability, and few provided employees with ethics training.

The existence of such codes is not a sufficient indicator of corporate social responsibility. A UK study48 found no statistical evidence to suggest that corporate codes led to better performance. Instead, it appeared that the “soft” stuff—the process of education and decisionmaking that accompanied the adoption and application of corporate codes—was equally important. Thus, while corporate codes can provide managers with direction and ethical guidance, they can also help define an organization’s “core values.”49

4 Broaden Corporate Accountability

In the final analysis, corporate actions speak louder than vision statements. Unquestionably, Canadian companies need to broaden their spheres of responsibility. But they also need to be socially and environmentally accountable for these actions and for their unintended consequences.

A number of mechanisms exist to increase Canadian corporate accountability. First, companies need to adopt international codes of conduct that specify an effective means of verifying performance. As Tachi Kiuchi, Member of the Board of Mitsubishi Electric Corporation explains, “Humans have the best individual feedback systems anywhere in nature—our eyes, our ears, our minds. But our collective feedback systems—at the community and company level—are nowhere near as developed.”50

Independent monitoring of corporate codes is a useful way to gain objectivity and integrate external perspectives. The US Council on Economic Priorities (CEP) recommends a three-stage corporate monitoring system.51 First, the company itself monitors its activities, searching for both positive and negative impacts. Results are then evaluated by a second party, such as an independent auditing firm. At the third stage, an independent group monitors and evaluates the process. Such third-party monitoring can ensure that noncommercial interests and critical perspectives are adequately presented. Such monitoring can, and should, take place on a local and global basis.

Environmental and sustainable development reporting is a related mechanism of corporate accountability. By systematically reporting the social and environmental costs of doing business, a company provides a more balanced picture of its operations and long-term viability. Sustainable development reporting adopts a holistic approach which looks at the economy, the environment, and society as an integrated
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While only a handful of Canadian companies provide this type of noneconomic reporting (see Box 7). This is a key area of opportunity for companies aiming to become more socially and environmentally responsible.

While essential, such reporting tends to occur after the fact. Independent monitoring and sustainable development reporting provide important information on the impacts of corporate behaviour. But it is equally important for corporations to integrate accountability into daily decision-making: corporate accountability should not only be an annual event. For example, in his report Putting Conscience into Commerce: Strategies for Making Human Rights Business as Usual, Craig Forcese recommends that Canadian corporations undertake detailed human rights impact assessments prior to making decisions about international investment. Similar to an economic assessment, a human rights assessment recognizes that corporate activity affects human rights internationally in a variety of ways. In addition, we recommend that companies undertake a broader assessment that includes social and environmental considerations.

Canadian companies such as engineering firm Acres International Ltd are already making important strides in this area. Acres has developed a methodology to assess social and environmental impacts of different courses of corporate action. It then includes these costs with economic and technical considerations to determine the best—not simply the most economic—course of action (see Chapter 5).

Finally, increased transparency in all business activities and decisions will ultimately help ensure that corporations are more fully accountable for their actions. By recognizing the information rights of external stakeholders, a company can build consensus among a variety of different constituents. Such broad-based consensus can help secure long-term social and environmental sustainability within the market system.

Box 7 Sustainable Development and Environmental Reporting in Canadian Companies (1997)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Industry Sector</th>
<th>Type of Reporting</th>
<th>Developing Country Operations with SD/Environmental Reporting</th>
<th>Developing Country Operations without SD/Environmental Reporting</th>
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<td>Environmental Review</td>
<td>none</td>
<td>China, Pakistan, Nepal, Colombia, Brazil</td>
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Notes: na—not available


The survey of corporations and their environmental or sustainable development reporting activities was conducted by Dr Blair Feltmate, President of Sustainable Systems Associates Ltd. While no single, universally accepted definition of sustainable development was applied across all industrial sectors, or even to each company within sectors, Feltmate defined sustainable development in such a way as to encompass the notions of environment, economy, and society as an integrated whole, and took into account the notion of the well-being of present and future generations.

Costs and Benefits

The market system brings both benefits and costs to society. On the positive side, there is no question that the spread of markets, through a deepening of the division of labour, technological progress, and an enhancement of productivity, has led to higher living standards for much of the world’s population. But many people have not benefited or have been marginalized by the advent of markets. And market actors have been blind to these social costs, as well as to environmental costs.

Like it or not, however, there is every reason to expect that markets will continue to spread. Among other things, the market system promises to play an important role in alleviating the grinding poverty in which a substantial portion of humanity still lives, and reducing material scarcity and deprivation for countless others. As the market system developed around the world, societies—to greater or lesser degrees—adopted measures (laws, regulations, and codes at
the national and subnational levels) to protect the economic welfare of individuals and communities and the integrity of the natural environment against the intended or unintended actions of firms and investors. Such measures have not always been adequate to the task, but there is widespread consensus that any market system must have a duly established and enforced legal framework establishing “the rules of the game,” within which the precepts of social equity and environmental responsibility must be observed.53

The globalization of markets has posed a dual challenge to social equity and environmental responsibility. First, as countries compete with each other for footloose investment and trading opportunities, globalization has sometimes undermined the framework of rules established at national and subnational levels. Second, international charters and conventions, such as the UN Declaration of Human Rights, and agencies such as the International Labour Organization (ILO) have not yet produced a set of “international rules of the game” that are monitored and enforced evenly throughout the world.54 This has presented investors and traders with a poorly defined, and in some cases almost nonexistent, legal or institutional framework in which to resolve issues pertaining to the rights of workers and communities in which they operate, or to ascertain their responsibili-

Undoubtedly, the best solution would be to create the necessary global framework so that international conventions on human rights are in fact universally observed, and organizations such as the ILO have the requisite monitoring and enforcement capabilities. What is needed is an effective system of “global governance” to oversee the functioning of global markets and ensure social and environmental responsibility.

There is an important role for governments acting multilaterally or alone. It is hoped that international discussions will, over the next decade, move in this direction. Indeed, the recently adopted OECD Convention on bribery is a promising indication that governments are getting serious about establishing a set of rules appropriate to the global marketplace. But while prohibiting bribery will increase profitability by reducing transactions costs, the opposite may be true for other agreements, for example on child labour.55 It also remains to be seen how this and other conventions will be monitored and enforced, because that is the litmus test of any framework of rules.

In the meantime, corporations active in global markets are themselves under increasing pressure from various stakeholders—their own workers, the union movement, consumers, nongovernmental organizations, environmen-

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**Box 8 Managers’ Ethical Concerns**

In November 1996, the Toronto-based consulting company KPMG Canada carried out a Business Ethics Survey among 1,000 private and public Canadian companies ranging in size from less than $50 million in annual revenue to more than $5 billion. Chief executive officers provided more than half of the 251 responses, suggesting that ethics is a top priority for many companies. Two-thirds of respondents reported having a code of ethics—mainly large companies—and 40 percent had a senior manager responsible for the company’s ethics program. Only 21 percent claimed any kind of training in connection with their ethics program, however.

Managers considered the following to be the 10 most and least important ethical issues.

**The Top 10**

1. Integrity of books and records
2. Worker health and safety
3. Security of internal communications
4. Quality and safety of products and services
5. Receiving inappropriate gifts, favours, entertainment, and bribes
6. Security and use of proprietary knowledge and intellectual property
7. Discrimination on the basis of sex, race, or religion
8. Privacy, confidentiality, appropriate use of employee records
9. Sexual harassment
10. Reporting fraud or compliance failures

**The Bottom 10**

1. Membership on boards of other corporations
2. Business practices forbidden at home, permissible abroad
3. Political activities
4. Office-level environmental practices
5. Foreign bribery or “grease” payments
6. Use of company time
7. Use of company name
8. Outside business or employment
9. Employees’ rights with respect to mandatory health testing
10. Protection of whistle-blowers

talists, ethical shareholders, churches, and so on. What unites these groups and individuals is a conviction that corporations must go beyond the narrow objectives of short-term profit maximization to accept social and environmental responsibilities that are not yet required by law in the jurisdictions in which they operate.

There are, in fact, good reasons why such ethical behaviour also makes good business sense, not necessarily in terms of quarterly profits, but of the firm’s net worth, its resilience, and long-term survival capabilities. There are also many straightforward commercial opportunities for firms to provide innovative solutions to the challenges of sustainable development.

Generally, however, a significant shift in the prevailing business culture will be required to convince firms of the commercial wisdom, as well as the moral necessity, of adopting more ethical and responsible policies.

Some corporations have demonstrated their belief that “good ethics make for good business” by adopting codes of conduct, individually or collectively. Most informed observers agree56 that such codes amount to statements of intent more than policy that is systematically operationalized, since they generally lack monitoring and enforcement provisions. Nonetheless, they are a step in the right direction. The next steps require systematic provisions for implementation, monitoring, and enforcement. This, in turn, might require new procedures, even institutions similar to financial auditing firms, capable of undertaking arms-length social and environmental audits.

The challenge of corporate social responsibility in global markets is here to stay. It is certain that debate will intensify on what it means, and how to translate it into action. It is also clear that progress will require the engagement of the business community, governments, and civil society.

NOTES

1 WTO, Focus (Geneva: WTO, May 1996), No. 10.
6 Ibid., pp. xv-xvi; xx.
7 Ibid., p. xviii.
8 Dunning and Khailil, p. 29.
9 See Gregory Baum, Karl Polanyi on Ethics and Economics (Montreal and Kingston: McGill-Queen’s University Press, 1996); See also Robert Heilbroner, Twenty-First Century Capitalism (Concord, Ont.: Anansi, 1992), ch. 4, for a similar critique of the “market system.”
12 Smith’s doctrine of the “Invisible Hand” is captured by his assertion that “It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard of their own advantage.” The doctrine holds that through the pursuit of self-interest, the economy is guided as though by an invisible hand, to maximize wealth and prosperity. However, unlike some of his latter-day followers, Smith also recognized corporate power, business collusion, and the role of the state as important.
19 Herman E. Daly, Beyond Growth; The Economics of Sustainable Development (Boston: Beacon Press, 1997).


34 John M. Darley, "How organizations socialize individuals into evildoing," in Messick and Tenbrunsel, eds, *Codes of Conduct*.


40 Earlier efforts to create international codes for transnational activities met with significant resistance among both the private and public sectors. As David Schilling and Ruth Rosenbaum of the Interfaith Center on Corporate Responsibility suggest, "early UN attempts to create a global code of conduct failed because individual governments were not able to reach legislative assent to a 'Code of Accountability for Transnational Corporations' and many companies opposed it." See David M. Schilling and Ruth Rosenbaum, "Principles for global corporate responsibility," *Business & Society Review*, no. 97, 1996, p. 55.

41 They were: Alcan Aluminum Ltd; Beak International Inc.; Cambior Inc.; Chauvco Resources Ltd; John Neville Inc.; Komex International Ltd; Liquid Gold Resources Inc.; Profco Resources Ltd; Pulsonic Corp.; Reid Crowther International Ltd; Sanduga & Associates; Shell Canada Ltd; and Wardrop Engineering Inc.

47 See Forcense, *Commerce with Conscience?*


49 See Donaldson.


51 For a recent review of the question of the interaction between states and markets, see the North-South Institute, *States, Emerging Markets and Development*, Briefing Report, Ottawa, December 1997.

54 It should be noted, for example, that the United States has never ratified the ILO’s labour standards.

55 In any event, if it is properly done, combating child labour will require more than business codes. It would require parallel actions to ensure that the child workers’ families do not suffer a loss in income, and that educational opportunities are available in ways that do not penalize children or their families.

56 For example, see Forcense, *Commerce with Conscience*. 