The Political Economy of Corporate Stakeholder Relations

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“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“


- make profit
- adhere to the law
- provide jobs
- pay taxes
Who defines Corporate Responsibilities today?
(e.g. for a pharmaceutical company)
Corporate Responsibility “homework”

- Reflect on corporate status quo, consult internally and with external stakeholders;

- Define the scope and limits set by your corporate citizenship “philosophy”: Corporate citizenship guidelines;

- Differentiate between global „non-negotiables“ and culturally sensitive issues of a non-principle nature to allow local fine-tuning and ownership;

- Implement management procedures (e.g. target setting, performance appraisals, compliance monitoring);

- External verification by independent auditors;

- Reporting about successes, failures and dilemmas.
The Hierarchy of Corporate Responsibilities

- **Desired (can)**
  - Corporate philanthropy

- **Expected (ought to)**
  - Corporate Responsibilities beyond legal duties (wise strategic decisions)

- **Essentials (must)**
  - Legal Compliance
  - Profitability; Good strategic decisions

- **Corporate responsibility excellence**
- **Good management Practices**
The Hierarchy of Corporate Responsibilities

- Essentials (must)
  - Code of Conduct, corporate citizenship guidelines for sensitive areas and management procedures, e.g.
    - Fair working conditions
    - Bribery, gifts and entertainment
    - Human rights and engagement in society
    - Health, Safety and Environment
    - Third party management

- Expected (ought to)

In addition a corporate Business Practices Office or Ombuds-Institution is of advantage for consultation and reporting of cases of misconduct. All these measures and instruments help to ensure corporate ethical conduct, employees acting honestly, lawfully and with integrity.
Measuring misery

About 2.5 billion people live on less than USD 2 a day

The richest 20% of the world’s population receive 85% of the global income, the poorest 20% only 1.4%

Average life expectancy in the poorest countries of Africa is less than 45 years

Every year more than 500,000 women die in pregnancy and childbirth – one every minute

Approx. 14 million children die every year due to preventable diseases
The idea behind Stakeholder Affairs

The basic philosophy behind stakeholder affairs is that corporations should not only create value for the financial community (shareholders) but also for their employees, workers, suppliers, customers, communities and the wider society.

The open issues are

- what stakes are „essential“ and where does „the buck“ stop?
- who sets the priorities and what is a sound balance of corporate interests?
- which contexts matter?
Arguments for Corporate Stakeholder Dialogues
(from a business perspective)

- “Early Warning System” for social change, better understanding of societal context and public expectation, possibility of influencing a debate
- Knowledge of constituencies, issues “champions” and opinion leaders
Conditions Burdening Corporate Stakeholder Dialogues
(from a business perspective)

- moralizing and moral self positioning taking precedence over constructive search for communality (Robin Hood versus Sheriff of Nottingham constellations);
- efforts to de-legitimize {multinational} business actors by devaluing economic considerations to get one‘s own values enhanced (Differences of interests = differences in morality);
- “High jump” exercises (raising the bar to eventually insurmountable heights);
- Machiavellism by choice of alternative participants delegated to dialogues;
- Refusal of differential judgments and awarding earned reputation capital.
Arguments against Corporate Stakeholder Dialogues
(from a business perspective)

✓ militant tactics, antagonistic personal attitudes and „cold war“ practices;
✓ no common definition of the problem and hence no chance for consensus on solution;
✓ Lack of professionalism (honesty, integrity, consistency, coherence;
Under what conditions should a company cooperate and when should it pursue a strategy that only considers self-interest (Lessons learned from the “Prisoner’s Dilemma”)

• Cooperation cannot be forced – both sides can choose to cooperate or to defect;

• Defection might increase individual benefits – cooperation maximizes the collective benefit; If one actor chooses defection, the other cannot cooperate;

• There is no strategy that is always the best. What is best under given circumstances - as in the „Game“-theory – depends not only on the effectiveness of one‘s actors strategy but also on the strategy chosen by the other actor;

• Where actors have totally antagonistic interests the „game“ is easier as – like in chess - one can anticipate the other players intention („win“): cooperation cannot occur, only defection; There must be at least a partly overlapping area of interes to establish a process of cooperation;

• Cooperation can only occur if actors are interested in future cooperation and hence play „tit for tat“;
How can Corporate Stakeholder create value?
(from a business perspective)

- differential judgments for differing corporate responsibility performances;
- “donation” of “reputation capital” to companies that earn it;
- Willingness to cooperate and thus bring additional skills, resources, knowledge and experience into the solution process of complex, poly-contextural and hence difficult problems;
- Less politics, more principled pragmatism.
Increasing Corporate Responsibility Investments increase societal benefits

Corporate Benefits due to CSR Resources invested

Benefits to Society
Beyond a certain threshold additional investments have diminishing and then negative returns for the company.
Conditions Impeding Corporate Stakeholder Dialogues

- militant tactics, antagonistic personal attitudes and "cold war" practices;
- no common definition of the problem and hence no chance for consensus on solution;
- Lack of professionalism (honesty, integrity, consistency, coherence;)

Reputation Capital awarded leads to higher benefits for society

- NGOs
- Media
- Public Acceptance