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Global Corporate Accountability*

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Abstract

Global corporate accountability refers to the performance of a publicly traded company in non-financial areas such as social responsibility, sustainability and environmental performance. The emergence of global civil regulation is rooted in the perception that economic globalization has created a structural imbalance between the size and power of global firms and markets and the capacity and/or willingness of governments to adequately regulate their corporate conduct.

The objective of economic sustainability implies the development within the firm of a societal corporate accountability system, which will help the firm to manage its economic and societal responsibilities and to periodically report to its different stakeholders.

Keywords: Global Corporate Accountability; Global Civil Regulation; Firms of Endearment; Global Firms; Circular Economy; Recycling; Societal Accounting; Global Markets

1. The Movement for Global Corporate Accountability

Global corporate accountability refers to the performance of a publicly traded company in non-financial areas such as social responsibility, sustainability and environmental performance. Corporate accountability considers that financial performance should not be a company's single important goal and that shareholders are not the only people a company must be responsible to; stakeholders such as employees and community members also require accountability.

> □ *The objectives of corporate accountability include four key elements: (a) internalizing negative social and environmental practices; (b) improving material and energy efficiency; (c) shifting from a linear economy to a circular economy; (d) shifting from non-renewable to renewable resources.*

The participants in the movement for global corporate accountability are wide ranging. They include unions, environmental organizations, human rights and labor

* Invited Article

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activists, religious and consumer groups, student organizations, consumer groups, as well as social or ethical mutual funds and socially oriented institutional investors. Such campaigns have proliferated over the last decade, focusing on such issues as working conditions and wages, child labor, the income of agricultural workers, unsustainable forestry practices, business investments that support corrupt governments, and natural resource investments and natural resource investments that adversely affect human rights and environmental quality (Gates, 2013).

2. Objectives of Private Regulation

With the globalization of the world economy, international companies are often as powerful as national States and yet less accountable (Brondoni, 2019a). The emergence of global civil regulation is rooted in the perception that economic globalization has created a *structural imbalance* between the size and power of global firms and markets and the capacity and/or willingness of governments to adequately regulate their corporate conduct (Vogel, 2010).

Private regulations is intended to compensate for the decreasing capacities of national governments for providing adequate mechanism to govern many of the negative social and environmental impact. The civil regulation proponents argue that both private and public regulation could contribute, not only to protect but also to restore the environment, by improving bad business practices of corporations that destroy the world.

3. Scope of Global Civil Regulations

The number and scope of global civil regulations began to expand significantly during the 1990s. Private regulations that define standards for “responsible” business practices now exist for virtually every global industry and internationally traded commodity. Civil regulations employ private, non-state, or market-based regulatory frameworks to govern multinational firms and global supply networks. A defining feature of civil regulations is that their legitimacy, governance, and implementation is NOT rooted in public authority. Civil regulations are based on “soft law” or private law rather than legally enforceable standards: they specify the responsibilities of global firms for addressing labor practices, environmental performance, and human rights policies—has become a highly visible. Violators typically instead of being fined face social or market penalties rather than legal sanctions (Vogel, 2010).

> □ *There are now more than 300 industry or product codes, nearly all of which address labor or environmental practices; many sectors and products are governed by multiple codes. More than 3,000 global firms now regularly issue reports on the social and environmental practices and many of these firms have developed their own codes and/or subscribe to one or more industry or cross-industry codes. The largest private business code, the UN Global Compact, has more than 3,500 corporate signatories. More than 2,300 global firms have endorsed the Business Charter for*

Sustainable Development developed by the International Chamber of Commerce and more than 46,000 firms have been certified as complaint with ISO 14001, an environmental process standard. More than 70 major global financial institutions from 16 countries, representing assets of 4.5 trillion dollars, have signed the United Nations Principles for Responsible Investments (Vogel, 2010).

Should corporations be obliged to integrate the environmental and social costs of their business activities, many would probably become unprofitable or would lose their competitive advantage over other competing firms or over substitute products or services. Market forces might be very powerful if a regulatory framework forced all companies to do it, "a race to the top" would replace a "race to the bottom". This would require, lots of regulations and unpractical protectionism, given that pollution respects no boundaries and that all economies in the world exploit the same limited pool of resources. This underlines the importance of voluntary private regulations.

4. Actors of Civil Regulation

Where have civil regulations coming from? Who has initiated them? The organizational or institutional sources of civil regulations vary widely. They include both domestic and international NGOs such as the World Wildlife Fund, Greenpeace, the Clean Clothes Campaign, Amnesty International, the Council on Economic Priorities, and Oxfam; trade associations for coffee, chemicals, mining, apparel, electronics, toys, and cocoa; trade unions such as the International Textile Workers Association; and international standards bodies such the International Standards Organization. Some civil regulations have been established with the support of governments or interstate organizations.

□ *For example, the United Nations Environmental Program helped establish the Electronics Industry Code of Conduct, the British and American governments worked with firms in extractive industries to develop Voluntary Principles on Security and Human Rights, the Fair Labor Association emerged from an initiative of the American Government, and the Austrian government supported the development of the Forest Stewardship Council. However, states have not participated in the enforcement of these regulations, which remain voluntary.*

Rather they have primarily served as facilitators, bringing firms, and in some cases, labor unions and NGOs together; helping them agree on common standards; and in some cases, providing civil regulatory organizations with initial funding.

In this context, an important advantage of civil regulations as a vehicle of global business regulation is that their provisions are not currently governed by the World Trade Organization (WTO), whose rules only apply to regulations formally adopted by governments and which do not govern domestic environmental, social, and human rights practices. For example, though state eco labels are regarded by the WTO as (potential) technical barriers to trade, private product labels and certifications are not (OECD, 2006).

Firms can demand adherence to labor and environmental standards by their global suppliers as a condition for doing business with them, whereas WTO rules restrict the ability of governments to make such standards a condition for market access. This means that foreign producers who have been disadvantaged by private regulations for standards have no legal remedy: They must comply with them or risk losing export markets.

5. The Leverage Impact of Large International Firms

For many global activists, lobbying corporations has come to represent a powerful alternative to pressuring for changes in public policies. Such campaigns have proliferated over the last decade, focusing on such issues as working conditions and wages, child labor, the income of agricultural workers, unsustainable forestry practices, business investments that support corrupt governments, and natural resource investments quality. These public campaigns of "*naming and shaming*" have been directed at highly visible European and American based firms recognized leaders in their reference market, such as Nike, Shell, Ikea, Unilever, C&A, the Gap, Tiffany's, Nestle, Starbucks, which then became public symbols of "*corporate irresponsi*bility."

Though some NGOs continue to emphasize their aggressive policy of "naming and shaming" global firms, other NGOs target exemplary opinion leaders to cooperate with them and with industry associations to develop voluntary standards and to participate in their enforcement at the national and international levels (Lambin, E., 2015; Lambin, E., 2003).

> □ *An example of industry association is (CGF) a global, parity-based industry network, driven by its members. It brings together the CEOs and senior management of over 400 retailers, manufacturers, service providers and other stakeholders across 70 countries and reflects the diversity of the industry in geography, size, product category and format. Forum member companies have combined sales of EUR 2.5 trillion.*

Opinion leaders are respected sources of information, are socially connected to novel ideas, and possess sufficient interpersonal skills to exert influence on others' decision-making. In the globalized world market, opinion leaders are generally highly visible because of their dominant position. The objective is to cooperate with these opinion leaders, promoting their exemplary behavior in order to trigger a herding (spillover) effect on the thousands of small manufacturers, suppliers or farmers operating in the market and inducing them to adopt voluntarily more sustainable standards.

> □ *The term 'Herd behavior' in humans is used to explain the phenomenon of large numbers of people acting in the same way at the same time.*

Changing the procurement policies and practices of firms such as McDonalds, Wal-Mart, Starbucks, and Home Depot would have major global social and environmental impacts – comparable if not greater than that of many national regulations (Brondoni, 2019b).

6. The Greening of the Planet Issue

With the adoption in 2015 of the COP21 by over 190 countries including China and India and its unilateral rejection by the Trump Administration, the objective of greening the world economy is more than ever a top priority.

A green economy is defined as a sustainable economy and society with zero carbon emissions and a one-planet footprint where all energy is derived from renewable resources, which are naturally replenished. The objective is the preservation and protection of the world's ecosystems, biological diversity and forests in partnership with indigenous peoples and all relevant stakeholders, through the creation of sustainable governance models.

7. The Polluter-Pays-Principle

It is typically a domain where voluntary or private regulation summarized in the *polluter-pays-principle* is central. The principle is enacted to make the party responsible for generating pollution and responsible for paying for the damage to the natural or social environment. To the economist, the best way to protect the environment is to assign a price to its use instead of considering it as a free public good, in contrast with the other goods found in a market economy. If there is no market price, consumers and manufacturers are motivated to use the environment, as a *'free reservoir'* even if the social costs generated by their polluting behaviour are high, since the market does not assess these costs. Thus, the ones generating these social costs do not pay them but should be held responsible for the costs involved.

The price set to the use of the environment should be equal to the sum of the total social costs generated by pollution. The economic instruments used to set a price to the use of the environment generally take the form of a direct tax on the polluting activities, either in prevention (eco-taxes) or in a repairing perspective (eco- fees). Given this price, polluters would use the environment only to the extent the expected benefits of this use are higher than the price they would have to pay. This way, the polluters would assume the social cost of pollution. This is the idea behind the principle *'who pollutes pays'*. The question remains to decide who will be in charge of the green regulation.

8. Is Greening World Economy a Realistic Objective?

Several Marxist economists consider that green capitalism is doomed from the start because CEOs and corporate boards are not responsible to society; they are responsible to private shareholders and they will do what is the benefits of their owners and not what is good for society. For example, Smith believes that a socialist (or Marxist) government would do better than a conservatism (or liberal) government. (Smith, 2011). In reality, the situation is more complex, and a large number of opportunities exist, for governments, for corporations and for individuals, to contribute effectively to the greening of the economy (Lambin, J.J., 2014a; Lambin, J.J., 2014b).

Concerted actions for better integration of green sustainability in the firm's business policy are multiple and varied. Among them, let us mention:

- the different greenhouse gas (GHG) "cap and trade" schemes and carbon trading initiatives,
- the promotion of eco-responsible behaviors,
- the popularity of eco-certification like the norm ISO14000,
- the growing practice in reporting of the triple bottom line an (economic, social and environmental),
- the opinion surveys that reveal that more than two third of corporations "say" that they integrate the ecological issues in designing their strategies,
- the growing perceptions of climate change by the public, certainly the most important challenge.

These actions are all contributory, welcome, useful, encouraging. Will they be sufficient?

9. The Circular Economy Model

The business model of conventional capitalism follows a linear process: raw material extraction, manufacturing, distribution, consumption and accumulation of waste. A process "*take-make-waste*", which can be described as a "*cradle to grave*" process.

> □ *But conveniently "graves" are often in Africa, India or Bangladesh, out of sight. There is a progress with car manufacturers being responsible for recycling their own products, but there is little scrutiny on the supply chain.*

It is obvious today that the globalization of this industrial model is not sustainable in the long term. For the entire world to live as an American or European, we would need two more planets earth to satisfy everyone; three more still, if population should double, and twelve earths altogether if worldwide standards of living should double over the next forty years. To contribute to the greening of the economy, firms have adopted new business models, which are more sustainable. As shown by Walter Stahel other business models do exist (Stahel, 2006). In broader terms, the circular approach is a framework that takes insights from living systems. It considers that our systems should work like organisms, processing nutrients that can be fed back into the cycle – whether biological or technical – hence the "closed loop" or "regenerative" terms usually associated with it. The traditional linear life cycle is replaced by a loop "from cradle to a new cradle", by adopting re-using, re-manufacturing and technology-updating strategies.

10. Traceability of the Supply Chain

A supply chain is a network between a company and its suppliers to produce and distribute a specific product, and the supply chain represents the steps - from raw materials, processed products, intermediate finished products - it takes to get the product or service to the end customer (Lambin, J.J., 2012; Lambin, J.J. & Brondoni, 2001). Traceability is the capability to trace the supply chain, or as the ability to verify the history, location, or application of an item by means of documented recorded identification. In the context of sustainability, traceability is a powerful tool to assure and verify sustainability claims associated with commodities and products, ensuring good practice and respect or people and the environment all along the supply chain.

Under EU law, "traceability" means the ability to track any food, feed, food-producing animal or substance that will be used for consumption, through all stages of production, processing and distribution. The European Union's General Food Law came into force in 2002, making traceability compulsory for food and feed operators and requiring those businesses to implement traceability systems. The General Food Law Regulation establishes that only safe food and feed can be placed on the Union market or fed to food-producing animals. It also establishes basic criteria for establishing whether a food or feed is safe. The benefits of the supply chain's traceability are:

- improve the integrity of the supply chain
- track products from source to consumer
- trace products back to their origin,
- reduce the risk of mislabeling,
- perform more affective audits by having full information at hand,
- perform rapid tractability analysis in crisis such as recalls.

The 2013 crisis of the Lasagna market in Europe is a good example of the risk taken by not controlling a key member of the supply chain. In this particular case, horsemeat – instead of beef meat – was introduced in the supply chain of major manufacturers of Italian pasta by an unscrupulous low cost supplier.

11. Recycling in a Green Economy

As a promising eco-industry sub-sector, recycling is increasingly important for the European economy, contributing to total economic output and Europe's internal and overseas trade. The expected benefits are:

- The growing recycling industry helps to generate 'green jobs'.
- Recycling helps reduce virgin nonrenewable resource use, directly helping decouple material use from economic growth.
- Recycling could help ensure that the EU has secure supplies of critical resources, especially rare metals for emerging technologies.
- Numerous opportunities exist for eco-innovation and development of new technologies in the recycling sector, potentially creating markets for new products and services.

– Recycling contributes to a shift to a circular economy and away from a linear economy model characterized by resource depletion and waste.
– In most cases recycling has lower environmental impacts compared to producing virgin materials
– Recycling helps businesses, other organizations and communities avoid the costs associated with landfills and incinerators.

The re-cycling model uses products and the wastes generated by a particular production process for other productions or for other industries. Repair, reuse, upgrading, remanufacturing, recycling and down cycling are the six main closed-loop principles to keep good materials and good work moving on to other users and other uses. What will happen if an item's options for repair, reuse and remanufacturing are exhausted? Then it can be recycled to reconstitute it into another, similar product. As a last resort, it can down cycled – ground, melted or dissolved so its basic materials can be reincarnated for a lower purpose, such as a filler material. When those closed-loop principles are applied to everything from packaging to the three billion tons of construction materials used each year, a substantial amount of reclaiming is at stake – and every ton not extracted, treated and moved means less harm to natural capital (Hawken, et al., 1999).

The Chinese government (to keep his own people breathing) is now very active in implementing this concept of a loop economy by promoting the creation of industrial eco-parks regrouping enterprises involved in an exchange system based on the recycling and on the re-using of wastes, the waste of one industry being used as raw materials of the other. Any eco-sensitive firm can adopt the concept of a loop economy, but its adoption generally implies a form of inter-sectoral coordination and a substantial reorganization of the production processes.

12. The Concept of Corporate Societal Responsibility

Corporate societal responsibility (or CSR) is the outgrowth of the private regulation movement. Critics argue that CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations (Salvioni & Gennari, 2019; Salvioni & Gennari, 2017).

In 2011, the European Commission has put forward a simpler definition of CSR as "the responsibility of enterprises for their impacts on society" (ECC, 2011) and outlines what an enterprise should do to meet that responsibility (de Woot, 2005). Although there is no "one-size-fits-all" policy and for most small and medium-sized enterprises, the CSR process must remain informal, complying with legislation and collective agreements. The European Commission's definition is consistent with internationally recognized CSR principles and guidelines, such as the OECD Guidelines for Multinational Enterprises, the ISO 26000 Guidance Standard on Social Responsibility and the United Nations Guiding Principles on Business and Human Rights. It should provide greater clarity for enterprises, and contribute to greater global consistency in the expectations on business, regardless where they operate.

The financial corporate scandals in the US and in Europe combined with the financial crisis have contributed to reinforce this evolution. The responsible corporation acknowledges that it has a responsibility towards society and not only to its shareholders. An organization, large or small, would wish to establish a long-term and sustainable relationship with the community where it lives and from which it gains its prosperity. The responsible corporation commits its resources and competence to help combat social problems, often in co-operation with public authorities. The responsible corporation can contribute in several and varied ways: to develop the economic fabric of a region – to maintain or develop employment – to participate in education programmes – to protect the environment – to dialogue with stakeholders – to promote urban development – to fight against social exclusion.

13. Does it Pay to be Green? (Or to be Good?)

The social responsibility movement is important but it has a credibility gap problem to the extent that the concept is used intensively in the firm's communication policy. Because the financial benefits of CSR remain for the most part either modest or elusive, few firms have integrated the standards of civil regulation into their core business practices. A frequently asked question is: Does it pay to be green, or does it pay to be good?

Economists had no reason to doubt that sentiment, but they have always wondered if consumers would be willing to pay a higher price for ethically produced goods, since they tend to be more expensive to create. It turns out that a series of controlled experiments proves that consumers will pay a premium for ethically produced goods (Trudel & Cotte, 2009; King & Lennox, 2001). However, perhaps of equal interest is the fact that they will punish (by demanding a lower price) companies that are not seen as ethical. That relationship is not symmetrical. The punishment exacted is greater than the premium customers are willing to pay. A relevant question could be: How ethical does, the firm has to be? Perhaps not as much as you might think.

Many global CSR commitments and policies remain akin to corporate philanthropy, community, or public relations, remaining on the periphery of their business strategies. They typically represent more a form of insurance against public opprobrium than a source of competitive advantage, in part because relatively few firms have been able to pass on the higher costs of more responsible procurement practices to their consumers or have experienced increased sales or improved brand loyalty due to a better CSR reputation.

For virtually all firms, their CSR performance and reputations remain unrelated to their financial performance (Vogel, 2010).

Beyond that, in the Commission's view, enterprises should have a process in place to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close cooperation with their stakeholders. The aim is:

– to maximize the creation of *shared value*, which means to create returns on investment for the company's shareholders at the same time as ensuring benefits for the company's other stake holders;
– to identify, *prevent and mitigate* possible adverse impacts which enterprises may have on society
– The most important features of this new definition are:

– Recognition of the importance of *core business strategy*. This is consistent with the approach taken by leading enterprises for which social responsibility and sustainability have become an integral part of their business model.
– Development of the concept of "*creating shared value*"**.** This refers to the way in which enterprises seek to generate a return on investment for their owners and shareholders by means of creating value for other stakeholders and society at large.
– Explicit recognition of *Human rights and ethical considerations* in addition to social, environmental and consumer considerations.

> □ *"The concept of shared value—which focuses on the connections between societal and economic progress—has the power to unleash the next wave of global growth. An increasing number of companies known for their hard-nosed approach to business—such as Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Wal-Mart—have begun to embark on important shared value initiatives. But our understanding of the potential of shared value is just beginning. There are three key ways that companies can create shared value opportunities: By reconceiving products and markets; By redefining productivity in the value chain; By enabling local cluster development. Every firm should look at decisions and opportunities through the lens of shared value. This will lead to new approaches that generate greater innovation and growth for companies—and also greater benefits for society" (Porter & Kramer, 2011).*

Corporate social responsibility concerns actions by companies over and above their legal obligations towards society and the environment. Certain regulatory measures create an environment more conducive to enterprises voluntarily meeting their social responsibility.

Global business activity can only become more effectively governed if the inadequacies of both government regulation and both firms and governments recognize civil regulation. The future effectiveness of global business regulation depends on the extent to which private and public authority, civil and government regulation, and soft and hard law, reinforce one another.

14. Societal Accounting and "Triple Bottom Line" System

In traditional business accounting and common usage, the "bottom line" refers to either the "profit" or "loss", which is usually recorded at the very bottom line on a statement of revenue and expenses. Over the last 50 years, environmentalists and social justice advocates have struggled to bring a broader definition of bottom line into public consciousness by introducing a societal accounting system. *Triple Bottom Line* (term coined by John Elkington in 1997) is an accounting framework with three parts: social, environmental and financial (Elkington, 1997).

Sustainability is a central preoccupation of the firm, but everybody knows that what is not measured cannot be properly managed. The transition toward a societal market economy implies the integration within the firm's information system of all the environmental and stake holders costs generated by its activities in order to measure their true societal value and not simply their shareholder value. Societal accounting challenges conventional accounting, in particular financial accounting, for giving a narrow image of the interaction between society and organizations and thus artificially constraining the subject of accounting. A societal accounting system points to the fact that companies influence their external environment – positively and also negatively – through their actions and should therefore account for these effects as part of their standard accounting practice.

A societal accounting system identifies and measures the periodic net social contribution of an individual firm consisting of cost and benefits internalized to the firm and externalities affecting social; it helps the firm to manage its economic and societal responsibilities and to periodically report to its different stakeholders.

The firm's societal value is based on the confrontation of three parameters:

- the *created added value* (turnover less the production costs);
- from which one deducts the *value of the negative externalities* (such as carbon emissions, non-recycled wastes, jobs lost, and use of non-renewable resources);
- from which one adds the *value of positive externalities* (such as new jobs created, social financing, sponsorships, reduction of non-renewable energy, etc.).

Once all positive and negative externalities are accounted for, and the *net added value* calculated, it will appear that some activities, viewed at first sight as highly profitable, have in fact strong destructive effects on the environment, while other activities having low level of economic attractiveness can have very positive effects on the environment or on stakeholders.

15. Moral Foundations of a Market Economy

Upon what kind of moral order does a market economy rest? How have intellectual elites understood and judged market economy throughout history? Albert Hirschman found that the market was initially seen as a civilizing force. Under the "*doux commerce*" thesis, market relations made people more cordial and less inclined to fight one another (Fourcade & Healy, 2007; Hirschman, 1982). Montesquieu wrote, "*Wherever manners are gentle, there is commerce and wherever there is commerce manners are gentle" (*Montesquieu, 1748). A market is described *as "human cooperation with nobody in charge*" that produces economic and social harmony. In the post war period, the most powerful argument in favor market economy has come from its association with personal and political freedom. Market systems are supposed to provide incentives and opportunities for innovations.

More recently, Martin Wolf, the well-known columnist of the *Financial Times*, concurred, in a more balanced way, with the "*doux commerce*" thesis.

> □ *"It is true that market economies neither create nor reward saints. But consider the virtuous behavior that capitalism fosters: trustworthiness, reliability, individual initiative, civility, self-reliance and self-restraint. These qualities are, critics correctly note, placed in the service of self-interest. Since people are, with*

few exceptions, self-interested, that should be neither surprising nor shocking" (Wolf, 2003).

As put again by Martin Wolf, the free market economy is morally imperfect, not least because it reflects the tastes, desires and motivations of imperfect human beings. A market economy satisfies the desires of the majority more than the tastes of a refined minority. To be human is to be self-interested, and this is what exchange in the market place entails.

16. The Moral Limits of Markets

Part of the corporate accountability idea is the voluntary restraint in the market conduct, avoiding too intensive use of operational marketing tools in dealing with the market. There is a broad consensus among economists that the market should not distribute everything. There are cases not subject to market transactions on which virtually everyone agrees today: human beings (slavery), adoptable children, child labor and transplantable organs. Cases that are more controversial are prostitution, illegal drugs (marijuana), sale of eggs and sperm and the rental of wombs, otherwise known as surrogate motherhood.

Part of the appeal of markets is that they do not pass judgment on the preference to satisfy (Sandel, 2012). They do not ask whether some ways of valuing things are higher or worthier than others. A debate about the limits of markets would enable us to decide, as society, where markets serve the public good and where they do not belong. Having a "market economy" is one thing, but being a "market society" is quite different. Sandel argues that modern society, in America and in Europe, is becoming a market-dominated society and that this cultural change has taken place without any recognition of the moral values at stake. One of the greatest worries is that market norms dominate civic or moral norms, thus eroding civic responsibility. A cultural market society where everything is up for sale generates two unintended but perverse effects*: inequality and corruption* (Sandel, 2012). As long as the only advantages of a superior income are the ability to buy sport cars and fancy vacations, income inequalities and wealth are socially bearable. However, in a society where money comes to buy more and more – political influence, good medical care, access to elite schools, tradable pollution permits etc. – having money makes a big difference. The commoditization of everything reinforces inequalities by making money matters more, thereby making life harder for those of modest means. It seems that the Europe has succeeded better than the US to avoid the pitfall of the ubiquitous presence of "king money".

The second perverse effect is the *corrosive tendency* of a market society. Putting a price on the good things of life, if turned as commodities, degrade them because markets promote certain attitude toward the goods exchanged. For example, paying kids to read books might get them to read more, but also teach them to regard reading as a bore rather than as a source of intellectual satisfaction. So to decide what money should - and should not- be able to buy, society has to decide what values should govern the various domains of social and civic life. For example, most democratic societies do not allow citizens to sell their votes, even though other citizens might be eager to buy them because, in these democratic societies, civic duties are regarded as private property but instead as public responsibilities.

17. Conscious Business Movement

Conscious business is a philosophy of doing business that incorporates the principle of higher purpose ((beyond profit maximization), stakeholder interdependence (rather than shareholder centricity), conscious leadership (instead of command-and-control) and conscious culture (in place of bottom line obsession). Conscious enterprises and people are those seeking awareness of the effects of their actions and implementing practices that benefit both human beings and the environment.

This philosophy, exposed by John Mackey and Raj Sisodia is distinct from others such as social responsibility, shared value capitalism, creative capitalism, because it goes beyond the ideas of philanthropic thinking or virtue. The business conscious philosophy subscribes to a *Triple Bottom Line* model of success, but it aims to provide positive value in the domains of people, planet, and profit. For Mackey and Sisodia, conscious business means having with *a clear purpose*, beyond just making money.

> □ *« […] with few exceptions entrepreneurs who start successful businesses don't do so to maximize profits. Of course, they want to make money, but that is not what drives most of them. They are inspired to do something that they believe needs to be done. […] Purpose usually exists when companies are created but often get lost along the way. The challenge is to make capitalism more conscious of its heroic nature.» (Mackey and Sisodia, 2012)*

18. Firms of Endearment

Firms of endearment (*FoEs)* are companies that endear themselves to stakeholders by meeting their tangible and intangible needs in ways that delight them and engender affection for and loyalty to the company. Sisodia, Wolfe and Sheth coined the phrase *firms of endearment* to describe a company that goes beyond the conscious business model by adding an affective dimension (Sisodia, Wolfe & Sheth, 2007). It is a common observation that, in affluent economies, people are increasingly searching for higher meaning in their lives, not just in their personal but also their professional ones. Nowadays people are happier working for companies that not only offer and deliver results and profits but also emotional and social values, and the companies that offer these are the successful ones. As discussed above, many business leaders are asking themselves a similar question: "*How are we going to make this company an instrument of service to society even as we fulfill our obligation to build shareholder value?*"

For companies, the priority focus becomes "*share of heart*" not just share of wallet. Companies are increasingly being held accountable for their humanistic as well as economic performance. Many institutional investors are playing a major role in this. With their own constituencies increasingly demanding accountability and social responsibility in their investments, many institutional investors are pressing companies in which they invest to account for their corporate social responsibility. What is called a *humanistic company* is run in such a way that its stakeholders – Society, Partners, Investors, Customers, Employees (SPICE) – develop an emotional connection with it, an affectionate regard not unlike the way many people feel about their favorite sports teams. Humanistic companies – or *firms of endearment* – seek to maximize their value to society as a whole, not just to their shareholders. They are the ultimate value creators. They create emotional value, experiential value, social value, and of course, financial value. People who interact with such companies feel safe, secure, and pleased in their dealings. They enjoy working with or for the company, buying from it, investing in it, and having it as a neighbor.

> □ *The pragmatic value of this business philosophy is underscored by the fact that firms of endearment (FoEs) outperformed the S&P 500 market by significant margins over 10-, 5- and 3-year time horizons. In the sample of the 28 publicly traded FoEs analyzed by the authors, the public FoEs returned 1,026 percent for investors over 10 years ending June 30, 2006 compared to 122 percent for the SP 500; that is more than an 8-to-1 ratio. Over five years, the ratio is even higher, because the FoEs returned 128 percent, while the S&P 500 only gained 13 percent. Over three years, FoEs returned 73 percent versus 38 percent for the S&P 500.*

Among the other distinguishing traits of firms of endearment are the lower marketing costs. While in the US companies spend approximately $10,000 per year per family of four on advertising and sales promotion alone, *FoEs* are sustained by direct experience and great word of mouth. Delighted customers, employees and suppliers tell others about the companies, reducing the need to advertising to create awareness.

Numerous companies are successful in many ways but lack a strong emotive dimension. The argument is that, for the best prospects of success in the future, companies will need to combine an emotive dimension with operational efficacy. Some have called the emotive dimension the "*soul of a company*". Companies without soul face a doubtful future. This emotional component is very new, because traditional capitalism is heartless by design and is rooted in the Cartesian approach that reason is superior to emotions in the field of economics. The conclusion, supported by convincing empirical evidence, is that « [...] *endearing companies tend to be enduring*».

19. The Popularity of Independent Certifications

To counter the greed and societal irresponsibility vision of the market economy system, firms have recourse to independent certifications. Certification refers to the confirmation of certain characteristics of an object, a system, or an organization. Some form of external independent review or audit generally provides this confirmation. To close the credibility gap regarding their sustainability policy, firms have increasingly recourse to independent certifications. The benefits are numerous:

– it gives stakeholders confidence that the data reported is accurate, thereby avoiding accusations of green-washing;
– to pinpointing areas where improvements can be made
– to continuously improve management systems, thanks to having regular and external auditor

Should new legislation come into force, the firm is well prepared to report accurate data on time without having to start the whole evaluation process from scratch. There are several independent certifications available on the market. The most popular certification programs are:

– *ISO 9000 quality management*

The ISO 9000 family addresses various aspects of quality management and contains some of ISO's best-known standards. The standards provide guidance and tools for companies and organizations who want to ensure that their products and services consistently meet customer's requirements, and that quality is consistently improved.

– *Green certification ISO 14001*

IS0 14001 is an internationally agreed standard that sets out the requirements for an environmental management system. It helps organizations improve their environmental performance through more efficien0t use of resources and reduction of waste, gaining a competitive advantage and the trust of stakeholders.

– *Social Certification SA-8000*

SA-8000 certification provides a public report of good practice to consumers, buyers, and other companies. It is intended to be a significant milestone in improving workplace conditions. The benefits of adopting SA-8000 and may include improved staff morale, more reliable business partnerships, enhanced competitiveness, less staff turn00over and better worker-manager communication.

– *Social Responsibility Guidance I0SO-26000*

ISO 26000 provides guidance on h0ow businesses and organizations can operate in a socially responsible way. ISO 26000 was developed to respond to a growing world need for clear and harmonized best practice on how to ensure social equity, healthy ecosystems and good organizationa0l governance, with the ultimate objective of contributing to sustainable development.

20. Conclusion & Emerging Issues

The objective of economic sustainability implies the development within the firm of a societal corporate accountability system, which will help the firm to manage its economic and societal responsibilities and to periodically report to its different stakeholders.

The concept of "*creating shared value* is central and considers that financial performance should not be a company's single important goal and that shareholders are not the only people a company must be responsible to; stakeholders such as employees and community members also require accountability.

The civil regulation proponents argue that both private and public regulation could contribute, not only to protect but also to restore the environment, by improving bad business practices of corporations that destroy the world. For many, ONG lobbying corporations has come to represent a powerful alternative to pressuring for changes in public policies.

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