

Jacob Dahl Rendtorff

Responsibility, Ethics and Legitimacy of Corporations



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IN THE MEMORY OF KNUD GUSTAV RENDTORFF

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Part 1
Introduction

1. Introduction

The legal and ethical development of values-driven management and corporate responsibility has been tremendous over the past ten to fifteen years. Many modern corporations have introduced ethics and compliance programs and values-driven management, taking not only stockholders but all of the firm's stakeholders into account. In many cases, reporting procedures and accountability programs for corporate and social values have also been introduced. Corporate boards see these measures as a means to ensure not only the responsibility and integrity of their organizations but also as markers of efficient management, competitiveness, and legitimacy in complex democratic societies. We can summarize this as an evolution towards a "new economy of corporate citizenship" that "brings together competencies from civil society, labor organizations, business, government, and international bodies."¹ In short, corporations that implement business ethics and values-driven management contribute to civil governance. In collaboration and dialogue with their stakeholders they become responsible for developing society through long-term social processes. We can say that corporations are changing their role in society, not only through new partnerships with governments, but also by making ethics, social responsibility, and participation in governance processes part of their core strategy. Accordingly, this book analyzes some theoretical and practical aspects of this trend, with the aim of developing a general theory of *corporate citizenship* based on business ethics and values-driven management. It also addresses the fundamental question of the extent to which we can conceive ethics, values, and responsibility as integrated with business strategy for good corporate citizenship in modern democracies.²

The impetus for this study arises, in part, from the increasing number of global challenges to corporate legitimacy. A closer integration of ethics and business seems especially necessary after many recent business ethics scandals in the United States and that have persuaded critical stakeholders to require increased social responsibility of corporations. Moreover, public discourse regarding norms, values, and responsibility has changed the social expectations of corporations and challenged basic concepts within business studies, sociolo-

gy, political science, law, and philosophy. Many corporate executives, state representatives, consumers, members of the general public, and academic scholars call for a renewed emphasis on companies' values, prioritizing values-driven management, and defining good corporate citizenship as fundamental to their social responsibility. This is a tough challenge for management today.³

Box 1. Business ethics and corporate citizenship

While morality can be defined as the values, rules, and norms of everyday life, ethics can be defined as the deliberation on and justification of specific norms and values. In this context, business ethics is the theoretical and practical work to develop a well-justified morality for the function of business corporations in society.

Values-driven management is closely linked to business ethics. It represents an effort to formulate correct ethical values to govern the strategy of the firm, which is vital to the vision and mission of management. It is a condition for implementation of ethics in the corporation.

Corporate social responsibility (CSR) must, in this context, be considered as an integrated part of business ethics and values-driven management, because it relates to the fundamental responsibility that a corporation has towards its internal and external stakeholders and constituencies.

Corporate citizenship is the concept that ethical business relations are an essential contribution to the common good. It may, therefore, be understood as the fundamental bridge between business ethics, values-driven management, and corporate social responsibility.

This book integrates values-driven management, business ethics, and good corporate citizenship into a theory with practical consequences. The partial list of current business topics relevant to such theorization includes corruption, stakeholder management, socially responsible investing (SRI), finance ethics, corporate philanthropy, human rights, and public relations and the ethics of branding.

1. Background

The search for corporate citizenship and the effort to forge new relations between public and private bodies has been spurred by globalization (i.e., both the emergence of network society and global risks) and a consequent focus on common human problems, such as poverty, social inequality, and environmental degradation.⁴ The evolution of international markets, easy and inexpensive communication structures, increased consumer awareness, wider distribution of risk, environmental awareness, and concern for global equality have put more emphasis on the social responsibility of corporations. In this environment, human rights standards and codes of ethical corporate conduct are being promoted by many business managers, nongovernmental organizations (NGOs), consumer movements, and democratic publics as indispensable for long-term sustainability and good corporate governance.⁵ They argue that transparent communication and competitive market conditions require companies to engage in values-driven management in order to meet increasing stakeholder demands for worker security, high quality products, better community relations, and two-way dialogue about complex issues.

Many governments have introduced new policy instruments to incentivize corporate citizenship and corporate social responsibility. For example, the Danish government worked during the 1990s to create social partnerships between corporations and public authorities. Following contemporary international trends, there has since been increasing focus on corporate governance in Denmark.⁶ In the United States, the *1991 Federal Sentencing Guidelines for Organizations* (FSGO) made company ethics and compliance programs a mitigating factor when sentencing corporate crime.⁷ More recently, in 2002, the European Commission formulated a communication about corporate social responsibility based on an influential green paper on values-driven management. That policy paper, *Promoting a European Framework for Corporate Social Responsibility* (2001), was drafted following the policy proposals of the Lisbon Summit of the member states of the European Union in 2000. Its authors argued that although corporate social responsibility is a voluntary effort for European corporations it is nevertheless an important means to assure Europe's status as "the most competitive and dynamic knowledge economy in the world."⁸ The international concern for corporate social responsibility can, furthermore, be seen in Kofi Annan's Global Compact principles, which proposed a United Nations code of conduct for business corporations, and the movement taken by the United Nations Human Rights Commission in 2004