



Universität
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THE CORPORATION IN GLOBAL BUSINESS: ASPECTS OF GLOBAL GOVERNANCE

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OVERVIEW

Global governance = „rule-making and rule-implementation on a global scale“

- Impact of globalization on business and governance
- Possible approaches to filling the resulting governance gap
- UN Global Compact
- Critical issues of global governance institutions

HISTORIC PERSPECTIVE (1)

- National states = main political actor
- Little transnational business activity
- Local competition

(„Westphalian system“)

HISTORIC PERSPECTIVE (2)

- Classical liberal system
- National states define rules of the game
- Private entities pursue profit within these rules
- Division of labor:
states = political actors; firms = economic actors

→ Legitimate governance through democratic institutions

GLOBALIZATION (1)

- National states still the main political actors

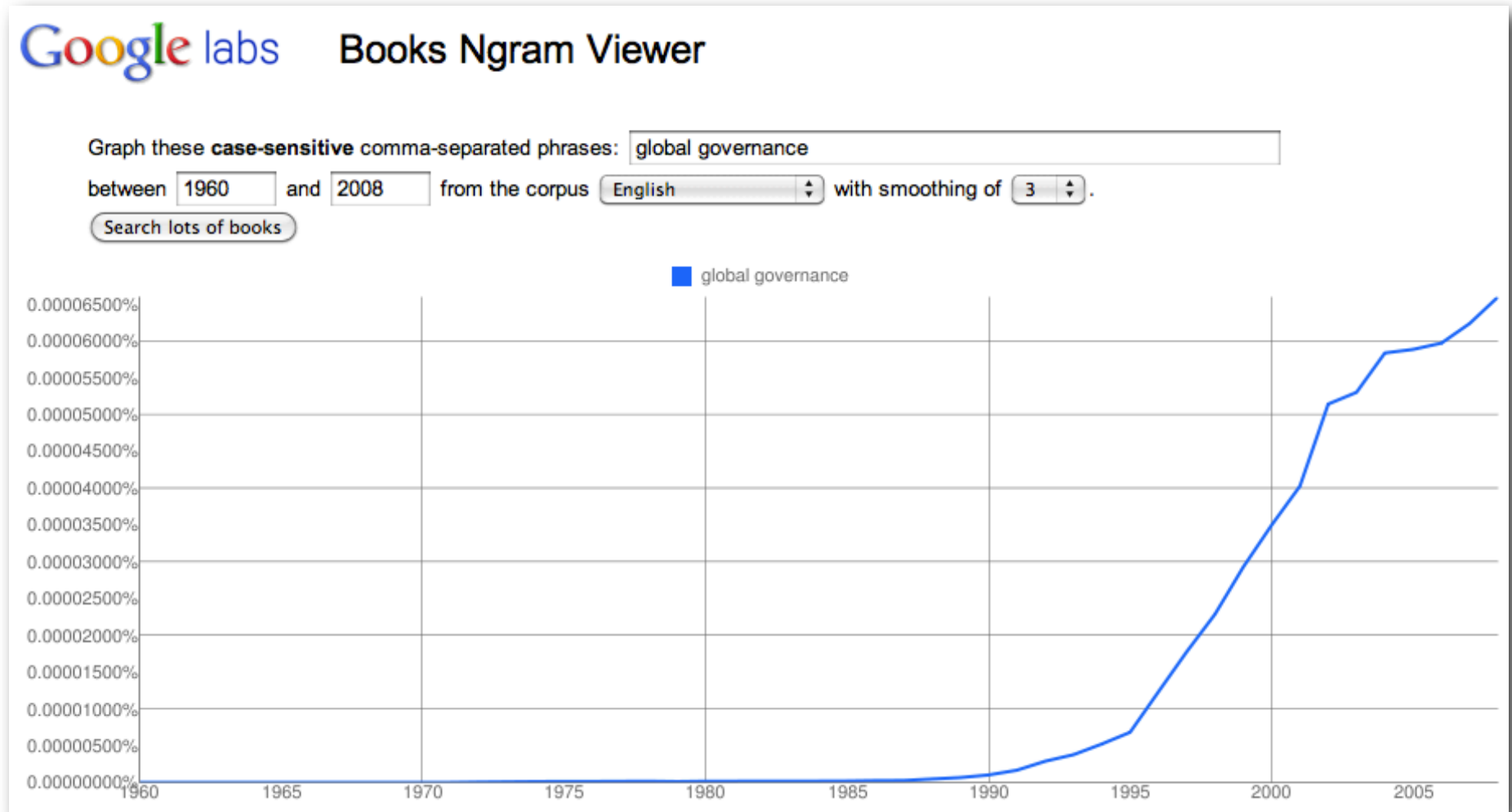
BUT:

- Transnational corporations
 - Global competition
 - Mobility of individuals and corporations
 - Global issues, e.g. climate change
- J. Stiglitz: „Economic globalization has outpaced political globalization“

GLOBALIZATION (2)

- Public/national states cannot set rules anymore
- Regulatory gap → corporations navigate in unregulated waters
- Difficulties for providing public goods and preventing negative externalities
 - Lack of governance at a global level

„GLOBAL GOVERNANCE“ GAINED TRACTION IN THE LAST 20 YEARS



EXAMPLE 1: FINANCE

- Competition & mobility between international financial centers (London, NY, Hong Kong, Zurich etc.)
- Financial industry has great power over policy setters
- Relatively loose regulation
 - Risk of future financial meltdowns?

EXAMPLE 2: HUMAN RIGHTS

1. Difficulties to hold transnational corporations accountable for human rights violations

(Economic structure of corporations \neq legal structure)

2. Regulatory competition

Competition for business-friendly environment → „Race to the bottom“ amongst poor countries

GLOBALIZED BUSINESS REQUIRES NEW APPROACH TO GOVERNANCE

Transition of a society of states into an (economic) world society vs. governance rooted in nation states

1. Is there a need for global governance?

→ YES

2. How to organize global governance?

POSSIBLE APPROACHES

- Reverting globalization (trade barriers etc.)
- No regulation (→ CSR)
- Supranational institutions
- International law; treaties
- Hybrid regimes

SUPRANATIONAL INSTITUTIONS

- Transnational hard law → supranational institution with power to enforce compliance
- „World government“
- National states will not cede sovereignty to an international institution
- → Unrealistic

INTERNATIONAL LAW / TREATIES

- Conventions between countries regarding specific issues
- National states enforce compliance
- No supranational institution needed
- Example: G20, Kyoto Protocol

HYBRID REGIMES

- Institutions or conventions formed by multinational corporations, NGOs and the states
- Basic idea: Governance at the global level through the institutions with global operations
- Compromise & consent instead of top-down regulation
- Dissolves the division of labor between public actors (national states) and private actors (corporations)
- Private actors evolve from objects of governance to source of governance

REASON FOR JOINING CORPORATE RESPONSIBILITY PACTS

- Fear of regulation
→ defensive action to prevent public measures
- Economic incentives (PR, marketing)
→ cost-benefit analysis: doing good = doing well
- Intrinsic motivation
→ moral reasons

NGOs HELP FORMULATE, MONITOR AND ENFORCE POLICIES

- Bring up relevant issues and help to find solutions
- Function as watchdogs
 - threat of public shaming replace explicit compliance mechanisms
 - impose social cost for unethical behavior
- Represent weak stakeholders (the poor, minorities, environment, animals etc.)

UN GLOBAL COMPACT



United Nations Global Compact

- Founded 1999 by Kofi Annan

„Any company joining the initiative is expected to make the UN Global Compact and its principles an integral part of business strategy, day-to-day operations, and organizational culture.“

UN GLOBAL COMPACT

- Platform for development and implementation of responsible and sustainable corporate policies and practices
- To align business operations and strategies with ten principles of human rights, labor, environment and anti-corruption
- No regulatory instrument
→ voluntary initiative based on public accountability to complement regulation

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

HUMAN RIGHTS

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

LABOUR

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

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

ENVIRONMENT

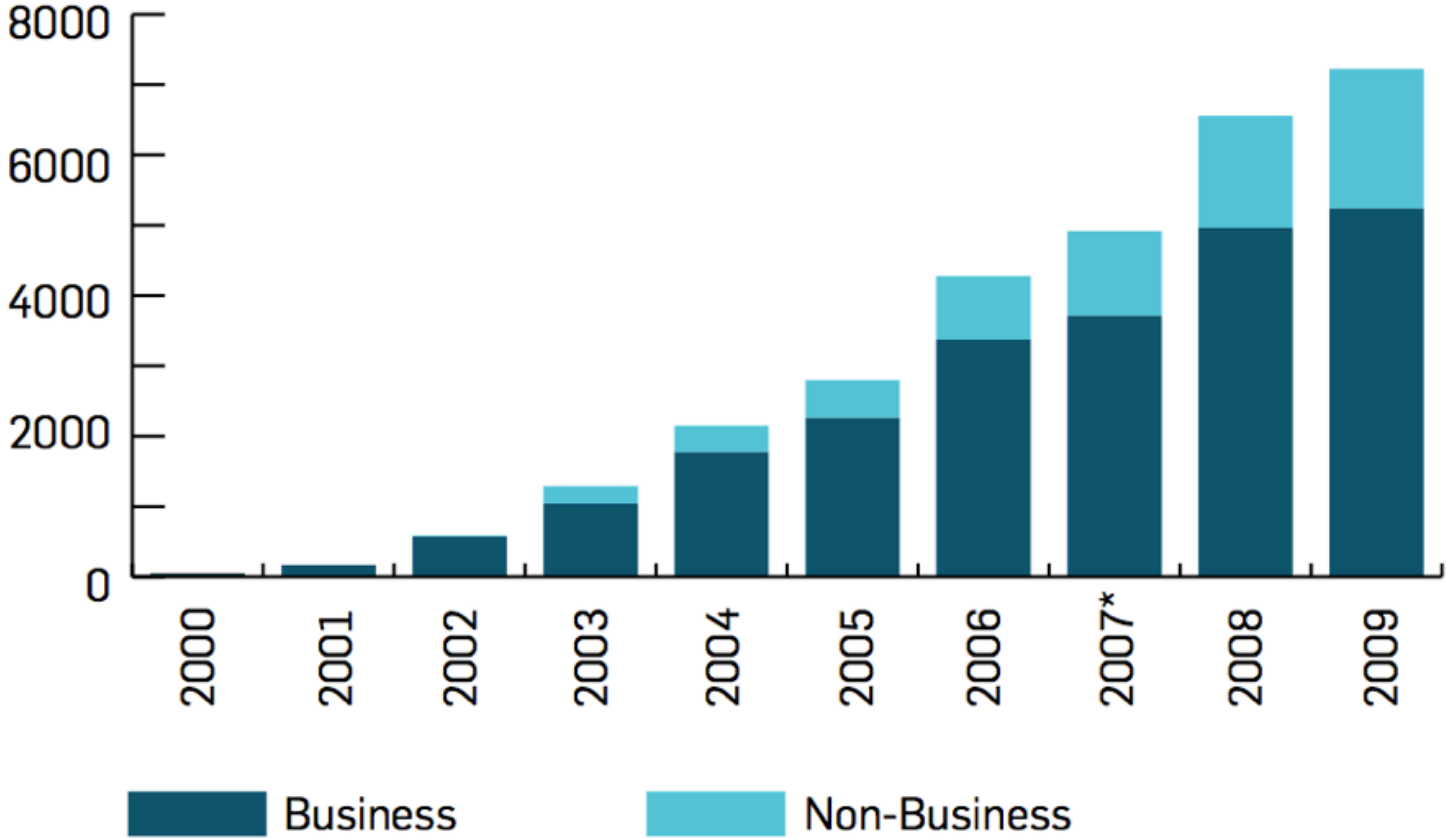
- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 undertake initiatives to promote greater environmental responsibility; and
- Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

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

GROWING NUMBER OF GLOBAL COMPACT MEMBERS

Total Global Compact signatories



Source: http://www.unglobalcompact.org/docs/news_events/8.1/UNGC_Annual_Review_2010.pdf

EXTENSIVE CRITICISM

- Questionable effectiveness: No compliance mechanism
- „Blue-washing“ of multinational corporations
- No democratic legitimation
- Unclear and limited reach of the ten principles
- No influence over non-member corporations

REQUISITES FOR GLOBAL GOVERNANCE INSTITUTIONS

1. Effectiveness

→ Explicit or implicit enforcement of compliance

2. Legitimacy

→ Unresolved question: is democratic legitimation necessary and how can it be attained?

EFFECTIVENESS: HARD LAW VS. SOFT LAW

1. Degree to which rules are obligatory and legally binding
 2. Precision of the rules
 3. Level of monitoring and enforcement
- Continuum
 - NGOs serve crucial function for enforcing soft law
 - Soft law has the possibility to evolve into hard law over time

ADVANTAGES OF HARD LAW FOR BUSINESS

- Unambiguous moral and ethic norms → lower risks for business
- Clear rules of the game → level playing field
- Competitive advantage for sustainable or socially responsible companies
- Ethical motives will not be undermined by competition

EXAMPLE FOR BUSINESS SUPPORTING HARD LAW SOLUTIONS

Appell von 200 Schweizer Firmen: Für ein griffiges CO₂-Gesetz!

- Reduktion des CO₂-Ausstosses um 20% im Inland, plus flexible Ausland-Massnahmen.
- Wie vom Nationalrat beschlossen, ohne Verwässerung.
- Weil Cleantech für die Schweiz ein Wettbewerbsvorteil ist.
- Für Umwelt und Arbeitsplätze, Innovation und Exporte.



- Eine Aktion koordiniert durch: www.swisscleantech.ch | Minervastrasse 99 | 8032 Zürich | Tel. 058 580 0809
- Wirtschaftsverband für eine nachhaltige und liberale Schweiz, mit einer effizienten und sauberen Wirtschaft

LEGITIMACY

- Nation states are democratically legitimized
- Transnational corporations, NGOs, supranational institutions lack democratic legitimacy
 - A globalized economy might require new ways of interpreting legitimacy
- Fundamental question: Is it desirable that transnational corporations take part in shaping global governance?
 - So far not clear

DISCUSSION

- Is it even necessary to regulate business on a global level?
- If so, what mechanism is most promising?
- Can the UN Global Compact shift global business activity to socially responsible behavior?
- Does a globalized world imply a less democratic (western) world?
- Hard law vs. soft law?

DISCUSSION CONT.

- How should businesses react to globalization?
- Do powerful businesses have an obligation to be a positive force regarding governance? (With great power comes great responsibility?)
- Or should business rather be strictly excluded from taking political action?