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Globalisation and the Community*

Members of the Business Ethics Group of the Community of European Management Schools (CEMS) explore alternative strategies for companies engaged in globalization. They argue that if business follows the unhindered, 'market fundamentalist' type of globalisation then it could lose its legitimacy. It is better for globalised business to enter into an open dialogue with the global civil society and try to develop a cooperative strategy.

1 Business should abandon 'laissez faire' capitalism

It is not to deny the flaws of capitalism. The current crisis of capitalism stems from malpractice too. Since the turn of this millennium, 'laissez-faire' capitalism has been through two major upheavals, largely of its own making. These are the damage to capitalism wrought by the dot.com era and the exposure of dishonesty in high profile cases like Enron and Worldcom. In both instances, we see systemic corruption, involving many actors – executives, non-executive directors, investment banks, analysts, accounting firms – in a weak regulation and enforcement. No one likes to spoil a party.

If business uncompromisingly supports 'laissez faire' capitalism on a global scale then it might destroy itself. *George Soros* rightly noted some years ago that laissez-faire capitalism undermines the basic values on which open and democratic societies depend. The instabilities and inequalities of the global capitalist system could feed into nationalistic, ethnic and religious fundamentalism. (Soros, George 1998)

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The company is a social institution, and the economy is a part of the whole society. Processes of value creation developed by business should be broad and shared. We are talking about the nature and purposes of firms and economic agents. The short-term approach of creating shareholder value destroys the basis for the long-term success and survival of the company. The main value-drivers for a firm are the intangible assets. Reputation, consensus and legitimacy are crucial resources for the capability of an organization to continue its activities and operations. The increasing criticism of civil society against the current form of capitalism derives from a lack of consensus between business and society. "If we want to sustain capitalism we have to create a less violent, more caring form of it" (Zsolnai, Laszlo (ed.) 2002. p. 7).

Capitalism needs business leaders of integrity, who see the firm as a socio-economic entity, with obligations to society of which it is a part. Without over-idealizing, it is interesting to see that social democracies, which have embraced less laissez-faire capitalism, such as Norway, Sweden, and Canada have the consistently highest levels of human development relative to GNP per capita on the UN Human Development Index. Incidentally, these countries also have low perceived corruption levels in their countries and bribe-paying practices by their companies to access business abroad. Perhaps, this is attributable to capitalism conceived of as serving the ends of society, rather than the other way around, as happens when capitalism becomes perverted.

Business should further develop its own standards, which lead toward a sustainable world. International business organizations must embrace those global auditing and reporting schemes, which can insure the accountability and transparency of corporate operations. Business organizations should also be involved in the development of new social and environmental standards of a more substantial nature. We are convinced that the idea of corporate responsibility under the condition of globalisation requires that substantial standards about labour conditions, human rights at the workplace (even promoting labour unions) and ecological condition of business activities be accepted on a global scale.

Business has also a responsibility in contributing to the further development of global governance institutions. Partnership programs, like the Global Compact proposed by U.N. General Secretary Kofi Annan, could provide adequate frameworks for constructive cooperation. Global governance requires new institutions. For instance, the existing institutions are state-centred; they do not have a focus on corporate activities. Although it may seem counterintuitive that business would embrace the idea of a new global institution, which would monitor corporate activities, the interest of an enlightened business is the levelling of the playing field. The aim is to strengthen those institutions, which constitute the ethical fabric of the global economy. The interest of responsible business is to contribute to this development, rather than opposing to it.

No single actor can tackle the challenges that we confront in our world. It is an interdependent world, which operates in networks, and responsibilities are increasingly shared. It is not just seeing what companies, considered in isolation, do well and what they do badly. It is a question of seeing their contribution to the networks of relations where they act. Globalisation can only be tackled from a perspective of co-responsibility. In this respect, we should stop speaking in terms of "company and society". We should

speak about “company in society”. The market is always situated in social contexts; society should not be subordinated to the market. In a globalised world, companies become actors jointly responsible for the world that we are building. There are no alternatives to globalisation without companies or against companies. But, not all models of company are acceptable and viable in a globalised world.

2 **Business could appeal to politically and socially conscious consumers**

Although socially conscious consumers are sometimes just politically correct and turn to fashionable trends only because it is convenient, they might be allies of business to develop alternative globalisation strategies. Alternative strategies mean to find creative ways to serve the special needs of people by unique, not easily substitutable goods and services while meeting the environmental and social standards of society. Businesses can form partnership with international non-governmental organizations (INGOs) to foster innovative responses to environmental, social and cultural conflicts. (Greenpeace, Friends of the Earth, and WWF have already established such partnership with big businesses.)

There are interesting market opportunities for companies which are able to offer new product systems to fulfil the sustainability-oriented needs of critical consumers/citizens. Organic foods, fair trade goods, the growing number of companies certified according to Social Accountability 8000 standard (SA8000), the widespread diffusion of Eco-labelled products and so on. These are evident and strong signals that it is possible to combine socially responsible behaviour with economic and financial success. Firms, which consider their impact on natural, social and human capitals have the opportunity to get a sustainable positioning on the market thanks to their true and genuine commitment to sustainability. Innovation and creative capability to disrupt old business practices are necessary elements to identify new conditions and acceptable paths for future corporate development.

Ethically conscious investors constitute another major market force, which can serve sustainable business. Funds provided by sustainable banking and ethical investors are constantly increasing. Businesses could rely on these funds in their sustainability projects. But businesses should make the first move: it is for them to prove to the ethical consumers and ethical investors that they live up to the high ethical expectations. Trust, the key coordinating mechanism between business and its stakeholder, is to be rebuilt, and the only way to do it is through a clear commitment of business.

3 **Business has responsibility toward powerless stakeholders**

The responsibility principle developed by the great German-American philosopher, *Hans Jonas* states that agents have responsibility for those who are affected by their activities (Jonas, Hans 1984). As business considerably affects the lives and futures of powerless

stakeholders (the poor, vulnerable communities, future generations, the natural environment) it should take their interests seriously.

According to *Donaldson and Preston* if we adopt a normative perspective, “stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. Stakeholders are identified by *their* interests in the corporation, whether the corporation has any corresponding functional interest in *them*” (Donaldson and Preston, 1995, p. 67). In the new connected and global environment, the conventional distinction between primary and secondary stakeholders is inadequate. If a company does not consider the legitimate interests of minorities, disabled people, local communities, the environment and so on, other players with more power (such as the international non-governmental organizations) could take care of their positions and force the company to meet their requirements. With regard to this point, a clear example is delivered by the role of independent media (through Internet) in the boycott campaigns carried out in the last years against big companies (for example, Nestlé, Danone, Shell, Nike, Microsoft). Companies should overcome the shareholder value paradigm and adopt a more inclusive stakeholder value perspective.

Businesses can also contribute *positively toward powerless stakeholders*, because it engages with them, whether these stakeholders are employees, or host country citizens affected by their operations. They are accountable to these stakeholders, who must be treated fairly and their dignity respected. Business can apply its financial leverage to influence host country governments to use its revenues appropriately. In this regard, it can work with NGOs. An example is the Publish What You Pay (PWYP) campaign to require companies to publish all receipts for fuel and mineral exploration and exploitation rights (so called ‘signatur bonus’) and franchises. The problem with these initiatives is that, to be effective, they require industry-wide adherence and enforcement. Otherwise, responsible and honest companies could be penalised.

In the new global context the company whose only vision of success is measured in financial terms may encounter serious problems of legitimacy in the face of society and public opinion. Many classical themes of business rhetoric (creation of wealth, value and of jobs, for example) lose their legitimacy because they are not sufficient any more. The challenge is to go beyond a pragmatic vision of mere reputation management. A complex society makes business legitimacy more complex. Subjects such as the multi-stakeholder approach or the partnership are just a reflection that people (as citizens and as consumers) expect more than just good products and good services from companies. Companies have to respond to society not just by showing good results, but also showing their contribution to a more sustainable and equitable world. Issues that earlier were not considered to be business-related (reducing poverty or promoting human rights, for example) today are on the business agenda. Companies should not become a sort of NGO or take governmental functions. But they should consider all the value dimensions, which are affected by their activities.

4 **Clean your own “mess” first**

Business is responsible for cleaning its own ‘mess’. Corporate philanthropy is a nice thing but it comes after social responsibility. Business should perform its duty toward its stakeholders. Although it is not the primary role of business to fight against poverty,

business can contribute to decreasing poverty in playing its main role of providing and distributing goods and services for society. Companies should develop human and social capital in the way they operate. This increases their chance of creating wealth that opens up opportunities for everyone and benefits the poor.

Alternative globalisation means that business seeks a better integration into the local communities. “Predator” strategies, when companies look for short-term advantages and a rapid exploitation of local resources (human and natural) can evidently not constitute a basis for sustainable business. Companies, while embracing global ethical standards, should adapt to local social, cultural and ecological circumstances. They should respect and protect local diversities, and enhance the well-being of local societies and natural ecosystems. Alternative globalisation is also about finding a creative and responsible balance between globalisation and localisation.

During the World Economic Forum’s Annual Meeting in 2004 former US President *Bill Clinton* called for “systematisation” for peace and humane globalisation. To face up to the great emergencies of the planet (the HIV/AIDS disease, the water scarcity, the gap between the rich and the poor, the global warming and so on) a systemic approach is needed. Adopting a shared responsibility, public authorities, companies and citizens should collaborate to find solutions for a more equitable globalisation. The business community has knowledge and resources to change the world. Thus, responsible companies, at their own level, should voluntarily contribute through their decisions and actions “to a better society and a cleaner environment” (*Commission of the European Communities*, 2001, p. 4).

We believe that the business world has a great opportunity in the globalisation process. The opportunity is not to be defensive and only reactive to criticisms. It is time to develop a true business leadership. The new realities show that there is not a single model of company possible, and it is needed to debate on rival visions of what a successful company is. We should not succumb to the temptation of believing that a globalised world only allows a single-subject discourse on the company. The debate on which subjects should or should not form part of the business agenda (sustainability, social cohesion, reduction of poverty, partnership, links with the community, social innovation, a commitment to values) is not just a debate on agendas. It is a debate on models and visions. And this debate creates a new opportunity for business leadership, in so far as it requires a commitment that has to result in renewing business management. The dialogue and the debate on alternatives to globalisation do not have their dividing line between the business world and the non-business world. The dividing line is increasingly internal to the business world itself. The slogan “another world is possible” is not the privilege of politics or of the third sector. This slogan “another world is possible” could also be a motto for business because another business world is possible.

Alternative globalisation strategies can produce real progress. Companies and their stakeholders can win in a meaningful way. Only those companies can survive and will be legitimate in the future which take the social and environmental challenges of globalisation seriously and are able to develop their strategies creatively and responsibly.

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