

Governance and corporate citizenship

Professor Dirk Matten, the Hewlett-Packard Chair in Corporate Social Responsibility, Schulich School of Business, York University in Toronto outlined to the European Governance People Conference the major changes that have happened since the Second World War in the way businesses operate in both the political and social spheres.

By Jeremy Slater

If we have a look at traditional post-war societies, there was a very clear idea of how governance was executed in societies," said Professor Matten. "Traditionally, there was a sphere of authority, inhabited by government; enforced by laws, police, military, a clear sphere of authority. At the same time, corporations were involved in societal governance chiefly through markets. And civil society chiefly through networks, premised on trust."

Throughout the years this emphasis has changed. "The sphere in which governments govern with authority has become more complicated. We have seen a massive bout of privatisation, we have seen globalisation, which means a lot of social, economic and political activities transcend the notion of the nation state.

At the same time corporations have taken on a great deal more responsibility following the huge privatisation wave that has occurred in most Western democracies, where governments by and large have divested their stake in many of the public services. As this happened, corporations were forced to engage with civil society, a move that has been balanced by the rise of non-governmental organisations



(NGOs), which now number between 10,000-15,000 worldwide and have a major influence on discourse in the social space and on legislation.

Corporations step into a social space

In response to pressure from governments and NGOs businesses have become more open and more aware of their responsibilities to the world beyond their door steps. This has led to the adoption of a corporate social responsibility (CSR) agenda by many companies around the world. Examples include Wal-mart being one of the biggest agents of support in New Orleans after Hurricane Katrina, the creation of the Global Business Coalition to fight HIV Aids and Vodafone in the Czech Republic helping the homeless. CSR is also involved in issues such as how companies' trade and the supply chain.

"When I study people governance or the

business and society related activities of many companies, I think of Liz Taylor's famous quote, 'If you meet people who don't have any vices, you can be pretty sure that they have some very annoying virtues'," said Professor Matten. "A lot of corporations enter this sphere of governance, CSR, thinking that the approach of the 19th century of paternalism is going to do the trick.

"However, if you talk to heads of businesses that have a paternalistic reputation such as Sir Adrian Cadbury, of Cadbury's Chocolate whose ancestors pioneered methods of operation in 19th century that look very similar to today's CSR they will tell you that today, companies step into this space following a time when most liberal democracies had created a very far reaching welfare state," said Professor Matten.

Therefore, there is much more complicated relationship between business and society than before. The legislative process that supports the welfare state also happens at the EU level: which is affected by lobbying and corporate influence.

"Lobbying in itself is not a negative thing. There is a whole host of information needed to create smart regulations and there is a governance responsibility for businesses who handle complex technologies," said Professor Matten.

Dirk Matten

Professor Dirk Matten is Hewlett-Packard Chair in Corporate Social Responsibility in the Schulich School of Business at York University in Canada. He has a PhD and the Habilitation from Heinrich-Heine-University Dusseldorf in Germany. He has taught the subject at universities in Britain, France, Germany, Belgium and the Czech Republic.

He has published 9 books and over 100 journal articles, book chapters and other papers. His books and articles have won numerous international awards including the Carolyn Dexter Best International Paper Award of the Academy of Management Conference and the Max-Weber Textbook Award of the Institut der Deutschen Wirtschaft. He is on the editorial board of six journals including *Business Ethics Quarterly*, *Business & Society* and *Organization & Environment*. His latest books include 'Corporations and Citizenship' (co-authored with Crane and Moon) Cambridge University Press 2008) and he co-edited the 'Oxford Handbook of CSR' (Oxford University Press 2008).

How representative are corporations

However, one of the most prominent issues for government the professor thinks is how companies deal with minorities. "And, you know, the most obvious minority in a business context are women. In 2008 the percentage of female directors in FTSE 100 companies was about 10%, whereas women make up 51% of the population."

Another issue that could face possible government legislation is the difference between pay within a firm. "The great discrepancies between CEO salary and average salary per employee are unsustainable and this is an issue we have to address," said the professor.

Targeting minorities and hiring illegal immigrants

Businesses could also improve their image by targeting minorities, he said.

"I think that a big example here for instance would also be the Pink Economy on minorities like, for instance, Jewish communities or caring for halal customers."

The extent to which corporations have invaded the political space in Professor Matten's view becomes nowhere

more clear than in the area of illegal immigration..

"If you look at the data for the US, the share of illegal immigrants in the work force is constantly higher than the share of illegal immigrants in the population of their respective state and you have a similar situation in Europe. Just by employing such immigrants allows them a chance to gain citizenship. In the US and Europe occasionally there are amnesties and if you can prove that you pay your taxes as an illegal immigrant you get the status of a legal residency."

It appears that governments are happy to shove, "these thorny issues down the line into the corporate sphere".

"As you might have gathered, I'm just trying to make one single point here: that is if we talk about people governance, we're talking about an activity which has an intricate political dimension," said Professor Matten. And that leads to certain demands on how corporations behave.

"We are no longer in the 19th century where a factory owner can do just as he pleases. No, you're dealing with people who are enlightened, who know their rights, who speak up, who want to have a sense of self-accomplish-

ment in their work and that requires a different approach from businesses".

The professor added that there are many people who believe that to make businesses behave in a different way needs more government intervention. "In my personal view this is not going to happen. But, the current situation puts new demands on corporations."

It asks for reciprocal ties between corporations and society.

"So, you have to find ways of how corporations try to engage with their employees, their customers. New ways of participation, of interaction, and of an exchange of ideas.

"And finally, of course, corporations must exercise some self-restraint, because they are in the arena often as the most economically powerful player, as an employer with considerable power over the employee, and therefore some restraint is definitely needed."

