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Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

"Taming the Corporation" by Neva R. Goodwin

This essay, and the writings it introduces, is action-oriented. The thinking on corporate responsibility that is represented here is motivated by the perception of a problem, an image of a preferred state, and some specific ideas on how to move from where we are towards where we would prefer to be. These ideas are discussed under three headings: internalizing externalities[1]; gaining a truer understanding of business costs (with an emphasis on environmental accounting); and lengthening the time horizons of corporations. The final section in the essay suggests (unsurprisingly) that, while some real progress is being made, not all corporations are going along; and it is by no means certain that the progress is sufficiently rapid or broad to counteract the unsustainable orientation of many businesses and the social and environmental problems that result.

THE PROBLEM: CORPORATE POWER - OFTEN MISUSED

Corporations control the vast majority of the world's productive assets. They are the major institutional forms through which raw materials are extracted, processed, and turned into products for sale. They are the exemplars and the upholders of the capitalist way of life, with its focus on sales, growth and profits, often at the expense of other values, such as community, cooperation, and satisfaction of basic needs. Their economic power translates into political and cultural power, in many ways exceeding that wielded by governments, educational and religious institutions, families, or other forces that shape society. Critics charge that corporations promote socially, ethically and environmentally noxious consumerism, making special efforts to indoctrinate children and infants with materialist values. [2] The largest corporations - or collections of corporations in industrial coalitions - use their power to distort the economy, inducing governments to give them tax breaks, subsidies and other favors.[3] Their lobbying efforts, and the funds they bestow on politicians, corrupt and corrode democracy. Given these, and many other negative effect of corporations, some critics believe that the entire capitalist system is past reform; it must be replaced from the ground up. [4]

To other observers, the net effect of corporations is clearly positive, for they provide jobs; they generate technology and wealth; and they produce goods and services that are presumed to contribute to the well being of consumers. A large part of humanity is, after all, dependent upon corporations for basic necessities - food, clothing, building materials - as well as for the materials and services we rely on for entertainment, information, and much else in our lives.

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This essay will not attempt to present a balanced picture, or a "bottom line" of the beneficial and harmful effects of corporations. Nor will it weigh the arguments for systemic change. [5] Rather, starting from a relatively optimistic, reformist approach, it will ask: how can corporations be encouraged - or forced - to improve their social, economic and environmental effects? The articles selected for summary in this section all address that question. Starting from what they consider a realistic picture of what corporations do, and what motivates them, their emphasis is on ways of improving the present reality.

THE GOAL: CORPORATE RESPONSIBILITY

"Having organized their expansion based on globally-integrated efficiencies made possible by liberalized investment and trade regimes, TNCs [trans-national corporations] now confront a substantial challenge to this permissive regime. Globalization could bring about a serious backlash from unresolved societal needs. Considered within a global context, social responsibility therefore takes on immediate practical and political importance for an international business community whose operations are conditioned on continued globalization. In fact, there is a significant recent expansion of attempts to design newly cooperative ways for TNCs to respond, individually and collectively, to the evolving public expectations of a global social contract." (UNCTAD, 1999, p. 355)

What is the social contract to which UNCTAD refers (above)? Ideally, business should serve people in society - rather than vice versa. At a minimum, each firm should bear the costs generated in its own processes of production. (Exceptions may be made for products of such generalized social value that it is deemed acceptable to start down the slippery slope of subsidies.) More positively, the business sector should produce goods and services that people intrinsically want (i.e., without having been manipulated through advertisements or other influences to want things that will not enhance their lives); it should provide meaningful and dignified work; and it should generate and distribute revenues so that workers and owners can purchase reasonable shares of society's output. More ambitiously, business should help to anticipate and plan for the future needs and constraints of society and of the natural world within which society - and its subset, business - are embedded.

These ideals can be summarized in the idea of *corporate responsibility*. Given a clear need, in today's world, for much more corporate responsibility than now exists, how can we promote change in the desired direction? Two concepts have emerged as centrally important to this goal; they are *accountability* and *transparency*.

Accountability is the idea that corporations must interact with, and be answerable to, all of their stakeholders. Lists of stakeholders have been drawn up in various ways; one is the principle that a firm's stakeholders are all those who are affected by, or who affect, its activities. These include workers, customers, suppliers, governments, creditors, investors, and neighbors - where the latter may be anyone "downstream" of the firm's environmental effects. They also

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include non-human entities often subsumed under the terms, "nature," or "the environment," as well as people of the future, and organizations who represent these otherwise voiceless stakeholders.

Corporate transparency is an idea that has, in a relatively narrow sense, been long promoted by the U.S. Securities and Exchange Commission. Since the great depression of the 1930s, the SEC has sought to make firms reveal all financial data that could be materially important to their investors. As the concept of stakeholders has expanded to include many other groups besides investors, the modern idea of transparency implies that all stakeholders have a right to all of the information that could have a bearing on how their interests are affected by corporate actions. The emphasis has been on issues in the areas of environment (e.g., adherence to the ISO [International Organization for Standardization] 14000 and 14001 standards [6]; human rights; and labor. While NGO activity in the last of these categories has included concern for wages and working conditions in both domestic and foreign factories, demands for transparency have most often come from the North, and pay less attention to some Southern development concerns such as technology transfer. (UNCTAD, 1999, p. 367.)

Some of these issues have been on the business agenda for a long time. Unions, and the International Labor Organization, have insisted that corporations take some responsibility for social justice issues in the quality of their workers' lives. Starting more recently, environmentalists have waged similar battles. The social and economic agendas that promote communitarian and community values against the destructive impacts of corporation action have become more widely known since about 1980. Southern NGOs have protested many of the economic and cultural impacts of transnational corporations, while pressuring TNCs to devote more of their profits to technology and skills transfer, wages, etc.

An important, related agenda concerns the relationship between large corporations - especially TNCs - and the local companies which both buy from and sell to them. On the one hand, this nexus may provide an opportunity for public relations pressure to be channeled through the large corporations to their suppliers; an example is the decision of Home Depot to purchase only from suppliers that provide environmentally certified wood products. On the other hand, when TNCs sell to smaller companies, they are often relieved of the pressures that broader consumer groups may exert.

Not many organizations are pursuing the full gamut of issues implied by the term “corporate responsibility”. Some initiatives that will be examined in this essay are oriented largely toward environmental responsibility. This emphasis is not intended to suggest that the environment is the most important aspect of responsible corporations; simply that some of the frontier writings lean this way.

MOVING IN THE RIGHT DIRECTION

An image suggested by R. Buckminster Fuller will be helpful in dealing with the abstractions of responsibility, accountability and transparency. Fuller proposed the image of a ship whose great

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size gives it so much momentum that a huge rudder is required to steer it. One or even several people cannot push hard enough to turn such a rudder; therefore a little rudder, called a trim-tab, is attached to the large one. It is within human strength to operate the trim tab, which then turns the rudder, which turns the boat.

Figure 1a is a simple application of Fuller's image to our subject, showing the corporation as the ship we want to steer towards responsibility. The "rudder" is accountability and the "trim-tab" is transparency. This is, however, still a collection of abstractions. To make it more concrete, Figure 1b uses some poetic license to suggest three rudders - the three groups in society that are most directly able to influence corporations. None of these groups is much easier to move than the corporations themselves. Someone who sets out to move these rudders to affect corporations has a better chance of being able to take action through one of the suggested trim-tabs.

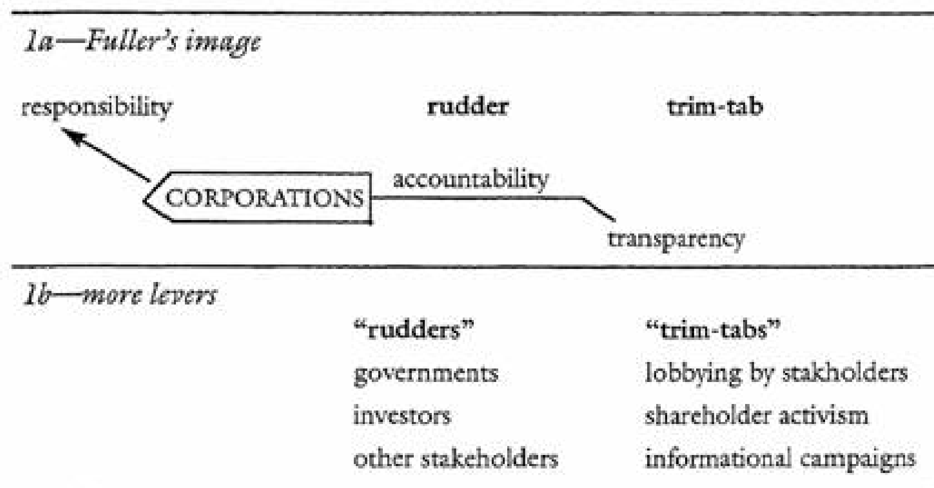

Figure VIII.1. Strategies to Move Corporations Toward Responsibility.

An awareness of the levers for action illustrated in Figure 1 will help us understand the types of solutions that are commonly proposed to deal with failures of business responsibility. Solutions are apt to be proposed within two major categories: regulate business ("command and control"); or else change the goals and incentives that motivate business actions. The authors represented in this section generally start by focusing on the second approach, with government seen as essential to back up and enforce the desired regime of incentives. We are led, therefore, to ask what institutional, legal, or other changes or pressures can lead toward such a regime? The next three sections will explore three types of answers to this question.

INTERNALIZE THE EXTERNALITIES [7]

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The first summary in this section, of an article by **Robin Broad and John Cavanagh**, gives an overview of the corporate accountability movement, classifying its campaigns in terms of strategic goals, targets, methods, the initiating actors, and geographical scope. In the course of assessing the successes, challenges, and lessons learned from these campaigns, the authors survey a variety of approaches to internalizing costs externalized by corporations. These range from proposals to re-charter corporations so that they can be dissolved if they do not act in the public interest, to direct actions (such as sit-ins) against individual firms or facilities.

This article draws our attention to the critical role of governments, which can impose specific obligations and restrictions on corporations. Unfortunately, the literature on corporate accountability gives relatively little attention to the political science issue of how governments themselves can be motivated to make the right laws and regulations, often simply assuming effective lobbying by other stakeholders. This is the only article summarized here in which we see any specific examples of this trim-tab.

Broad and Cavanagh also introduce a second category of direct influences on corporations: their investors. Investors can move corporations both through their decisions on where to invest their money, and also in the "voice" which they, as the ultimate owners of most corporations, can exercise on corporate decision-making. Religious groups have taken leadership in this area. An example is the United Methodist Board of Pension, with $9.7 billion in assets, which, after two years of filing shareholder resolutions with Delta Airlines, "finally won a commitment from the airline's management to publish a report on equal employment and diversity practices." [8] Other investor groups have successfully lobbied corporations to diversify their boards.

Investors are, however, a large and diffuse group: what is the trim-tab for this rudder? An important piece of the answer may be in what could most generally be described as empowerment. As Alinsky noted (below), the investor responsibility movement offers to people who own stocks (a growing proportion of U.S. citizens, through pension and insurance funds, if not directly) a means to make their beliefs heard. As has been shown in relation to the anti-slavery movement of the 19th century, moral indignation does not turn into action until people believe that their action can have an effect. [9]

As described by **Peter D. Kinder, Steven D. Lydenberg and Amy L. Domini**, shareholder activist groups such as the Interfaith Center on Corporate Responsibility (ICCR) have offered shareholder resolutions as ways to increase shareholder responsibility. After several decades of this prodding, investors are increasingly recognizing that they have the option - indeed, it may be regarded as a moral responsibility - to consider the issues that have been put up for shareholder votes. Whether the exercise of shareholders responsibility is increasing because investors are becoming better educated about the impacts of their actions, or because they are responding to fears of reduced share value following effective PR, this movement is beginning to make itself felt in a number of ways. (Krumsiek, 1997: see also other articles in

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The *Journal of Investing*'s special issue, "Socially Responsible Investing"; vol. 6, no. 4, Winter 1997.)

Examples of successful recent shareholder actions include the agreement of American Airlines to endorse the Coalition for Environmentally Responsible Economies (CERES) principles of environmental responsibility and the decision of Baxter International (the world's largest health care products manufacturer) to phase out PVC materials in its intravenous products. However, one lesson from the history of the movement is that significant victories may not come quickly. The impact of divestment from companies doing business with South African during apartheid is generally credited as significant in the dismantling of that regime; but more than three decades passed between the beginning of that movement in 1967 and its fruition in 1991. (See Massie, 1997.)

Saul Alinsky was the conceptualizer of an early move from the relatively passive strategy of divestment to the more active mobilization of shareholders to support social reform, through their voting power. In his 1965 campaign against Eastman Kodak, Alinsky mobilized inner-city minority and church organizations in Rochester, NY, as well as major foundations and union retirements funds. Though the results were not earthshaking (Kodak allocated a few hundred jobs to poor, mostly minority candidates), Alinsky felt that he had found a new tool, with potentially greater impact than investor decisions simply to buy or sell shares:

> "Proxies can be the mechanism by which [the middle class] can organize.... Once organized around proxies they will have a reason to examine, to become educated about the various corporate policies, both domestic and foreign, because they can now do something about them.... The way of proxy participation could mean the democratization of corporate America." (Alinsky, 1972.)

Into the early 1990s business leaders generally regarded shareholder resolutions as nonsense engendered by nuts. Indeed, some individuals and organizations do put forward impractical, irrelevant or unsustainable proposals. A stockholder who owns shares in many companies may be daunted by the task of sorting out the good from the nutty ideas. Fortunately there is the beginning of a promising trend, for portfolio managers themselves to offer to take a more socially responsible position on the resolutions that come up each year in relation to their clients' holdings. This sort of service, which is still in an early stage of development, could take several forms: for example, voting with ICCR on all issues; voting to support a defined set of proposals, such as workforce diversity, exclusion of child labor, or adoption of the CERES principles for environmental responsibility; or following an agreed-upon philosophy of corporate governance and behavior.

The Social Investment Forum estimated in 1999 that more $2 trillion is now involved in socially responsible investing - an increase of 82% since 1997.[10] More than half of this is in portfolios whose exercise of responsibility comes through portfolio selection (to screen out "bad" companies - as in the South Africa divestment movement - or, more proactively, to screen in "good" ones). Kinder et al describe other forms of socially responsible investing, including more

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active approaches such as community investing. In the latter, investors may accept below-market rates of return on loans to groups that sponsor housing, job creation and other kinds of economic development in a given community. This differs in several ways from both guideline portfolio investing and shareholder activism: it may establish more direct involvement between the investor and the activity supported by his or her funds; and it is not deterred by the possibility of lower returns.

Aside from some community investors, most socially responsible investors have sought at least a reasonable chance of earning competitive returns. As reported by **George A. Steiner and John F. Steiner**, the evidence suggests that social and environmental screens average out to a neutral effect. Others claim that the average effect is positive. An interesting summary on this subject is provided by John B. Guerard, Jr., who concludes that portfolios that screen out negative environmental impacts, nuclear energy, alcohol, tobacco, and gaming, derive, on balance higher returns than those from unscreened portfolios. "The only social screen that consistently costs the investor returns is the military screen." (Guerard, 1997, p. 31) [11]

REVEALING ENVIRONMENTAL AND SOCIAL FEEDBACKS

The second category of ways to translate social and environmental harms and benefits into signals that will be felt by firms focuses on the reality that these harms and benefits are, in fact, already affecting the bottom line. When firms come to understand this - when they have a more sophisticated appreciation of their own operations, and of the feedback loops between their own success and the health of their human and physical environment - they will be motivated to decrease the harm they cause, and increase the benefit.

Michael Porter of the Harvard Business School is a leading advocate for the idea that many environmental costs already are internal, and will be properly dealt with when firms recognize this fact. Assuming a world in which citizens and governments are clearly trending toward ever more stringent environmental standards and regulations, **Michael E. Porter and Claus van der Linde** argue forcefully that many of the environmentally destructive activities now being ruled illegal are also economically inefficient. [12]

There is an immense literature on how to design government laws and regulations so that they have their desired effects, with minimum negative side effects. Porter and van der Linde, giving a taste of that literature, stress that government regulations have often, in the past, been designed as if to minimize the potential beneficial effects. Suggesting how this can be done better,[13] they offer a dual message: environmental regulations may be good for firms, or at least not as bad as they think; and, in any case, environmental regulations, as society's most obvious means of internalizing environmental externalities, are here to stay.

Ditz et al (discussed below) note that "As firms come to terms with current environmental costs, they will appreciate that the boundary between private costs and social costs is porous and moving. Other environmental costs, now borne by society, will exert a

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growing influence over the decisions made within companies." (Ditz et al., 1995, p. 44) Corporations, and some writers about corporations, would like this shift to occur through voluntary self-regulation, as an alterative to government regulation - the latter being, in most cases, impossibly costly without industry cooperation. This option is explored in depth in a recent book by sociologist **Severyn T. Bruyn**. Bruyn describes how corporations and industry groups can and do self-regulate; what this possibility means for the development of a more "civil economy;" and how it can be fostered. Self-regulation includes a number of the voluntary initiatives that have been welcomed by many as softening the differences between corporations and, especially, environmentalists: initiatives such as ISO 14000, and various labeling and certification schemes.

Bruyn emphasizes what Ditz et al. call the "porous and moving" boundary between what has been traditionally defined as the public realm, where society-wide interests are represented, and the private realm of business, with profit-maximization assumed as its only goal. [14] At the same time, Bruyn is in agreement with virtually all other authors quoted here on two key points: the profit motive is not going to go away; and appropriate government regulation will continue to be an essential spur to keep corporate interests converging with broader interests.

A focus on regulation, whether it is initiated by government or carried out by firms, is effectively complemented by the focus offered by **Allen White**, on codes of conduct. Examples include the codes developed by CERES (the Coalition for Environmentally Responsible Economies); ILO conventions on international labor standards (ILO 1998); the Keidanren Charter for Good Corporate Behavior developed by Japan's Keidanren organization in 1996; and the Social Accountability Standard, SA 8000. Such codes, backed up by accounting, auditing and reporting, are the keys that can lock in transparency and accountability.

An accounting system requires a company to gather and organize data on its performance. Financial accounting systems have been developed, in the U.S., as a system of communication among three groups: investors, who need information about corporations' financial performance; the SEC which protects the interest of the investors by setting standards for accounting as well as for auditing systems which check that the accounting data is accurate; and firms, which collect the required data and report it out to the SEC and to their investors, and which also benefit internally from improved self-knowledge. With an enlarged definition of corporate stakeholders, goals for accounting, auditing and reporting have expanded significantly - most notably in the area of environmental accounting.

A good description of what is involved in environmental accounting may be found in the overview to a World Resources Institute publication, *Green Ledgers: Case Studies in Corporate Environmental Accounting*. (Ditz et al, 1995, See also Owen, 1993.) As described by these authors, the concept of "full cost accounting" has been adapted to a specifically environmental meaning: "the practice of introducing environmental costs once considered external into corporate decision making." (Ditz et al, 1995, p 5.) This conception encompasses all of the private and social costs generated throughout a product's life cycle, from raw material extraction

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to product disposal. Managers who adopt this approach may find that products with lower environmental costs have been subsidizing those that generated higher costs at some point along their lives.

It is important to note the distinction between environmental costs actually borne by the firm vs. those that are externalized onto society. In traditional accounting only (but all of) the former are supposed to be noted. However, conventional accounting practices can overlook significant environmental costs, for these are frequently indirect, or dispersed throughout a business, or can appear long after decisions are made. SEC-type standards require firms to account for those costs that would appear if the firm operated in a social vacuum. Full cost accounting has a better chance of including costs that are, or will in be the future, brought back onto the firm's ledgers, as public relations and legislation increasingly cause firms to take responsibility for the costs they had previously externalized.

Box VIII.1. Green Accounting

According to a study by the Institute for Environmental Management and the accounting firm KPMG, 35 percent of the world's 250 largest corporations now issue environmental reports. Companies are voluntarily embracing "green" reporting because it makes good business sense. Not only does public reporting push companies to be more disciplined about their environmental performance, which, in turn, reduces their environmental risk, it also creates positive PR. Good green reporting can serve as a differentiator in the war for talent—people like working for socially responsible companies—and it can make a company more attractive to customers and investors as well. Moreover, because green reporting puts all business practices under scrutiny, it often helps managers identify cost savings, and even new business opportunities.

"Trend: Green Reporting," *Harvard Business Review* January–February 2000.

In the areas of accounting and reporting there is a longer history and more sophisticated development with respect to the environment than in relation to the other parts of what Elkington (1998) calls the triple bottom line of environmental quality, economic prosperity, and social justice. It may turn out that the business benefits for responsibility in the last two areas are not as evident as, or show up in different ways from, the benefits to environmental responsibility cited by, e.g., the *Harvard Business Review* or by Porter and van der Linde,. However, for all aspects of corporate responsibility, advances in accounting, reporting and auditing are critically important to provide information both to firms and to stakeholders. As depicted in Figure 1, this transparency trim-tab will in turn promote accountability. When these standards become accepted practice - whether through laws, codes, or widespread business norms - they help to lock in other types of progress in corporate responsibility.

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MAKING THE FUTURE MATTER TO CORPORATIONS

Responsibility cannot be imposed entirely from the outside; if the goals of corporate responsibility are to be achieved, people in business - owners, managers, workers - must make some kind of moral commitment, accepting responsibility for their firm's impact on the world. This implies an ethos - a widely and deeply held belief - that corporations should bear the costs they generate, to the extent of not causing harm to any entity outside of the corporation, and undoing the harm they have caused in the past. Hoffman, 1997, provides an excellent treatment of the evolution of corporate norms of environmental responsibility. He emphasizes that the set of options that corporations consider in responding to environmental demands is largely determined by what other corporations are doing, and that, over the last three decades of the 20th century, waves of industry responsiveness tracked the ups and downs of public concerns about environmental issues more closely than they followed either their own cost structures or trends in government regulations. Nevertheless, a positive corporate ethos, though essential, cannot be the only solution. As we have noted earlier, it must be stimulated and reinforced by an environment in which firms will perceive their interests to coincide with broader social interests.

The complex issues involved in encouraging corporations to transcend the short-horizon, next-quarter view of the world are explored in *As If The Future Mattered: Translating Social and Economic Theory into Human Behavior* (ed. Goodwin, 1996). In that book Michael Porter stresses the problems created by an institutional environment that encourages short-term thinking. Noting that "Private and social returns will tend to converge more in the long term than in the short term" (Porter, 1996, p. 19), he lays out an ambitious agenda for altering the legal and normative framework for business, to encourage longer time horizons. This approach is strengthened and extended by a package that includes internal accounting, reporting to interested outside parties, and external audits and monitoring.

Our summarized section of the business textbook by Steiner and Steiner contrasts the business norms of the nineteenth century with those that are emerging in the twenty-first. It associates with the obsolete norms an economic theory, prominently advocated by Milton Friedman, that regards the concept of business responsibility to stakeholders (other than stockholders) as "a fundamentally subversive doctrine." [15] The reality that Steiner and Steiner see as setting the stage for current and future norms is that "A manager operates within a set of economic, political, cultural and technical constraints. They are powerful, and as societal expectations change corporate actions must conform. This is the equation of legitimacy." (Steiner and Steiner, 116.)

The legitimacy equation explains some of the strength of the rudder, in Figure 1b, that was labeled "other stakeholders." Corporations often perceive these as the collection of forces that make up public opinion. Corporations pay attention to public opinion for a variety of reasons, including how it may affect sales; how it may affect the regulatory environment; and its personal impact on corporate decision makers (to the extent that public opinion filters into the social circles in which they and their families live).

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Steiner and Steiner emphasize the convergence between the long-run interests of business and of society, noting that firms cannot thrive in a badly degraded environment or in a society riddled with violence, poverty, and ignorance. This point, though not in much dispute, does not necessarily change corporate behavior, for it leads to a classic free rider situation. If some large corporations support the health or education of workers and potential workers, why should not the rest sit back and enjoy the benefits? John Elkington does, indeed, note that

> "Most companies continue to enjoy a "free ride" at the expense of both those pioneering companies that have made a start at internalizing costs and of the wider environment. However transparent the operating environment in which it does business, a company ultimately must face financial reality. If internalizing a range of triple bottom line costs starts to threaten stock market valuations, salaries or jobs, then only regulations will swing the argument. So the challenge is not simply one of making the costs imposed more visible, a task which accountants can certainly help, but also of forcing all economic players to internalize their fair share of costs." (Elkington, 1998, p. 183)

Bruyn has noted that corporations recognize the advantages of enforceable common standards that will preserve their social legitimacy without encouraging free riders. When they cannot achieve this through their own efforts, they sometimes quietly ask for assistance in the form of government regulation. There is, at the same time, a record of corporate opposition to standards imposed on them from the outside.

If we focus on the reasons for corporate opposition to regulation, we can note a difference between objections to regulations that might hurt a firm's competitiveness vis-à-vis other firms, vs. objections based on a fear of absolute cost increases. The first kind of concern can be assuaged when it is shown that all competing firms are affected equally. The level playing field argument is especially persuasive to those who expect to be affected "more equally" than others; these include firms that have more technical capacity to respond in an innovative manner to the new demands, or that have more financial capacity to absorb the additional costs of monitoring and reporting. However, the large firms that possess these capacities are precisely those that are most likely to be engaged in international competition, and their appreciation of possible domestic advantage is often overshadowed by their fear of losing ground against foreign competitors that face less stringent standards. These - led by the TNCs - are the firms that have the clout and the funds to lobby most effectively against increased regulation. Yet the picture is very mixed: "most of the companies responding effectively to the transparency revolution operate internationally." (Elkington, 1998, p. 164.)

SAILING UPSTREAM, TOWARDS RESPONSIBILITY

Given the great power of corporations to shape the social and physical world, optimism or pessimism about humanity's future depends on where in the corporate world we look. On the one hand there are indications that pressure from governments, investors and other stakeholders has caused real movement toward corporate responsibility. As examples, some energy companies are starting to take seriously the need to convert to renewable sources; some

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automobile manufacturers have ceased denying the reality of global warming;[16] and some apparel manufacturers are accepting in-depth, third-party evaluations of their third world suppliers' social and environmental responsibility.

On the other hand we might see the future in the corporations that, facing a choice between profits vs. the triple bottom line, ignore the latter, or simply try to "greenwash" their image. Agribusinesses continue to develop technologies and sales strategies with little or no regard to the viability of farmers or threats to the health of humans or other biota; many private producers or operators of public goods such as health, education, waste disposal and prisons, lobby for government regulations that will increase their revenue stream (including the number of prisoners) rather than solving the social problems with which they are charged; and a stunning cascade of mergers and acquisitions poses an ever greater threat to the balance of power between for-profit activities and the rest of society.

There are two areas in which it will likely be most difficult to get corporations to take responsibility for their impacts. One of these is the social and cultural effects of their products, both in themselves and in the advertising that supports them. The other is the myriad ways in which the economic power of huge, especially transnational, corporations, translates into political power. Given the existing, often pernicious political power being wielded in what the corporations see as their interest, it is hard to take seriously Milton Friedman's' concern that the efforts of firms to be socially responsible would put them into the political arena *de novo*, or his tenacious faith that competition is sufficient to keep them out of it. [17] For too long, economists have worried only about economic power (especially monopoly power, with its cost to the consumer in setting high prices), ignoring the rise of corporate power in the cultural and political arenas.

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Steiner and Steiner, addressing future corporate managers, stress the need for a new paradigm in economic theory: one that could accommodate the historical changes underway in the area of corporate responsibility. Increasing transparency continues to make corporations more accountable to a broader group of stakeholders. The paradigm change is, in fact, under way; corporations are - however slowly and unevenly - accepting increased responsibility for social, economic and environmental sustainability. Now the critical questions are: how fast can this change gather momentum? Can it successfully contend with growing corporate size and power? And what will come of the deepest of all conflicts between corporate profits and social and environmental health - the fact that much corporate production is intrinsically unsustainable? The answer to these questions will lie in the efforts of stakeholders and the groups that work to mobilize them to make business serve society - rather than the other way around.

Notes

1. A negative externality incurred by a firm is a cost that it generates but does not pay for, shifting the burden to others in society, or to the natural environment (in which case the cost is likely to be born by people in the future, if not in the present). To give an example of what it means to internalize an externality: if a government mandates that firms are responsible for the environmental effects of their product during its entire life, from production through disposal, then costs of waste handling which had been paid by municipalities or by consumers become "internalized" as part of the firm's total production cost. The firm now has a cost incentive, previously lacking, to redesign the product for disassembly and recycling or reuse.
2. "More than $2 billion is spent annually on advertising directed at children, over 10 times the amount spent just 10 years ago. At three years of age, before they can even read, most American children start making specific requests for brand-name products." Co-op America Quarterly, No. 50, spring 2000, p. 17.
3. Obvious examples in the U.S. are the beverage industry, using its power to defeat bills for bottle recycling; or the ability of the automobile industry to direct transportation planning over half a century. Cf. Blumberg and Gottlieb, 1989; Adams and Brock, 1987.
4. Severe critics of corporations include Derber, 1998; Dugger, 1988; Susan George, Appendix and Afterward to The Lugano Report, 1999; Greider, 1997; Heiman, 1997; Korten, 1995, 1999; Mokhiber and Weissman, 1999; Most of these authors tend towards the end of the spectrum which suggests that radical change is necessary, seeing little hope in the various kinds of reform from within that are the focus of this essay. Critics of corporations, perhaps because they find a readier audience in the broad public than in academia, sometimes adopt a populist style that can make it difficult to compare this side of the argument with the academics who express more favorable or optimistic views.
5. Among the many alternative ideas that could not fit into this essay, an especially important one is the movement for employee share ownership. A good overview of this missing topic is Kelly et al. eds., 1997.
6. The members of ISO are national standards-setting bodies including both government agencies and NGOs. Although the standards are voluntary, compliance with ISO 14001 (guidelines for the creation of environmental management systems) can be certified by outside auditors. Some 5,000 companies have adopted ISO 14001, mostly in Europe and the Far East. (UNESCO 1999, p. 365.)
7. See note 1 for a definition of externalities.
8. The United Methodist Reporter, Feb 13, 1998.
9. See Haskel, 1985.
10. This was reported in Co-op America's Financial Planning Handbook, 2000 Edition, which adds that "Nearly $1 out of every $7 under professional management in the U.S. is part of a responsibly invested portfolio" (including screened portfolios, excluding, e.g., tobacco, gambling, weapons, alcohol, and corporations with bad human rights or environmental records.) Additionally, "An estimated $922 billion is controlled by investors with social goals who either sponsor shareholder resolutions, vote their proxies on the basis of socially responsible goals or communicate with problem companies." (p. 25.)

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11. Without going into this intriguing exception in detail, two likely explanations concern the technology stocks that might be eliminated in a military screen, and the profitably cozy relationship between large military suppliers and governments.
12. For a variety of views on the "Porter hypothesis" see, for example, Harvard Business Review, 1994, "The Challenge of Going Green;" also Gallarotti, 1995; Portney, 1995; Boyd, 1998.
13. Suggestions for improved government regulations are offered the summarized article by Porter and van der Linde, as well as in Porter, 1996. The Civil Economy, by Severyn Bruyn (2000), of which two chapters are summarized in this section, provides additional suggestions for a lighter, but more effective, regime of government regulations.
14. See Bowles and Gintis, 1986 (summarized in Part 4 of Ackerman et al., The Political Economy of Inequality, Volume 5 in the Frontiers series). Charles Derber, in an extended comparison between the present era and the Gilded Age, a century ago, notes how "Corporations became private governments with quasi-public powers, while government itself became a servant of private interests." (Derber, 1998, p. 25)
15. Friedman, 1962, p. 133; quoted in Steiner and Steiner, p. 118.
16. The Global Climate Coalition, which tried to discredit concern over climate change, has been unraveling; at the time of this writing, for the past few months the GCC has lost a member a week -- including giants like Ford and GM.
17. For descriptions of the political activity and impact of corporate lobbying and political donations, see Part 4 of Ackerman et al., The Political Economy of Inequality (Volume 5 in the Frontiers series); esp. summaries of work by Dan Clawson, Alan Neustadtl and Denise Scott, by Walter Adams and James S. Brock, and by Jerome L. Himmelstein.

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