

2 Global Governance

Global Governance is a concept rooted within the phenomenon of globalization, therefore a short summary of this term introduces further elaborations on *Global Governance*. Then, existing research on *Global Governance* is presented. This chapter concludes with a detailed analysis of six concepts of *Global Governance* that provides the foundations for this study.

2.1 Globalization

The popularity of the term “globalization” proliferated in the 1980s in different disciplines. In sociology, Robertson published “*Interpreting Globality*” (Robertson, 1983). James Rosenau identified a “global interdependence” in the field of political science (J. Rosenau, 1980). Business studies picked up the word globalization, mainly after Theodore Levitt’s “*The Globalization of Markets*” from 1983. His work focused on implications for the multinational company (MNC) due to innovations in technology that rapidly advanced global communication, transport, and travel (Levitt, 1983, p.: 92). Leaving innovations on technology uncontested as driving force, Scholte additionally sees effects on organizations, law, markets, money, finance, social issues, ecology, military, and consciousness (Scholte, 2005, pp.: 101-117) in contemporary globalization. Beck even moves onto a more generalized level in defining globalization as the “processes through which sovereign national states are criss-crossed and undermined by transnational actors with varying prospects of power, orientations, identities and networks” (emphasis deleted) (Beck, 2000, p.: 11). These processes create “transnational social links and spaces, [revalue] local cultures and [promote] third cultures” (emphasis deleted) (Beck, 2000, p.: 12). This is also in line with Giddens statement: „the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa“ (Giddens, 2003, p.: 60). Thomas Jäger introduced a more abstract definition in defining globalization as “gegen Null tendierende Komprimierung der Faktoren Raum und Zeit für weite Bereiche menschlichen Handelns” (Jäger, 2005, p.: 6).

There are numerous works concentrating on globalization on different levels. The social sciences literatures (sociology, politics, economics, anthropology) is well-developed and deals with many facets of globalization. Guillén (2001, p.:

235) links these four fields to entangle the main questions of globalization: “Is it really happening? Does it produce convergence? Does it undermine the authority of nation-states? Is globality different from modernity? Is a global culture in the making?”

Interestingly, searching academic databases for the term “globalization” reveals that many different disciplines contribute to this field with different priorities. An analysis of the most cited research driven academic journals reveal that political sciences often centers around the nation state (Brenner, 1999; Cerny, 1995; Evans, 1997) but also addresses political theories (Simmons & Elkins, 2004). Kearney (1995) summarizes anthropological literature focusing on migration and globalization. Exemplary inputs from psychology are given by Sampson (1989) in redefining the theory of the person. One exemplary sociological contribution is the exploration of religion in times of globalization (Robertson & Chirico, 1985). The economic literature revolves mostly about globalization and the effects on international trade (Krugman & Venables, 1995; Storper, 1992), outsourcing (Feenstra & Hanson, 1996), or corporate strategies within globalization (Johansson & Yip, 1994). These examples are by far not exhaustive nor do they claim to cover all related topics. They only intend to draw a picture of the vast appliances and meanings of globalization. Jan Aart Scholte summarizes: “Notions of ‘globality’ and ‘globalization’ can capture, as no other vocabulary, the present ongoing large-scale growth of transplanetary – and also often supraterritorial – connectivity” (Scholte, 2005, p.: 84).

In conclusion, globalization addresses a multitude of interdependent issues (economics, culture, politics, technology, ecology, social aspects, and others) on a supranational level. James Rosenau sees the emergence of polycentric world politics which are constituted by transnational organizations (e.g. World Bank, NGOs), transnational problems (e.g. currency crises, climate change), transnational events (e.g. World Cup, Gulf War), transnational communities (e.g. religion, lifestyles), and transnational structures (e.g. financial flows, technical knowledge) (Beck, 2000, p.: 36). Four consequences arise from these developments.

First, globalization affects the governance capacities of nation-states as they are traditionally centered on the state – respectively on inter-state-systems – and are unable to take the transnational dimension into account (Strange, 1996). Jan Aart Scholte sees “regulatory operations of territorial bureaucratic national governments” (Scholte, 2005, p.: 186), also called ‘statism’, as non-viable and being replaced by ‘polycentrism’. More precisely, the loss of sovereignty of “Westphalian”² nation-states and the rise of a polycentric world can be summarized in the following points:

² The Westphalian Peace of 1648 was the origin of nation-states in Europe.

- National security cannot be maintained by a nation-state anymore. Technological inventions and the development of nuclear weapons rendered the state unable to provide security autonomously (2003, p.: 130). In a polycentric world, security can be provided by supranational organizations, e.g. NATO or United Nations. This also included trans-border crime which profits from enhanced possibilities for communication (e.g. the Internet) (Krasner, 2001, p.: 247).
- National regulations and laws are unable to address transnational issues. Therefore, many national regulations come from supranational organizations (e.g. EU) rather from the state itself (Scholte, 2005, p.: 189). Also, the state lost its supremacy in providing social and political norms and values, an example is the European Court of Human Rights.
- The proliferation of non-governmental organizations (NGO) challenges continuously the nation-state's sovereignty as they can generate, legitimate, and implement norms and international legal sovereignty, demand accountability, and provide networks (Krasner, 2001, pp.: 246-247). They act on municipal, provincial, macro-regional, and transworld levels (Scholte, 2005, p.: 202).
- Currency exchange rates, money supplies, capital, and trade flows cannot be sufficiently controlled by the nation-state anymore (Scholte, 2005, p.: 189). MNC's or the European Central Bank, for example, inherit significant capacities in these fields.
- Global problems (e.g. climate change, ozone depletion, AIDS) cannot be solved by nation-states. Cooperation with other actors is necessary to approach global issues and other organizations may provide a comparative advantage over states or at least an significant complementary role (Scholte, 2005, pp.: 189, 202).

Within the globalization debate, the traditional meaning of governance as governing the nation-state was outdated and required a redefinition. Jan Aart Scholte connected the post-Westphalian state with the following abilities: address global matters (e.g. ecological change, finance, human rights, production), serve global as well as national constituencies, organize social welfare, conduct altered warfare, and increase transstate processes regarding regulation (Scholte, 2005, pp.: 192-193). This means that the tasks of the nation-state have changed and not that the state has become obsolete. The World Public Sector Report published by the UN states: „Globalization does not reduce the role of the nation-State, but redefines it given the pressures and responses it must give at the local, national and international levels” (United Nations, 2001, p.: 31). Second, a polycentric public-sector governance evolved in forms of transborder substate governance (e.g. International Council for Local Environment Initiatives), mac-

ro-regional governance (e.g. European Union), and transworld governance (e.g. United Nations) (Scholte, 2005, pp.: 203-214). Third, private governance proliferated in form of “non-statutory frameworks of rules” by market-based agencies and civil society organizations. The most prominent example is the implementation of Corporate Social Responsibility (CSR) procedures by companies which is one outcome of formulation, implementation, monitoring, and enforcement of norms and rules on a private level (Scholte, 2005, pp.: 214-217). Finally, the formation of a global civil society can be observed. Civil society associations share concerns about a particular policy issue, often addressing transplanetary problems. They engage with other institutions, undertake regulatory activities, and have the possibility to exert pressure on other organizations (Scholte, 2005, pp.: 218-221). These four phenomena are associated with emerging business power in the international sphere. This will be subject of the next chapter.

2.2 Business Power in the International Sphere

Focus of this study lies on one specific form of private actors: multinational corporations. They can be defined as a “particular form of nongovernmental actor organized to conduct for-profit business transactions and operations across the borders of three or more states” (Karns & Mingst, 2009, p.: 20). Companies act across territorial and cultural borders, are powerful players, and a “political force” (D. Fuchs, 2005, p.: 1) in the international system. Globalization accompanies the loss of authority of nation-states (Czempiel, 1999, p.: 23; Zürn, 1998, p.: 65) and most of the literature concludes that the emerging importance of companies in the international sphere results from this diminishing authority, respectively the proliferation of business authority is triggered by shrinking governmental powers (Ruggie, 2004, p.: 503). However, the absence of a supranational authority results in a special situation on a global scale (Cutler, Haufler, & Porter, 1999). Stiglitz recognizes advantages and disadvantages of their activity. On one side, companies can raise living-standards in developing countries, transfer technology and therefore bridge knowledge gaps, bring jobs and economic growth, lower the cost of living, and support low inflation and low interest rates (Stiglitz, 2006, p.: 188). On the other side, economic globalization can be asymmetric and damaging for developing countries, ignore environmental concerns, and undermine democracy (Stiglitz, 2006, p.: 9). Companies can be considered as driving forces behind globalization (Stiglitz, 2006, p.: 188) and multinational corporations sometimes have an turnover that is higher than the GNP of nation-states (Engwall, 2006, p.: 161; Stiglitz, 2006, p.: 187) as shown in table 1. Of course, GNP and revenues are not directly comparable in accounting terms but these numbers suggest how powerful – in monetary terms – large companies are in comparison with countries.

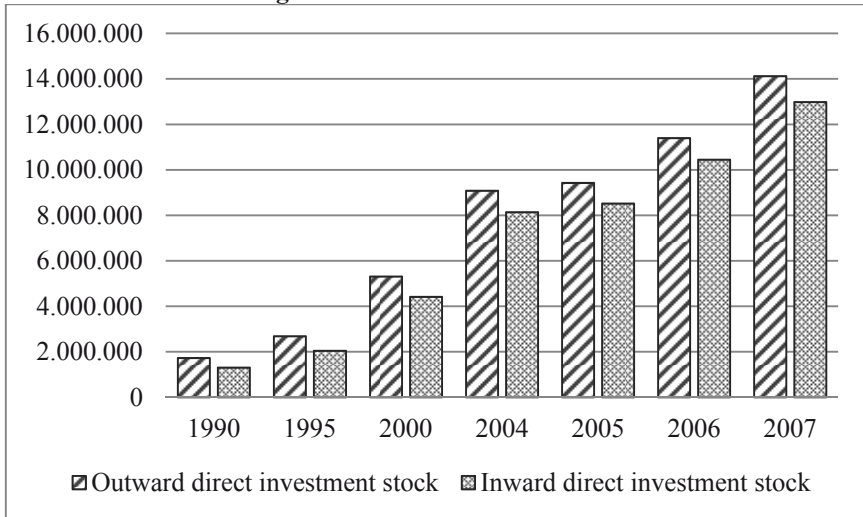
Table 1: Countries and Companies: Ranking by GNP and Revenues 2009

Rank	Country/Company	GNP/Revenues in billion US\$
1	United States	14.119,0
-	Eurozone	12.455,9
2	Japan	5.068,9
...	...	...
21	Poland	430,0
22	Wal-Mart	408,2
23	Sweden	406,1
24	Austria	384,9
25	Norway	381,7
26	Saudi Arabia	369,2
27	Iran	331,0
28	Greece	329,9
29	Venezuela	326,4
30	Denmark	309,5
31	Argentina	308,7
32	Exxon Mobil	301,5
33	South Africa	285,9
34	Royal Dutch Shell	278,2
35	Thailand	263,8
36	United Arab Emirates	261,3
37	BP	246,1
38	Finland	237,5

Sources: The World Bank (2009); Wal-Mart Annual Report 2010; Exxon Mobil Annual Report 2009; Royal Dutch Shell Annual Report 2009; BP Annual Report 2009

Foreign direct investments have been attributed to an increasingly globalized economy and show the economic force of corporations on a global level.

Figure 2: FDI Stocks³ 1990-2007



(OECD, Brazil, Chile, China, Estonia, India, Indonesia, Israel, Russian Federation, Slovenia, South Africa); Source: OECD Factbook 2010: Economic, Environmental and Social Statistics

Taking the refashioning of states, public-sector governance, private governance, and the global civil society together, the effects of globalization on governance systems become visible. A ground-breaking summary within this field is James Roseau's and Ernst-Otto Czempiel's work "*Governance Without Government: Order and Change in World Politics*" from 1992. The authors explore expanding global interdependencies with their ideological roots, behavioral patterns, and institutional mechanisms.

Companies in the international sphere can also be assessed by power. It can be defined as „the production, in and through social relations, of effects that shape the capacities of actors to determine their circumstances and fate" (Barnett & Duvall, 2005, p.: 39). Power is a key concept in international relations and will be used to describe the structures in which companies are embedded. But only corporate power related to political activities in a broader sense is relevant for this study. Business power in international relations has been studied by Fuchs (D. Fuchs, 2005; D. Fuchs & Lederer, 2007; D. A. Fuchs, 2007) resulting in comprehensive descriptions of corporate political power in times of globalization. She focuses on the influence of business on politics and identifies different dimensions of business power and its political activities.

³ Inward stock is the value of the capital and reserves in the economy attributable to a parent enterprise resident in a different economy. Outward stock refers to the value of capital and reserves in another economy attributable to a parent enterprise resident in the economy.

Table 2: The Dimensions of Business Power and its Political Activities

Political activity Power	Lobbying	Capital Mobili- ty, Quasi- Regulation	PPP, Self- Regulation	Privatization
Instru- mental	Using lob- bying to influence policy out- put	Lobbying for liberalization if capital controls or role of rating	Lobbying for self- regulation and PPP's	Lobbying for privatization
Struc- tural	Enhancing the influence of lobbying	Implicit threat of capital mobili- ty as agenda- setting power	Using PPP's and self- regulation to set rules	Using rule- setting power to introduce markets
Discur- sive	Enhancing the per- ceived legit- imacy of lobbying activity and position	Enhancing the perceived legit- imacy of the competition state	Enhancing the per- ceived legit- imacy of PPP's and self- regulation	Privatization trends reflect- ing the acqui- sition of political authority by business

Source: (D. Fuchs, 2005, p.: 89)

Political activities of corporations can be summarized under lobbying, capital mobility, quasi-regulation, Public Private Partnerships (PPP's), self-regulation, and privatization. Instrumental power provides an assessment of the direct influence of interests on political output based on an actor's resources. Structural power captures aspects of power relationships while discursive power considers a wide range of "politics" (D. Fuchs, 2005, pp.: 79-87). While this approach provides a sound mapping of corporate power in international relations, one major shortcoming is the missing conceptualization of the influence of politics on business. Rosenau (James N. Rosenau, 2003a) specifically highlights the multidirectional interdependencies between different types of actors in international relations. Therefore, another conceptualization of business power in *Global Governance* by Barnett and Duvall (Barnett & Duvall, 2005) is chosen that can present a taxonomy of both directions.

Barnett and Duvall's taxonomy of power relies on two dimensions: "social relations through which power works (in relations of interaction or in social relations of constitution) and the specificity of social relations through which effects are produced (specific/direct or diffuse/indirect)" (Barnett & Duvall, 2005, p.: 39). Four conceptions of power are generated: compulsory, institutional, structural, and productive (Barnett & Duvall, 2005, p.: 48). "**Compulsory** power exists in the direct control of one actor over the conditions of

existence and/or the actions of another. **Institutional** power exists in actors’ indirect control over the conditions of action of socially distant others. **Structural** power operates as the constitutive relations of a direct and specific – hence, mutually constituting – kind. **Productive** power works through diffuse constitutive relations to produce the situated social capacities of actors” (emphasis added).

Table 3: Taxonomy of Power

		Relational specificity	
		Direct	Diffuse
Power works through	Interactions of specific actors	Compulsory	Institutional
	Social relations of constitution	Structural	Productive

Source: (Barnett & Duvall, 2005, p.: 48)

Building upon this taxonomy of power, business in international relations can be assessed in both ways: a corporation can be subject of a sphere of authority (passive) or it can be (part of) a sphere of authority by itself (active). Barnett and Duvall apply their taxonomy on the UN Global Compact as part of international relations and come to the conclusion: “The Global Compact, therefore, illuminates the workings of, and connections between, different forms of power: compulsory power because of the ability of nonstate actors to deploy shaming techniques to alter corporate practices; institutional power because of the role of the UN in establishing new rules that can constrain the behavior of corporations; and productive power because of the attempt to help produce a new social kind of corporate actor” (Barnett & Duvall, 2005, p.: 61).

Starting from this example, corporate activities related to power in international relations can be outlined as follows: companies can be active (as originator of power) and/or passive (as recipient of power) in international relations. The following examples intend to provide an overview on companies in international relations. They are structured according to Fuchs’ (2005) dimensions of business power: lobbying, quasi-regulation, regulation, and PPP. Privatization “as providing an expansion in the political activities of business to the extent that business is taking over tasks previously provided by governments” (D. Fuchs, 2005, p.: 9) is integrated into a new point named ‘corporate social responsibility’ for reasons of simplicity. Other elements that reflect business power in international relations are codes of conduct and MNC-NGO cooperation. These seven dimensions provide an extensive taxonomy of business power.

Of course, the segmentation is somewhat artificial, as most activities overlap, e.g. NGO-MNC cooperation often includes codes of conduct.

Corporate Social Responsibility

Studies in responsible business or ‘social issues in management’, as Durand and Guthrie describe it (2008, p.: 138), have many meanings and a variety of formal definitions which overlap to some extent. Probably the most commonly used expression is Corporate Social Responsibility (CSR), other terms are corporate social responsiveness, stakeholder model, corporate social performance, sustainable development, triple bottom line, corporate citizenship, and others (De Bettignies, 2002). For reasons of rationality, this analysis follows the main CSR literature and aligns other notions to the scope of CSR.

There is a well-established body of academic work devoted to both examination of the historical development of CSR (Bakker, Groenewegen, & Hond, 2005; A. B. Carroll, 1999, 2008; Durand & Guthrie, 2008; Schwerk, 2009; Vurro, 2006) and defining the boundaries of CSR (A. B. Carroll, 1991; Garriga & Melé, 2004; Godfrey & Hatch, 2007; Margolis & Walsh, 2003; McWilliams, Siegel, & Wright, 2006; Tulder & Zwart, 2006; Wood, 1991).

As the evolution of the term CSR is exhaustively studied in the mentioned publications (see especially A. B. Carroll, 1999; Durand & Guthrie, 2008, pp.: 139-141), no historical developments of the term CSR are presented at this point. Current research puts different dimensions of CSR on stage and links fields as psychology, sociology, and legal studies, as well as other disciplines as ethics and international business with CSR. Different theories surrounding the question “Why should companies engage in CSR?” are developed further (Aguilera, Rupp, Williams, & Ganapathi, 2007; Campbell, 2007; Garriga & Melé, 2004), integrating different fields of research. Aguilera et al. for example take multiple actors (employees, consumers, management, institutional investors, governments, NGO’s, and supranational governmental entities) into account and identify different motives (instrumental, relational, and moral) for these actors to encourage / discourage CSR (Aguilera et al., 2007, pp.: 837-838), hereby integrating different theories of organizational justice, corporate governance, and varieties of capitalism (Aguilera et al., 2007, p.: 836). Garriga categorizes many existing CSR theories into instrumental, political, integrative, and ethical theories and concludes: “In practice, each CSR theory presents four dimensions related to profits, political performance, social demands and ethical values” (Garriga & Melé, 2004, p.: 51). Furthermore, the border between economic and political responsibilities has become blurred, as Scherer and Palazzo summarize. Companies have started to assume responsibilities in their globally expanded business environments which were once regarded as governmental responsibili-

ties, e.g. health, education, social ills, self-regulation, human rights, peace, and others (Scherer & Palazzo, 2007, p.: 1109).

Current research also emphasizes the implementation of CSR concepts and – as operationalization of the concept – the management of responsible corporate behavior (Vurro, 2006, p.: 67). CSR ‘best practices’ are in the center of interest from a business point-of-view (A. B. Carroll, 2008, p.: 40). Hence, the definitional scope shifted and included these characteristics, exemplarily delivered by Benchmarks – Principals for Global CSR:

“CSR is the decision-making and implementation process that guides all company activities in the protection and promotion of international human rights, labor and environmental standards and compliance with legal requirements within its operations and in its relations to the societies and communities where it operates” (The Global Principles Steering Group, 2003, p.: 46).

The concept of CSR inherits ethical, normative, and practical components. CSR activities by companies can be “a potential new source of Global Governance, that is, mechanisms to reach collective decisions about transnational problems with or without government participation” (Hauffer, 2001, p.: 2). The implementation of CSR is crucial and the link between added value to corporate success and CSR plays an important role. To implement CSR, specific instruments and mechanisms are needed.

Tulder and Zwart developed a framework to define the different aspects and instruments of CSR, based upon four approaches to CSR (Tulder & Zwart, 2006, pp.: 143-146). They range from inactive, reactive, active, to pro-/interactive and are similar to the categorization introduced by Carroll in 1979 (A. B. Carroll, 1979, p.: 502).

Inactive CSR is aimed at efficiency and competitiveness in the immediate market environment and is a goal-oriented approach. Profit and sales maximization and return on investment are in the center of interest. The responsibility of companies is to generate profit and ethical questions are not raised. *Reactive* CSR focuses also on efficiency but is extended by conformity with stakeholder-defined norms of appropriate behavior. Companies are socially responsive, especially when their reputation is on stake. One manifestation of CSR can be corporate philanthropy as an expression of the charity principle, i.e. spending a part of gained profits for the public good – expectations of tangible returns for their contributions often included (Mescon & Tilson, 1987, p.: 49). An *active* CSR requires an explicit commitment to ethical values and virtues and corporate objectives are formulated hereafter. Potential or actual pressure by stakeholders is not relevant in the socially responsible realization of objectives. *Pro-/interactive* CSR seeks to combine ethics and efficiency in a consequent manner and companies engage in activities aimed at external stakeholders at the beginning of an issue’s life cycle. In addition to the proactive element, an interactive

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