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Working Paper

Sustainability by corporate citizenship

Diskussionspapier, No. 2004-12

Provided in Cooperation with:

Martin Luther University of Halle-Wittenberg, Chair of Economic Ethics

Suggested Citation: Beckmann, Markus; Pies, Ingo (2004) : Sustainability by corporate citizenship, Diskussionspapier, No. 2004-12, ISBN 3-86010-760-7, Wittenberg-Zentrum für Globale Ethik, Lutherstadt Wittenberg, <https://nbn-resolving.de/urn:nbn:de:gbv:3:2-4158>

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Discussionpaper No. 04-12

Wittenberg-Center for Global Ethics

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Sustainability by Corporate Citizenship

Edited by

Research Institute of the Wittenberg-Center for Global Ethics
in collaboration with the Chair for Economic Ethics at Martin-Luther-University Halle-Wittenberg
and the Economic Section of the Stiftung Leucora at Lutherstadt Wittenberg



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ISBN 3-86010-760-7
ISSN 1612-2534

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Sustainability by Corporate Citizenship - The Moral Dimension of Sustainability

by Markus Beckmann and Ingo Pies

Introduction

It is the nature of powerful ideas that they can summarize a ground-breaking concept in a plain and simple message. In this sense, the concept of sustainability is one such idea. It translates into a compelling orientation towards the future. It is this orientation towards the future that is needed today in order to understand and address the challenges of tomorrow.

However, many critics object that sustainability is not (yet) a clear-cut concept for definite implementation. They argue that although we have already learned a great deal about sustainable development, the concept itself still fails to provide us with a straightforward manual for solving everyday problems in society, management, or politics. Companies in particular are said to still lack a clear understanding of how to put sustainability into practice.

Although the sustainability debate has already brought about considerable conceptual progress, a pivotal dimension to sustainable development has so far been widely neglected. This article argues that in addition to the ecological, economic, and social dimension, sustainability critically depends on the *moral dimension of institutional legitimacy*. As conventional models of creating and legitimizing institutions are increasingly challenged, it is business that is to play an ever more important role in contributing to fair and functioning institutions. “Corporate citizenship” as an economic concept will be discussed as a useful starting point for this new understanding of the business of business. In effect, the underlying objective of this article is to present a theoretical link between the concepts of sustainability and corporate citizenship. The central thesis is that private enterprises who cooperatively take responsibility for their institutional environment strengthen the moral dimension of institutional legitimacy: they actively contribute to empowering *sustainability by corporate citizenship*.

The research agendas on both sustainability and corporate citizenship include a number of questions that deserve further investigation. For reasons of focus and clarity, however, this paper will concentrate on the importance of institutions for the implementation of sustainability. Therefore, other questions of the sustainability research agenda, such as the issue of intergenerational justice, will only briefly be touched on.¹

The argument of this article will be developed in five steps. The *first* chapter discusses the conceptual progress the sustainability debate has seen so far. The article argues that the decisive contribution of this debate is that the very concept of sustainability helps to restate the actual problem in a more productive way: *Under what conditions* can ecological, social,

¹ Implementing intergenerational justice is indeed one of the most stimulating challenges of the sustainability research agenda. As this article argues, functioning social institutions are needed to implement sustainability, and, what is more, in order to be fully effective these institutions need to be considered fair, legitimate, and mutually advantageous. The condition of *intergenerational* advantageousness, however, poses the seeming paradox that future generations would have to fulfill their part in a quid pro quo arrangement with generations who have already passed away – and who could therefore hardly benefit from these actions. For a thought-provoking discussion and a proposal for a solution of this paradox, see Homann (1996) and Suchanek (2004).

and economic aspects be reconciled? In a *second* step, the article claims that an essential condition (so far) often overlooked is institutional legitimacy. Based on an economic analysis, the article illustrates that, in order to put sustainability into practice, social institutions play a pivotal role by providing information and setting incentives for the behavior of individuals and organizations. Institutions, however, can be fully effective in the long run only if they are considered fair, legitimate, and mutually advantageous. This *moral dimension of institutional legitimacy* presents the missing link to empowering sustainability. A *third* step demonstrates how conventional models for creating and legitimizing institutions are increasingly challenged in a globalized world. Aimed at finding better ways of problem-solving, *global governance* is discussed as a learning process for better creating and legitimizing institutions – a process in which actors from politics, business, and civil society participate. As learning partners, companies are no longer confined exclusively to their economic role, but are more and more perceived as moral and political actors. Against this backdrop, the *fourth* section introduces the concept of *ordo-responsibility*² as an economic concept of “corporate citizenship” that reflects these new challenges. For companies it is no longer enough to simply maximize profits; corporate responsibility also includes contributing to fair rules of the game - both internally as well as externally. The concluding *fifth* section draws on these arguments and summarizes the consequences for our understanding of sustainability and corporate citizenship.

I. Sustainability: Conceptual progress and analytical approach

Long before the term “sustainable development” became part of our shared vocabulary, there were already fervent discussions regarding the relationship between ecology and economy. During the 1970s, as the problems of environmental degradation became ever more apparent and ecological awareness grew throughout Europe and America, heated debates identified an elemental clash between protection of the environment and economic development.³

This argument seemed to suggest that we need to make a conscious choice as to whether we should place economic growth above protection of the environment or environmental protection above economic growth. The implicit understanding was that there is an underlying conflict in achieving these (seemingly) incompatible goals.

² “Ordo” is the Latin translation of the word “order” - used to underline the importance of the institutional order. While traditional Ordo-Liberals like Walter Eucken argued that it is the duty of the state to create these functioning institutions, “Ordo-Responsibility” widens the scope to those areas where the state fails to meet this challenge. This is where companies and civil society actors come to play a new societal role as ‘corporate citizens’.

³ There are numerous journal articles and academic publications that shifted public attention to the (seemingly) contradictory relationship between economy and ecology. One of the most influential publications was the 1972 book *The Limits to Growth* by Donella H. Meadows et al., commissioned by the Club of Rome. This book modeled the ecological and economic consequences of a rapidly growing global population. It created worldwide furor and was debated by parliaments and scientific societies alike. See Meadows et al. (1972).

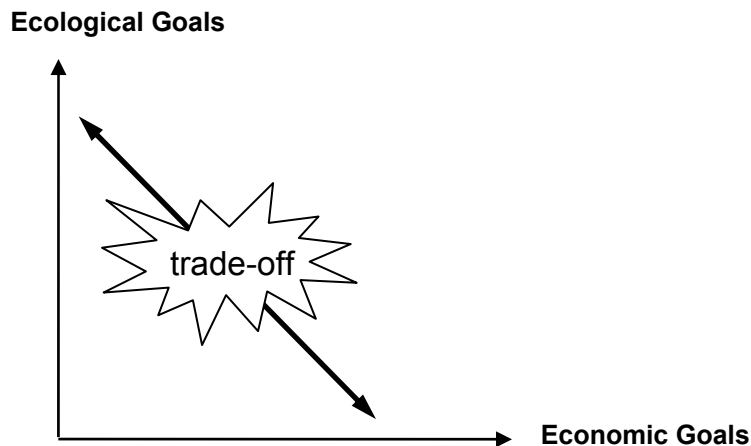


Figure 1: *Perceived trade-off between ecology and economy in the 1970s*

Figure 1 illustrates this conflict graphically. Assuming an essential conflict between ecology and economy, the trade-off line suggests that the realization of one of these two objectives can only be achieved at the cost of the other: Any higher level of “ecology” is only possible at the expense of a lower level of “economy” – and vice versa! Sensing the need to take a stand in this fundamental trade-off, the public debate in the 1970s and early 1980s predominantly approached the conflict between ecology and economy by overtly taking the side of environment.⁴

The very concept of sustainability, however, has marked a watershed in terms of transcending the assumed conflict between ecology and economy. Instead of ideologically playing economic growth against protection of the environment, the idea of sustainable development has offered an innovative approach to understanding that economic development and environmental protection are not exclusive.

This new understanding of sustainable development finally broke into the consciousness of civil society, international policy-makers, and multinational corporations in 1987 when the well-known Brundlandt report defined sustainability as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs.”⁵ Since both economic and ecological factors will shape this future ability, the concept of sustainability has changed our perspective. Figure 2 illustrates this change in perspective graphically.

⁴ As early as 1972, the publication *The Limits to Growth* claimed that it is possible “to establish a condition of ecological and economic *stability* that is *sustainable* far into the future.” However, the report argued that this development can only be possible if we first manage to alter the underlying growth paradigm of our economy and change our “growth-obsessed” economy to a system that produces and consumes less [Meadows et al. (1972)]. Thus, Meadows et al. (1972) ultimately accept the assumed trade-off between environment and development and define their solution as a well-balanced compromise *on* the trade-off line. See also Meadows et al. (1992): Preface.

⁵ World Commission on Environment and Development (1987): p. 9.

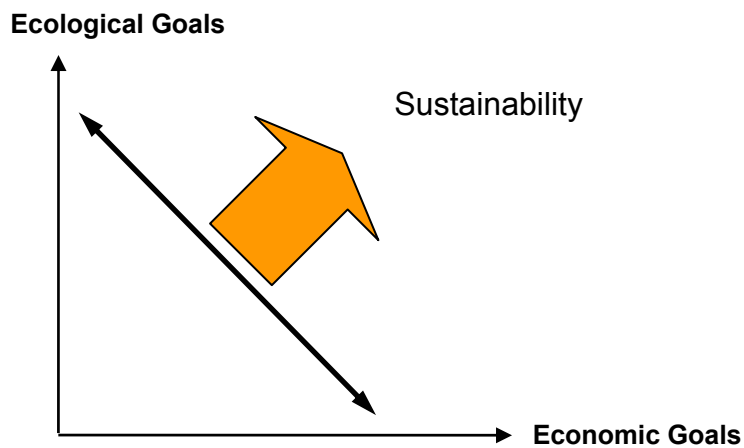


Figure 2: *Transcending the trade-off*

Instead of accepting a presumed trade-off between ecology and economy, the concept of sustainability *transcends* the trade-off: Sustainability shifts our focus to solutions that reconcile ecological and economic objectives.⁶

This shift in perspective has initiated a learning process that initially might have been in some way similar to a widely known Indian story: A group of blind people experience an elephant for the first time. The first one approaches the beast from behind, anxiously gripping the tail. Not surprisingly, he shouts a warning: The elephant feels like a snake hanging in the air! The second one, however, who embraces a big back leg, reports a very different experience: The elephant is a great warm tree! Needless to say, the same goes on for all the others who try to make sense of the elephant's ears, the trunk or its gigantic tusks. All accounts are completely different – and yet all are right. Sharing their individual understanding of the elephant, all the bits add up to an extraordinary, as-yet-invisible whole.

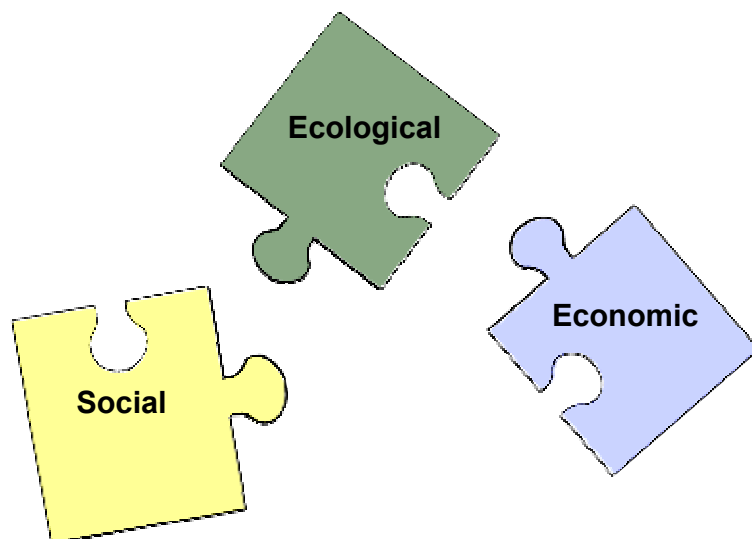


Figure 3: *Sustainability – a Multidimensional challenge*

⁶ Graphically, this change in perspective is illustrated by the arrow pointing to the North-East: To move away from the trade-off line along this arrow simultaneously brings about a higher level of ecological *and* economic goals. Thus, the *concept* of sustainability marks a *qualitative* change in the discussion regarding the relationship between environment and development. Instead of accepting the assumed trade-off that characterizes the old paradigm “Limits to Growth,” it opens the perspective for the new paradigm “Growth of Limits.”

As figure 3 illustrates, we have seen a similar phenomenon at work at the beginning of the sustainability debate. In discussing problems such as climate change or biodiversity, environmental groups understood sustainability as a primarily ecological challenge.

Other groups, however, had a different understanding of sustainability. By putting problems like child labor or core labor standards on the agenda, they have stressed that it is necessary to understand sustainability as an important social challenge. At the same time, the discussion surrounding the future of economic growth and state deficits has pointed out that sustainability is also an important economic challenge. This diversity underscores sustainable development as a multidimensional challenge.

Building upon these diverse perspectives, the ongoing debate has created awareness that the ecological, social, and economic dimensions to sustainability belong together and cannot be separated. Throughout the 1990s, we have successfully dedicated our public attention and academic research to investigating into how these dimensions must be dealt with in a way that considers their interdependence.⁷

The idea of interdependence has helped to overcome polarizing trade-off thinking. In effect, the very concept of sustainability has restated the actual problem: The relevant question is no longer whether ecology, social aspects, or the economy takes precedence over the others. Rather, sustainability focuses on the question as to *under what conditions* can ecological, social, and economic aspects be reconciled – or even made to promote each other. However, a significant piece of the puzzle still seems to be missing. To answer this question, an economic approach can serve as a useful perspective.

II. The missing link – the moral dimension of institutional legitimacy

Sustainable development has become a normative goal now embraced by both politicians and leaders from business and civil society alike. Yet, despite this broad consensus, environmental degradation, economic hardship, and numerous social tensions still prevail. Apparently, good intentions shared by the individuals in society do not automatically guarantee that society as a group ultimately realizes these collectively shared goals.

Economics provides a coherent and powerful framework for seeing order in this seemingly paradoxical phenomenon. Economists have interpreted such phenomena as the unintended consequences of intentional action. The starting point for the economic analysis is that people will always seek to realize their individual advantage. Each and everyone has personal objectives, whether or not these include the accumulation of wealth or protecting the environment, assisting the needy, or behaving morally. As each individual faces different options to use his time, talent, and resources, he will make those choices that are best suited to achieve his particular purposes. This parsimonious yet compelling economic perspective assumes that, on the level of the *individual*, people act rationally and intentionally. The *social* outcome of individual behavior, however, is mostly unintended: it results from the (seemingly) unrelated actions taken by millions of individuals - who often do not even realize the ways in which their behavior might affect others.

⁷ A prominent model that captures the results of this learning process is the three pillar model of sustainable development according to which sustainability depends on the social, environmental and economic dimensions of sustainability. Another innovation that mirrors this understanding of sustainability has been the introduction of the triple bottom line (TBL) by John Elkington. The TBL helps corporations focus not just on the economic value they add, but also on their environmental and social value, thus serving as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. Cf. Elkington (1998).

Social institutions determine whether these unintended consequences of intentional action are ultimately desirable or undesirable. The most prominent example of intentional action that has desirable unintended consequences goes back to the very beginning of economic thought. Adam Smith argued in the late 18th century that “it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their self-interest.”⁸ Self-interest results in intentional action by individuals, yet the “invisible hand” of the free market ensures that people concerned with their own interest behave in ways that also serve the interests of others. The reason for the effectiveness of this “invisible hand” is the power of social institutions. Institutions influence individual decisions by providing information and setting incentives for particular behavior. By this logic, the effectiveness of the “invisible hand” results from social institutions such as a competitive market, property rights, and a free price mechanism.

While the “invisible hand” represents the desirable version of unintended consequences of intentional action, there are also numerous examples of the “invisible fist.” In many instances, such as environmental pollution, human rights abuses, or corruption, self-interested actors, be it individual, corporate, or state actors, behave in ways that do not serve the interests of others but harm them. In these cases, poorly designed or lacking social institutions fail to advance social cooperation.⁹

The consequences of such an economic perspective for the sustainability debate are far-reaching. Sustainability aims at identifying conditions under which the ecological, economic, and social dimension of sustainable development can be reconciled. An economic perspective spells out that both sustainable as well as unsustainable development result from the *unintended* consequences of intentional behavior.¹⁰ As a result, moral appeals will systematically fail to persuade people to put the “interests of the larger community” ahead of their own. Table 1 illustrates this paradigm shift:

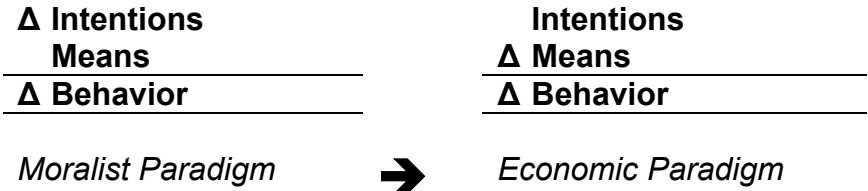


Table 1: *The moralist and the economic paradigm*

In the long run, achieving sustainability is not a question of reforming people’s individual intentions. Instead, it is social institutions that come to the forefront for putting sustainability into practice.

Social institutions can be defined as sets of formal or informal rules that include arrangements for their enforcement. These rules structure and modify the options people can choose in order to achieve their particular purposes. By this logic, institutions shape the *rules of the game* whose purpose is to steer individual behavior to a desirable direction. In any given game it is

⁸ Smith (1776, 1910), p. 13.
⁹ See, for example, the problem of overpopulation as first analyzed by Malthus (1778, 1993) or the *Tragedy of the Commons* by Hardin (1968).
¹⁰ Again, since the social outcome is always an interdependent result of many individual actions, it is never the effect of somebody’s *deliberate* planning. By this logic, social outcomes are always “unintended”. Nobody *wants* to cause environmental damage. Even if people know about the potential consequences of their behavior, it is hard to imagine that any individual drives a gas guzzling car because he *intentionally seeks* to pollute his environment.

the rules that always determine which individual moves are possible and advantageous. The primary function of institutions is to motivate those *moves* that are generally desired - by creating better *rules* that set incentives and provide the necessary information for such behavior.¹¹

Sustainability aims at meeting the needs of the present without compromising the needs of future generations. Restated in economic terms, sustainable development means to live off the interest of ecological, economic, and social assets instead of consuming the underlying capital. As table 1 shows, economic theory has established similar categories of different types of capital that can be translated into the three widely accepted dimensions of sustainability: while the ecological dimension to sustainability corresponds to the economic category of natural capital, the economic dimension to sustainability matches (socially constructed) physical capital. By the same token, the social dimension of sustainability mirrors the economic category of human capital.

Economic theory	Concept of sustainability
Natural capital	Ecological dimension
Physical capital	Economic dimension
Human capital	Social dimension
<i>Institutional capital</i>	<i>Moral dimension of institutional legitimacy</i>

Table 2: *Economic categories of capital and the dimensions of sustainability*¹²

Using these different types of capital, we have learned to create wealth, improve our circumstances, and advance our well-being. The productivity of our endeavors, however, critically depends on the institutional setting that supports social cooperation. Only thanks to social institutions such as the rule of law, contracts, property rights, or democracy can we reap the full benefits of natural, physical, and human capital as well as of mutually advantageous cooperation. Thus, functioning institutions represent a valuable asset in themselves. This is why economists increasingly debate the importance of *institutional capital*.¹³ Like physical or human capital, institutional capital is highly productive; yet it also needs to be invested and re-invested in.

Investments into better rules of the game can motivate self-interested actors to advance sustainability by their moves in the game. However, the creation of institutional capital is not at all a simple technicality. On the contrary, the enormous difficulties regarding the building of institutions in Afghanistan, Iraq or the former communist block illustrate the complexity of

¹¹ An emblematic example of how institutions set incentives is the creation of property rights. Property rights are based on formal and informal rules that sanction ownership of material and immaterial things. Since a ruthless exploitation of these assets would dramatically reduce the value of the property, full ownership establishes strong incentives to use assets such as forests, meadows, lakes etc. in a sustainable way. In comparison, usufruct rights, i.e. the right to use resources without necessarily owning them (for example the way we use our atmosphere as a sink for emissions), set a premium on unsustainable behavior: The individual user can make enormous profits by exploiting the asset, but it is not him but the wider community who has to bear future costs - such as the depletion of the resource and the devaluation of the property. In short, the quality of the institutional arrangement determines whether sustainable development can be put into practice or not.

¹² See Suchanek (2004), p.21.

¹³ For a similar argument see de Soto (2000) and Olson (2000). Hernando de Soto elaborates on the importance of property rights for sustainable development. See also Mancur Olson's *Logic of Collective Action* [Olson (1965)]. Although neither of them uses the term "institutional capital" explicitly, their argument pointedly underlines the importance of functioning institutions for human and economic development.

this endeavor. These problems underline that institutions do not float in a vacuum. It is by far not enough to devise from scratch a technically sound institutional arrangement or to simply announce a new law.¹⁴ Rather, institutions need to be bolstered by social legitimacy. The situation in post-war Iraq drastically demonstrates that the lack of social acceptance and legitimacy of many institutions is not exclusively a technical problem. In effect, it is much more a moral challenge.

The moral dimension of institutional legitimacy represents the fourth dimension to sustainability. It is a *moral* dimension because it reflects the moral quality that people attribute to institutional arrangements needed to implement sustainability. Only if the individual actors perceive these ‘rules of the game’ as fair, legitimate and mutually advantageous, will they be willing to take them seriously, accept them, and abide by them.

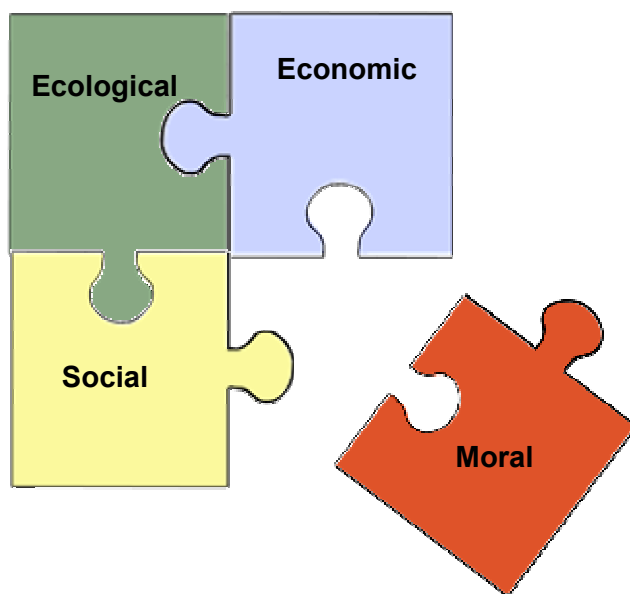


Figure 4: *Empowering Sustainability – The Moral Dimension*

As figure 4 illustrates, the *moral* dimension of institutional legitimacy is the missing link to empowering a holistic and integrated understanding of sustainability. Social acceptance and legitimacy of the rules of the game are critical both for corporations, states, regional organizations, or global institutions. A corporation cannot successfully implement a sustainability concept if the internal stakeholders do not support it. The introduction of the most sophisticated sustainability strategy will fail if management, shareholders, and employees do not view the underlying institutions (sustainability reporting, total quality management, incentives) as fair, legitimate, and ultimately also in their interest. Similarly, local legislation in developing countries that outlaws the clearing of rain forest will not achieve sustainability as long as the institutional arrangement does not offer a perspective that the local community will consider beneficial. Put pointedly, any sustainability concept that neglects the moral dimension of institutional legitimacy will lack long term support, fail to achieve sustainability and is, by definition!, in itself not sustainable.

¹⁴ A theoretical reason is that in a highly complex world institutions are always inevitably incomplete. Facing an open future, it would be too costly, if not impossible, to pursue the creation of an institution that tries to cover all potential contingencies. Rather, there will always be loopholes that allow circumventing or even undermining an institution. For a more detailed discussion of the social implications of incomplete institutions, see Beckmann et al. (2004).

In short, it is not enough that there is a widely shared consensus as to the desirability of sustainable development. An economic perspective shows that we need functioning social institutions to allow people to behave in ways that put sustainability into practice. Institutions, however, can only fulfill their functions in the long run if they are socially accepted as well as considered fair and legitimate. The moral dimension of institutional legitimacy is the missing link to empowering sustainability. It is for this reason that the sustainability debate will need to also focus on how to create and legitimize social institutions. In this process, global governance has come to play an ever more important role.

III. Global governance – a learning process for sustainability

Institutions are the critical key for sustainable development. Yet, functioning social institutions are not a given. They need to be created, and, what is more, they need to be considered fair and legitimate. This is why the way in which we create and legitimize our institutions is of greatest importance for sustainable development.

Traditionally, politics and the nation-state served as a primary source for creating and legitimizing social institutions. These conventional democratic mechanisms for organizing legitimacy are challenged in several ways. Global problems such as climate change, terrorism, the AIDS pandemic and other infectious diseases, the shortcomings of international financial markets, or the challenges of hunger and poverty create new demands on conventional political actors. Similarly, problems characterizing the provision of global public goods demonstrate that neither the single nation-state nor intergovernmental forms of cooperation between nation-states can manage such trans-national challenges alone.¹⁵

At the same time, new actors have emerged in the global arena. These new actors include civil society organizations such as environmental or humanitarian NGOs as well as trans-national corporations (TNCs). In order to address the growing number of challenges that transcend the problem-solving capability of traditional politics, conventional policymakers need to learn to cooperate with these NGOs and TNCs. However, there is no ready-made political framework able to facilitate the participation of non-state actors.

Global Governance denotes this laborious *learning process* that characterizes the self-organization of a global society. It is a process of creating global institutional arrangements that involves actors not only from politics but also from business and civil society.

It is a learning process because, so far, we still need to devise adequate *governance* models for constructively including NGOs or the private sector into the international political decision-making process. Even more importantly, we also need *mental* models and a paradigm that are adequate for the challenges posed by global governance.

In the past, from imperialism to the Cold War, the prevailing mental model was to perceive politics (and, above all, global politics) as a mere power struggle.¹⁶ The underlying paradigm was to characterize the nature of social (and international) interactions as a zero-sum game: One side could only win their share if somebody else lost his. Logically, this assumption focuses exclusively on conflicting interests. In this conflict, states are seen as the principle actors internationally; domestically, they are the monopolists of power, subordinating civil society and the private sector to their realm.

While the zero-sum paradigm corresponds to certain mental models such as the one underlying the Cold War logic, it fails to serve as guidance for global governance. In effect,

¹⁵ See, for example, Rosenau et al. (1992). For an introduction to the discussion on global public goods, see Rischard (2002) and especially Kaul (2003).

¹⁶ A notion most eloquently propounded by Realist and Neo-Realist authors. See, e.g., for a classical contribution, Waltz (1979).

global governance is about paving the way for effective global *cooperation*. An alternative perspective that is much better suited for this task is to conceive these cooperative learning processes as opportunities for mutually beneficial *positive-sum* games.¹⁷ This perspective does not deny that there exist conflicting interests. Yet it shifts the focus towards institutional arrangements that aim at managing these conflicts - while allowing at the same time to identify and realize *common* interests.

This paradigm shift from a power struggle to a learning process for positive-sum games challenges the conventional self-conception of all actors involved. In a learning process, states can be more effective if they not only *sub-ordinate* but understand to *co-ordinate* actors from civil society and the private sector. States are no longer the mere monopolists of power but grow to serve as enablers of dialogue and learning. Similarly, NGOs and businesses can benefit from not exclusively perceiving each other as opponents. Again, NGOs and TNCs might have conflicting interests as well; yet both sides gain from opening a “second arena” in which they can identify and pursue common interests.¹⁸ Figure 5 illustrates this shift from the paradigm of a power struggle to perceiving global governance as a learning process.

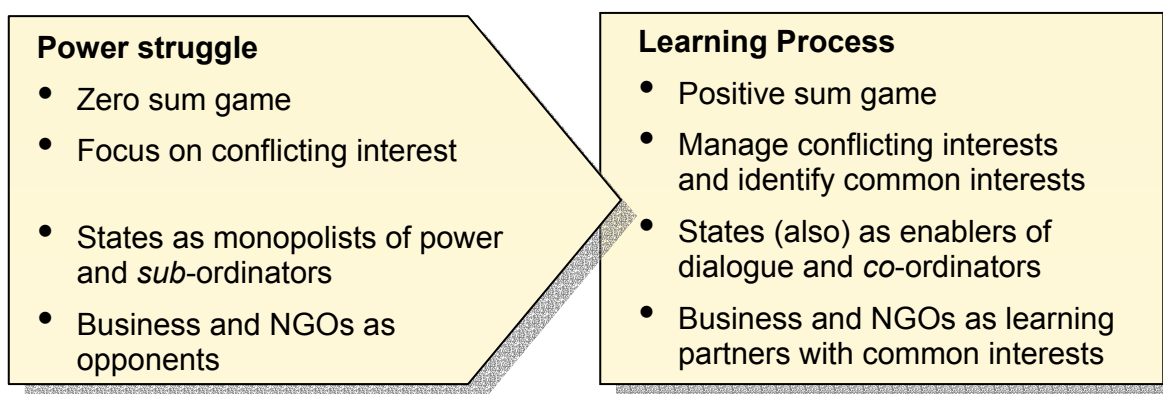


Figure 5: *Paradigm shift – Global Governance as a learning process*

There is a multiplicity of promising initiatives that effectively build on these ideas: public-private partnerships that explore the potential of cross-sectoral cooperation for sustainable development.¹⁹ The Global Compact, the prominent initiative by UN Secretary General Kofi Annan, tries to unite the power of markets with the authority of universal ideas.²⁰ Aimed at reconciling the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations, this initiative provides a platform for corporate citizenship on a global scale.²¹

At the core of these initiatives lies the awareness that we need new frameworks for bringing together stakeholders from politics, business, and civil society (Figure 6). In fact, one of the many challenges of global governance is to establish and strengthen the aforementioned “second arenas” and platforms for dialogue and learning – both on a global as well as on the regional and national levels. As UN Secretary General Kofi Annan made clear, we can only

¹⁷ Benner and Reinicke point out that the transformation process of globalization is widely perceived as a zero-sum game. The way we perceive this process, however, ultimately determines the way we deal with and shape this process. See, for example, Benner and Reinicke (1999), p. 25.

¹⁸ Brinkmann and Pies (2003), p. 2.

¹⁹ For an overview of Public-Private-Partnerships see Nelson (2002) or Brinkmann (2004).

²⁰ For more information, see www.unglobalcompact.org/Portal/.

²¹ For a discussion of the Global Compact, see Brinkmann and Pies (2003).

solve the overarching challenges of our time if we learn how to govern better – and, above all, learn how to govern better together.²²

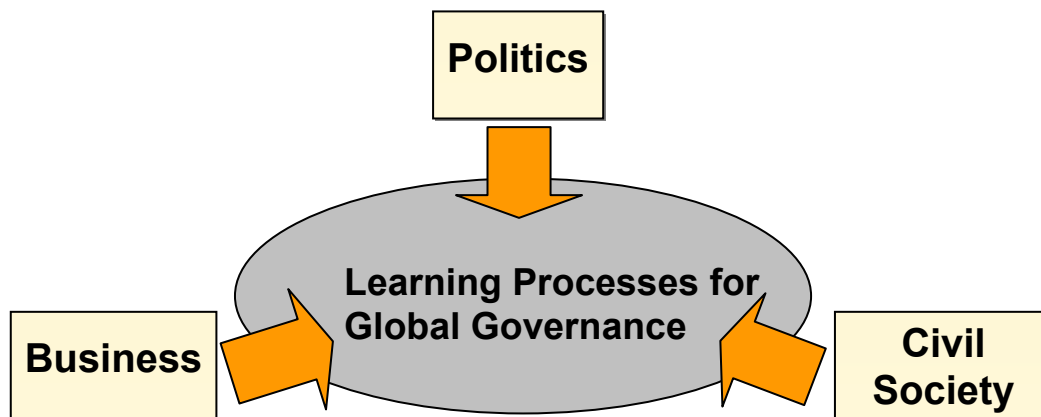


Figure 6: *New Partnerships for collective learning processes*

In short, functioning social institutions that reconcile and empower ecological, economic, and social objectives are urgently needed. If we want to create such institutions better, we need to enter a collective learning process. In addition, the effectiveness of these institutions critically hinges on their moral quality: Only if this institutional order is considered fair, legitimate, and mutually advantageous, can it be effective and sustainable in the long run. As politics, business, and civil society all depend on this moral dimension to sustainability, there is also joint responsibility for it – a responsibility to be shared by politicians, NGOs, and, as the next chapter will discuss in more detail, by companies as corporate citizens.

IV. Ordo-responsibility: sustainability by corporate citizenship

Companies, in particular trans-national corporations, are the driving forces of the globalization process. This process challenges not only nation-states and policymakers but also the conventional concept of the role of business.

Leading economists have often argued that “the business of business is business.”²³ However, the assertion that the social responsibility of business is to increase its profits rests on the underlying assumption that a company operates in a well-functioning – if not perfect – institutional environment. While this might be true for the idealized models in economics and business administration textbooks and more or less true for some domestic markets in highly developed countries, it is clearly not the case for many other parts of the world.

Corruption, child labor, environmental degradation and human rights abuses are but a few examples of such *unsustainable* development that arises at the weak points of a global institutional order that fails to guarantee the rule of law, property rights or contracts.²⁴

Obviously, these problems pose a moral challenge. What is more, they are a business challenge as well. Many people question the business community’s *license to operate* on a

²² Annan (2000).

²³ For the most prominent example, see Milton Friedman’s classical article “The Social Responsibility of Business is to Increase its Profits,” Friedman (1970).

²⁴ Again, these incidents illustrate the effects of the “invisible fist” where – in contrast to the benign “invisible hand” – rational individual action leads to social outcomes that result in collective self-harm.

global scale. In both developing and developed countries, there is a growing suspicion that, due to structural deficiencies, global market activities might be at the expense of the poor. However, a company's social acceptance and legitimacy are becoming ever more critical in its relationship with customers, employees, investors, local government officials, and other stakeholders, including NGOs.

There are three basic strategies to deal with this moral and business challenge. The first strategy is to simply ignore these problems and to deny any "Corporate Social Responsibility" other than abiding by official laws and legislation. While this strategy evidently does not help to overcome the aforementioned humanitarian problems, it is also unsatisfying from a business point of view: after all, it fails to address the growing public criticism that puts business success at risk in the long run.

A second approach would be to place moral considerations ahead of profitability.²⁵ Although intuitively this policy is quite appealing, in the long run its effect would be appalling. Moral appeals to a company's goodness might at best have brief efficacy. In a market economy, companies operate under conditions of competition: moral appeals for virtuous behavior that would result in a competitive disadvantage will systematically force out of business those companies that seek to act morally. Thus, indiscriminate moral appeals fail to unfold a substantial and – above all – sustainable impact.

A sustainable and effective strategy needs to integrate the moral as well as the business challenge. This is what the economic concept of corporate citizenship is about. The concept portrayed here is an *economic* concept because it draws on the insight that it is the institutional framework (and the information and incentives provided by it) that shapes the actions of a company.

However, the notion that the "rules of a game" determine how players choose their "moves" does not mean that these players do not have a moral responsibility. Corporate citizens do take moral responsibility. This responsibility requires more than just compliance with generally accepted rules in the game. Moreover, corporate citizens carry *ordo-responsibility*²⁶ for the game itself – a responsibility for the institutional order.

This *ordo-responsibility* calls companies to contribute to shaping fair rules that enable all players to consider moral objectives and principles without being punished for it. This innovative concept of corporate citizenship is based on the awareness that for a *good corporate citizen*, it is no longer enough to maximize profit under a given set of rules. In effect, in an increasing number of cases the correct point of focus is not on "choice within rules" but on "choice among rules."²⁷ In a globalizing world, in which conventional models for creating rules and institutions are increasingly challenged, sustainable business success is only possible if companies contribute to investing into a fair and productive institutional order. These good rules of the game - in other words, functioning social institutions - represent social and institutional capital. *Ordo-responsibility*, therefore, means self-interested investments in better local and global rules of the game.

²⁵ This is a prominent position propounded by authors such as Ulrich (1998).

²⁶ "Ordo" is the Latin translation of the word "order." To underline the significance of the institutional order has also been the focus of well-known "ordo-liberals" such as Walter Eucken, Friedrich August von Hayek or Walter Röpke. Like *ordo-liberalism*, "*ordo-responsibility*" focuses on the importance of the institutional order. However, while traditional *ordo-liberals* argued that it is the duty of the state to create functioning institutions, *ordo-responsibility* widens the scope to those areas where the state fails to meet this challenge.

It takes the very notion of democracy that it is finally the – individual and organizational – citizens themselves who have to decide on the rules of their games.

²⁷ See Brennan and Buchanan (1985).

Corporate citizenship as ordo-responsibility has two dimensions. While the internal dimension of corporate citizenship focuses on the processes inside a company, the external dimension of corporate citizenship entails the responsibility that a company has for the community in which it operates.

Internally, the concept of ordo-responsibility aims at creating better corporate governance. *Good corporate governance* is a precondition needed to implement corporate citizenship within the company. Companies can only live corporate citizenship and sustainability if management and employees support and sustain this process. Again, the key to making the process work cannot be to address moral appeals to the individual. In the case of corruption, for instance, it is certainly important, yet not quite enough, to simply call for honesty and uprightness. Rather, the rules of the game - formal and informal incentives, the reporting standards as well as remuneration systems - need to guarantee transparency and to reward integrity.

Corporate governance denotes the quality of the institutional order within a company. Both externally and internally, ordo-responsibility means self-interested investment into functioning institutions as an important intangible asset. The value of this asset critically depends on social acceptance and legitimacy. Only if corporate governance rules reflect the long-term interest of the internal stakeholders, can these rules be effective and, ultimately, sustainable.

With regard to the external dimension, ordo-responsibility means that corporate citizens yield a company's influence to bring about better social institutions in their respective business environment. In this process, corporate citizens come to play an *explicitly political* role. *Implicitly*, companies have always played a significant political role. As important political stakeholders, businesses traditionally exert influence through a broad range of lobbying activities. Corporate citizenship, however, calls for a different understanding of a company's role in the political arena. Conventional lobbying differs from ordo-responsibility with regard to the way political influence is yielded. While conventional lobbying can be typically characterized as a hidden power struggle, corporate citizenship invites companies to engage in a political learning process. Corporate citizenship is about creating public awareness – and about creating awareness in partnership with others. In an open and transparent learning process, different stakeholders can accept each other as equal learning partners and, more importantly, embrace a jointly agreed institutional order as fair, legitimate, and socially accepted. Corporate citizenship as ordo-responsibility, therefore, contributes to empowering the moral dimension of sustainability.

Ordo-responsibility as a business concept aims at investments into better institutions that create, strengthen, and safeguard opportunities for cooperation.

The example of global trade rules may suffice to illustrate this point. Companies will be best positioned to open up the aforementioned opportunities if they are considered trustful and credible learning partners. As learning partners for global governance, companies can make themselves credible by supporting promising initiatives from politics or civil society.

One example for these cross-sectoral initiatives could be joint campaigns to making global trade rules fair. As corporate citizenship is, in essence, about honesty, fairness, and integrity, corporate citizens will not tolerate double standards that create unfairness in world trade. It is not fair, for instance, that developed countries claim free trade in areas where they have competitive advantages, yet exclude third world imports where the developing countries are most competitive, such as in agriculture.

The case of agricultural subsidies is a powerful example that underscores the central significance of the moral dimension of sustainability. As long as the industrialized world tolerates these distorting and prejudiced trade practices, large parts of this world will perceive the North as applying double standards. Yet, as long as billions of people around the world

perceive the basis of the global economy as being built on double standards, they will not consider open markets and free trade as fair and legitimate - and the global economy will lack both social acceptance and legitimacy. As long as the global economy is not socially accepted, however, it cannot – by definition! – be sustainable.

The terrible terrorist attacks of September 11 demonstrate the devastating consequences that can result if a substantial group of people does not perceive the institutional order imposed onto them as fair and legitimate. This horrible instance illustrates that the moral dimension to sustainability is not a luxury-item for romanticists. Especially when focusing on global governance, it will be one the most critical challenges for sustainability.

As a consequence, corporate citizens understand that this moral dimension of sustainability cannot be separated from the economic dimension that hinges critically on the legitimacy and reliability of open markets. Ordo-responsibility therefore means to yield a company's influence to bring about better institutions that are socially accepted and therefore able to reconcile economic, ecological, and social objectives. It allows fostering sustainability by corporate citizenship - and provides companies with opportunities to do well by doing good.

V. Sustainability – a heuristic for better institutions

Sustainability translates into a compelling orientation towards the future. However, this concept does not provide ready-made instructions for implementation. The concept of sustainability is not a recipe book with clear-cut solutions for standardized problems. In effect, sustainable development is not about giving convenient answers but about asking the right questions.

Sustainability is a heuristic – a method not for applying existing solutions but for finding new ones.

As a heuristic, sustainability raises guiding questions as to how we, as a (world) society, can organize social cooperation in a way that motivates persons and organizations with individual goals and interests to (unknowingly) consider the present and future economic, ecological, and social consequences of their actions.

As a strategy to solve problems, this heuristic has a special quality as it reflects one of the most fundamental traditions of occidental philosophy. The underlying insight is that it is neither moral nor sustainable to systematically expect autonomous and free actors to deny their legitimate self-interest. As a consequence, the moral dimension of sustainability does not argue for the denial of self-interest but calls for fair rules of the game that seek to harness the forces of self-interest to achieve socially desirable moral objectives.

This insight has important consequences for the implementation of sustainability. Social institutions that force people to permanently deny their self-interest will not be considered fair or legitimate. Consequently, they will not be supported and lack efficacy in the long run. Therefore, the moral dimension of institutional legitimacy is critical for empowering sustainability as an integrated and holistic concept. Sustainability is a multi-dimensional challenge that includes not only the ecological, economic, and social dimension but a moral dimension as well (Figure 7). Only if all stakeholders accept institutional structures that aim at implementing the concept of sustainability as fair, legitimate, and mutually advantageous, will they be ready to take them seriously, accept them, and abide by them.

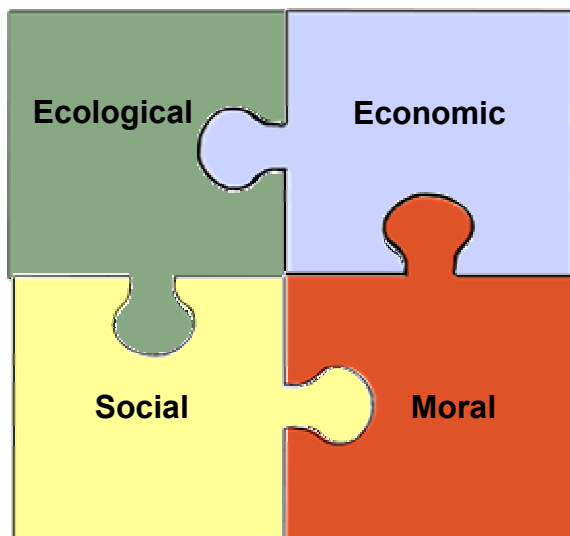


Figure 7: *Towards a holistic and integrated understanding of sustainability*

Companies can play an important role in fostering an integrated understanding of sustainability. Global problems require sustainable solutions by global governance – a process of institutionalization that entails both the creation of new organizations as well of new rules of the global game. Global Governance requires the cooperation of politics, business, and civil society. Such cooperation is not easy. We are in need of novel processes and new formats of collective learning that allow identifying and realizing common interests.

These learning processes aim at improving and strengthening the institutional order in which politics, business, and civil society operate. Companies who contribute to improving this order take ordo-responsibility as corporate citizens. Internally, corporate citizens take ordo-responsibility to strengthen corporate governance, transparency, and integrity. Ordo-responsibility does not expect companies to sacrifice their self-interest within the moves of a given game. Rather, it encourages companies to change the very game itself in order to reconcile making profits and furthering moral objectives: that is the external dimension of ordo-responsibility.

Managing a company's social acceptance and legitimacy will be an ever more important entrepreneurial challenge. Corporate citizenship is a strategy to meet this challenge – a challenge to be taken as seriously and addressed as professionally as the process of engineering cars, conducting market research, or planning financial strategies. Investments into the moral dimension of sustainability enable corporate citizens to do well by doing good. Thus, sustainability by corporate citizenship means that business understands itself and is being perceived not as part of the problem but as an integral part of the solution.

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