

COMPACT GLOBAL

[Lesson 3] Global Governance and the Corporation

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Introduction

Globalization has created a new world order; one where traditional notions of state-led governance have been replaced with corporate mandates. There is a grave need for international corporate governance.

In an attempt to curb the corporations' seemingly unyielding power, the United Nations created the Global Compact (UNGP). The UNGP promotes international corporate governance, but is it working? Is it enough?

This lesson will introduce *the corporation*, and *global governance* within the context of human rights violations, with respect to notions of democracy, sovereignty, security, and ethics.

Objectives

- To educate learners on the issues surrounding global governance and the corporation
- To contextualize the realities for garment workers, as a result of pressures from the bottom-line
- To facilitate an understanding of the limitations of the Global Compact.

Learning Materials

Educators and Students are encouraged to take advantage of the Social Alterations website to help themselves navigate their way through this lesson. Both required and supplementary materials are available through the website, and may be found in the Reading and/or Video sections. Articles not available online can be found through the library at your academic institution. We suggest you make arrangements to locate both required and suggested readings before beginning each lesson. If you are unable to locate certain material, please contact Social Alterations for assistance.

Required Reading

Bakan, Joel. [*The Corporation: The Pathological Pursuit of Profit and Power*](#). Toronto, ON: Penguin Canada, 2004.

Ellwood, Wayne. [*The No-Nonsense Guide to Globalization*](#). Oxford: New Internationalist Publications Ltd, 2005.

Required Viewing

[The Corporation](#) (Documentary)

Online Participation

Learners are encouraged to engage with the Social Alterations community. Such participation can be accomplished through our online forums. Educators are asked to join the Social Alterations Forum, and all learners are encouraged to join the Social Alterations Facebook Fan Page to participate in discussion forums.

Assignment File

The assignment for this lesson is geared toward notions of global governance and the corporation. In your learning journal, mark down your thoughts and feelings on accountability, within the context of these issues, as you have come to understand it through completing this lesson. Here are some questions and affirmations to help guide you through this process.

1. Before beginning this lesson, what was your understanding of the corporation, and international global governance?
2. Now that you have completed this lesson, have your opinions changed?
3. How do you see your role? How do you feel?

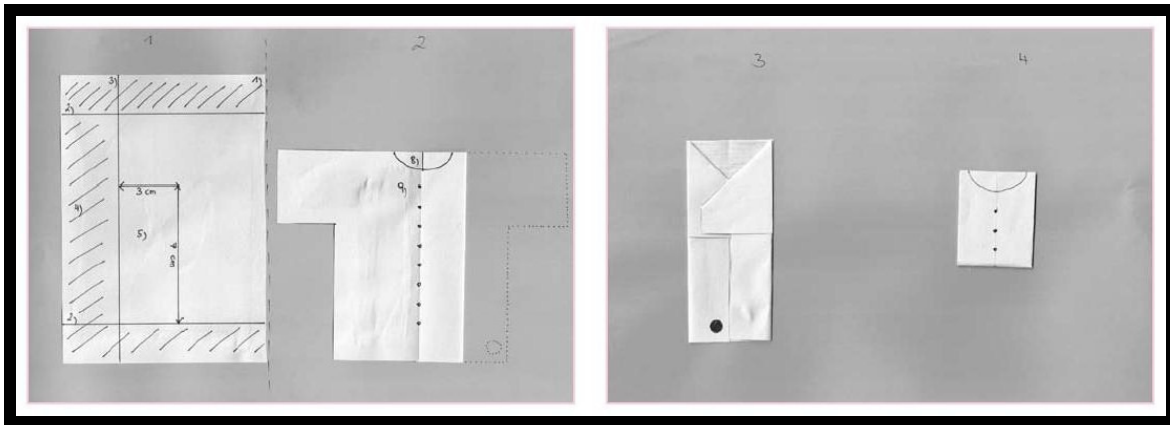
Learning Activities

As we have learned through this lesson, profit is the bottom line. How do the pressures of this reality translate to the factory floor? We have lined up two activities for you: one for classroom learning, and one for independent learning.

Classroom Learning // *All Together Now: Piecework on an Assembly Line*

This activity places students/participants in a simulated factory environment. With an unrealistic timeline and unclear instructions, students/participants are asked to make t-shirts in an assembly line. The objective is “[f]or students to experience the monotony and pressure of piecework.” (Südwind Agentur, “All Together Now: Piecework on an Assembly Line,” 152)

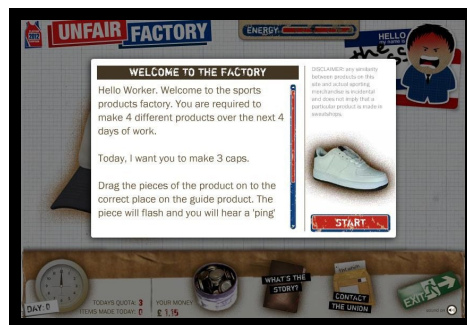
[Click here](#) to download this activity by Südwind Agentur from *Teaching Sustainable Fashion: A Handbook for Educators*, Edited by Liz Parker on behalf of Fashioning an Ethical Industry (UK) and Dr. Marsha A. Dickson on behalf of Educators for Socially Responsible Apparel Business (USA).



[Sketches by Fashioning an Ethical Industry for the activity “All Together Now: Piecework on an Assembly Line,” in *Teaching Sustainable Fashion: A Handbook for Educators*, pg. 152]

Encourage students/participants to give their “factory” a name! Once the clock starts ticking for production, walk around and listen to the conversations taking place. If you notice that some students/participants aren’t happy with the orders coming from their supervisor, you can advise them to strike and walk off the simulated factory floor!

Independent Learning // *Unfair Factory*



[Screen Shot, from Labour Behind the Label: Unfair Factory online game]

Play Labour Behind the Label’s online game, *Unfair Factory*. This resource educates players/learners on the realities for workers inside factories where basic human rights are violated each and everyday. Players are invited to click on “What’s the story?” with each incident

to learn more on the issues, such as poverty wages, forced overtime, disposable workers, and union busting. You can also hear from the workers themselves, through worker opinions.

Study Guide

Corporate-Led Globalization

In his book *The Corporation: The Pathological Pursuit of Profit and Power*, Joel Bakan investigates how multinational corporations have “risen from relative obscurity to become the world’s dominant economic institution” (Bakan, 5). The nature and implications of what he calls the “pathological character” (2) of a corporation, and what, if anything, can be done to stop the many negative externalities (see below, under *Human Rights*) directly resulting from corporate negligence, are the focus of his book. Bakan uses “the word ‘corporation’ to describe the large Anglo-American publicly traded business corporation, as opposed to small incorporated businesses, or small and large not-for-profit or privately owned ones.” (3) In the context of the global economy, due to “liberalized international trade laws and new communications and transportation technologies” (Bakan, 65), corporations are free to move the production of manufactured goods off-shore, where they can be produced for a much lower price.

A corporation’s ability to move freely across state-lines, means that it “can move operations to where costs are cheapest – and play off one government against another in the process.” (63) Such corporate freedom “is a powerful bargaining chip which business can use to wrest greater concessions from job-hungry governments.” (63) Wayne Ellwood, author of the book *The No-Nonsense Guide to Globalization*, believes that corporate-led globalization is “increasing inequality and poverty worldwide as national governments lose the ability to control their development strategies and policies.” (107) Ellwood references the United Nations Development Program (UNDP) to highlight the magnitude of corporate power at the turn of the century: globalization has enabled corporations “to structure the public debate on social issues and the role of government in a way which benefits their own interests.” (63)

<i>Implications of Corporate-Led Globalization</i>
At the turn of this century, corporations held more “economic power than nation-states.” (55) According to the United Nations Development Program (UNDP), of the largest 100 economies in the world, 50 are actually run not by countries, but by multinational corporations (55). Shocking still, is that the “combined annual revenues of the biggest 200 corporations are greater than those of 182 nation-states that contain 80 per cent of the world’s population.” (55) Today, the corporation is “protected by the Fourteenth Amendment’s rights to ‘due process of law’ and ‘equal protection of the laws.’” (Bakan, 16) An amendment, as Bakan points out, that was originally created to protect the rights of freed slaves under the Constitution (16). Corporations were now free to grow in both size and power.

The Condition of Globalization

Ellwood believes that multinational corporations, through economic globalization, have created a global commercial culture that is “eerily homogenous.” (Ellwood, 53) He argues that, “as the global rules regulating the movement of goods and investment have been relaxed, private corporations have expanded their global reach so that their decisions now touch the lives of people in the most distant parts of the world.” (54) In this context, the new corporate era is a “cultural and economic *tsunami* [...] that is roaring across the globe and replacing the spectacular diversity of human society with a Westernized version of the good life.” (Ellwood, 53) This new world Ellwood is describing hasn’t always existed. It is only in the last 150 years that the corporation has been working toward the global domination of culture, iconography and ideology (Bakan, 5).

Human Rights

In this context, human rights violations may be understood as one of the negative ‘externalities’ of the corporation. Economists use the term ‘externality’ to describe any external cost, caused by the corporation, paid for by someone or something else. According to the economist Milton Friedman (for more on Friedman, see Lesson 4), an externality “is the effect of a transaction . . . on a third party who has not consented to or played any role in the carrying out of that transaction.” (Bakan, 61) In the context of the global apparel industry, workers represent that third party.

The term ‘sweatshop’ is often used to describe a factory operating under conditions that impede the basic human rights of its workers; according to the United States General Accounting Office (GAO) the term sweatshop refers to any “employer that violates more than one federal or state labor law governing minimum wage and overtime, child labor, industrial homework, occupational safety and health, workers’ compensation, or industry registration” (GAO, 1994).

Under the condition of globalization, new forms of governance are needed to monitor and regulate corporate agendas—to protect human rights and environmental security. The UN Global Compact has mandated itself to do just that.

The United Nations Global Compact

Considering the implications of the UN Global Compact in relation to the concepts of democracy, sovereignty, security, and ethics will help to determine whether or not the Global Compact is operating as an effective system of corporate governance within the current context of globalization.

The UN Global Compact has essentially created a platform to debate issues surrounding corporate governance and the responsibility of business. According to its website, the Global Compact “is a framework for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption” (Global Compact) The Global Compact “does not ‘police’, enforce or measure the behavior or actions of companies” (Global Compact). Instead, it works toward “public accountability, transparency and the enlightened self-interest of companies, labour and civil society to initiate and share substantive action in pursuing the principles upon which the Global Compact is based” (Global Compact) The question remains however, as to whether or not the Global Compact is not interested in policing, or is it simply unable to police. The Global Compact, as a global initiative that is strictly voluntary, maintains two objectives: to “Mainstream the ten principles in business activities around the world” and to “Catalyse actions in support of broader UN goals, such as the Millennium Development Goals (MDGs)” (Global Compact). The ten principles of the compact surround issues pertinent to human rights, labour, environment and anti-corruption (see Table 1) while the MDGs “range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education” (UNMDG) by the year 2015 (see Table 2). While some companies may have signed onto the initiative to promote a more “sustainable” public image, the compact has proven that its principles are to be taken seriously by its members, through delisting (The Economist). However, in that the compact is an initiative based on partnership, rather than policing, all it is truly capable of achieving is the promotion of what it considers to be universal standards in good corporate citizenship, and to suggest ways in which companies can achieve such goals. Within the context of global governance, there are many implications of the UN Global Compact in relation to the concepts of democracy, sovereignty, security, and ethics.

Democracy

Ineke Lock discusses the implications of CSR for democracy, through the essay “Corporate Social Responsibility and Codes of Conduct: The Fox Guarding the Chicken Coop?” in the book *Natures Revenge: Reclaiming Sustainability in an Age of Corporate Globalization*. According to Lock, some of the problems associated with many CSR initiatives are that they seem to be corporately regulated, and that it remains difficult at this time to see whether or not they are truly having an impact on creating a sustainable future (Lock, 122). Corporations are not democratically elected, and thus if left to determine for themselves what constitutes “social responsibility” they would have no choice but to follow corporate law, and base their business practices on profit. If

democratically elected governments have a responsibility to protect their citizens and fail to do so, citizens must hold them accountable.

Sovereignty

The role of sovereignty in state-led initiatives is crucial in the implementation of corporate governance. However, global initiatives such as the Global Compact can be seen as standing in the way of state sovereignty. According to Lock, corporate social responsibility (CSR) (see Lesson 4) initiatives have associated corporations as being part of “the ‘solution’ rather than the cause of environmental problems.” (Lock, 123)

Corporations, while able to move freely across national borders in search of profit through the institution of globalization, must still uphold the laws that govern their own nation-state. A global CSR initiative, such as the UN Global Compact, seeks to promote universal standards of what constitutes the social responsibility of corporations. In doing so, the Global Compact has taken the responsibility of corporate governance away from the nation-state, in an effort to promote the universal standards of human rights, labour, the environment and anti-corruption that are embedded within the compact's ten principles. The implication of the Global Compact in relation to the concept of sovereignty is that it has essentially taken away the right of a nation-state to govern its own corporate sector.

In their book, *Good News for a Change: Hope for a Troubled Planet*, Holly Dressel and David Suzuki reference Germany as being one country that has taken corporate governance seriously at a national level. According to the authors, “In Germany, businesses, no matter how large, no matter where they’re headquartered, can be held liable for their own products, both in terms of the production process and in terms of product use.” (Dressel and Suzuki, 36) Unlike most countries, where “no one can be held accountable and a corporation can just dissolve and re-form even if it does get fined” (37), Germany is holding corporations accountable through legislation. According to Dressel and Suzuki, “Germany has been using these laws for six years now, and it remains one of the most business-attractive, prosperous nations in the world.” (37) It may be that a corporate governing initiative such as the Global Compact has compromised state sovereignty to a degree; however states have maintained the ability to govern themselves, and their corporate sector in order to protect their citizens.

Security

How a state chooses to protect its citizens falls under the notion of security. In his book, *On Humane Governance: Toward a New Global Politics*, Richard Falk claims that there is a security challenge that “relates to the disabling of states as promoters of social and economic rights and as allocators of resources for the relief of mass poverty.” (Falk, 135) The UN Global Compact promotes principles of universality, such as notions of international human rights, for example. Thus, supporters of the compact might agree with a need to promote international security; “[t]hreats to security on a planetary level, such as the breakdown of the global monetary system, global warming, nuclear accidents, or pandemic diseases are outside the control of nation states” (98) In the context of this argument, the compact could be seen as creating a platform for discussions surrounding global insecurities in the context of corporate governance.

Ethics

According to Klaus Leisinger, legislation is not sufficient to curb mainstream corporate behaviour, because “[l]aw represents the ethical minimum and legality is in some cases insufficient to lend legitimacy to corporate conduct” (Leisinger, 4). Leisinger believes that “[w]hile effective legislation and regulation at the national level are important pillars to prevent corporate ruthlessness, reference to law and regulation alone is a partial solution.” (4) The Global Compact has implications on the notion of ethics in the context of global governance.

Through the condition of globalization “there is no universally accepted definition of ‘the right thing’ to do” (5), however the Global Compact has created a platform for all parties concerned with corporate governance to discuss what the various interpretations of ‘the right thing to do’ really means, and how it should be enforced. Within the context of global governance, the Global Compact has provided a platform for such considerations.

Q: Is it enough?

The Global Compact is not enough to regulate business at an international level. Wayne Ellwood highlights the doubt that some skeptics hold over CSR practices through the words of author and critic David Korten. When asked whether or not he believed that sustainable growth was possible, Korten replied:

In my view 'green growth' is an oxymoron. In a deregulated market economy global corporations are accountable to only one master, a rogue financial system with one incessant demand – keep your stock price as high as possible by maximizing short-term returns. One way to do that is to shift as much of the cost of the corporation's operations as possible onto the community. The goal is to externalize costs and privatize gain.

A green corporation simply can't last in our unregulated market economy where competing companies are not internalizing their costs. If you do attempt to 'green' your business you'll soon be bought out by some corporate raiders who see an opportunity to externalize costs and make a short-term killing.

(Ellwood, 69)

It is not surprising that the idea of CSR is considered by some to be nothing more than just a public relations term used to help boost a corporation's profile. Governance alone, especially on a global scale, is not enough to ensure a corporation will behave in the best interest of society. When we consider that in many countries, such as Canada and America, corporations are legally liable only to their shareholders, it would be essentially illegal for them to adopt the principles suggested by the Global Compact. While governing initiatives such as the compact are effective in promoting good governance, they cannot guarantee compliance. If corporations are to be held accountable for their actions, legislation at a national level is needed to ensure compliance.

Implications

The implications of the UN Global Compact in relation to the concepts of democracy, sovereignty, security and ethics are great. Through the processes of globalization, corporations have been allowed to roam free, without having to consider the consequences of their actions. They are, after all, simply obeying the laws of the land as they search for ways to make the largest profit at the lowest cost. Corporations are beginning to pay attention to the financial gains available to them if they were to adopt some of the CSR mandates suggested to them by the Global Compact.

However, we must ask ourselves if insincere acts of CSR in the name of profit are good enough. If the answer is no, then surely we must work toward the establishment and enforcement of both national and international law. The platform for discussion created by the Global Compact is a good place to consider our options...

Appendix 1: The two main objectives of the United Nations Global Compact are to promote the ten principles of the compact, and the eight Millennium Development Goals (MDGs).

Table 1: The Ten Principles of the United Nations Global Compact and their Suggested Standard in Relation to Human Rights, Labour, Environment and Anti-Corruption.

The Ten Principles of the United Nations Global Compact		
Principle	Suggested Standard	Category
1	Support and respect the protection of internationally proclaimed human rights.	Human Rights 20%
2	Make sure that they are not complicit in human rights abuses.	
3	Uphold the freedom of association and the effective recognition of the right to collective bargaining.	Labour 40%
4	Eliminate of all forms of forced and compulsory labour	
5	Effectively abolish child labour.	
6	Eliminate discrimination in respect of employment and occupation.	
7	Support a precautionary approach to environmental challenges.	Environment 30%
8	Undertake initiatives to promote greater environmental responsibility.	
9	Encourage the development and diffusion of environmentally friendly technologies.	
10	Work against corruption in all its forms, including extortion and bribery.	Anti-Corruption 10%

Source: *The United Nations Global Compact (GC). "The Ten Principles of the UN Global Compact"*

The Eight United Nations Millennium Development Goals	
1	Eradicate extreme poverty and hunger
2	Achieve universal primary education
3	Promote gender equality and empower women
4	Reduce child mortality
5	Improve maternal health
6	Combat HIV/AIDS, and malaria and other diseases
7	Ensure environmental sustainability
8	Develop a global partnership for development

Table 2: The United Nations Millennium Development Goals (MDGs)

Source: *The United Nations Millennium Development Goals (MDGs). "What are the Millennium Development Goals?"*

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