

Corporate Responsibility



Ethics in Action

Businesses as Agents of Sustainable Development

Final Statement

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The corporate sector has an essential role to play in advancing sustainable development. All religious and ethical traditions represented by *Ethics in Action* affirm that business is—in the words of Pope Francis—a “noble vocation” with the capacity to improve the quality of life in many dimensions. They also affirm the immense achievements of the market economy in innovation, poverty reduction, and increased standards of living.

Today, the urgent challenges of sustainable development make clear that business fulfils its true purpose as a noble vocation when it produces “goods that are truly good and services that truly serve”^[1] by orienting its activities and directing its ends toward the common good, acting according to the requisite personal and social principles, values, and virtues. Yet the market system also opens the possibility of pursuing profits through “goods” that are actually bads (such as goods that pollute or addict) and “services” that are actually disservices (such as human trafficking and modern slavery).

One of the tenets of a market economy is that market prices guide the efficient allocation of resources to sectors where the social benefits of goods and services, measured by the price that consumers are willing to pay, are equal to social costs, measured by the price that businesses charge for production. Society thereby uses its scarce resources effectively. Yet the tenet utterly fails if market prices fail to reflect their true benefits or costs. This failure occurs in many contexts: monopoly power, financial fraud, environmental pollution, and the use of physical and psychological force, such as in modern forms of slavery.

The market principle also utterly fails when the market excludes the weak and the vulnerable from the benefits of gainful employment, human dignity, and adequate living standards. The market system can leave the poor literally to starve, or to die from unaffordable health care. No naïve blindness to market principles can justify a market economy where the rich luxuriate in great wealth while the poor struggle for their very survival. Yet such is the grim reality of our rich world economy today. Too many business leaders either stand by idly or even contribute directly to the sin of extreme inequality and neglect of the poor and vulnerable.

In short, the business sector is a noble vocation when it operates in a moral framework. When businesses ensure that they are adding true value to society and meeting the needs of the poor, their vocation and business activities raise living standards, help society to meet basic needs, and innovate to enrich our lives. Yet when businesses exploit their market power, degrade the environment, engage in financial fraud, or criminalize their activities such as through forced labor, human trafficking, tax evasion, and corruption, they degrade the community and the noble vocation of business itself. They do the same when they commit idolatry of the market even as the poor suffer and die within their midst.

In this context, it must be frankly acknowledged that some elements of today's institutional framework in which businesses operate—especially the cynical and sometimes criminal pursuit of profits at all costs, including dire harm to others, and the relentless lobbying by business for special narrow interests at the cost to society—thwart human dignity and the common good. Pope John Paul II, in the wake of Pope Paul VI in *Populorum Progressio*, defined these destructive factors as “structures of sin.” These structures are harmful not only because of their own distorted purposes and activities, but also because of their corroding effect on other social institutions that need to operate within their sphere.

These are not idle warnings. The business sector has not only achieved great heights in recent times in reducing poverty but it has also plumbed great depths by contributing directly to global warming and other environmental destruction, and to the recent global financial crisis and the epidemic of human trafficking and modern slavery.

A mere one hundred large companies account for around 70 percent of all greenhouse gas emissions since 1988, the fossil-fuel companies chief among them.[2] These corporations not only impose negative externalities on society and know it, but even worse, some attempt to hide or blur the truth, and lobby aggressively to prevent regulations to end their negative externalities. Some multinational companies also have a dismal record of degrading the environment of developing countries in order to extract resources, and then fight aggressively against legal actions for restitution—such corporate leaders destroy natural capital, social capital and undermine the well-being of future generations for short-term profits and short-term bonuses. This is organized irresponsibility—in religious language, it is sin.

Similarly in the case of the 2008 financial crisis, which was in fact a “Crisis of Ethics”, financial decision-makers engaged in rampant fraud, insider trading and other illegal practices. Ethical lapses also included reckless risk-taking, which was facilitated by weakened financial regulation and supervision. The expectation that they would be bailed out by governments in the event of losses allowed for a privatization of benefits and socialization of losses.

Many multinational companies have exploited globalization and its weak institutional framework to avoid and evade taxes, and to demand weak regulatory standards from host governments. Too many degrade human dignity across supply chains by denying workers just wages and by subjecting them to inhumane work conditions—most notoriously and shamefully through new forms for slavery, including forced labor and human trafficking.

All too often, multinational companies are willing partners in widespread corruption—on the other side of every bribe taken is a bribe given. Systemic corruption degrades social capital, undermines the common good, and can lead to civil strife and conflict. And in many countries, corporations lobby extensively to make sure that their own narrow interests take precedence over the common good.

We should not depict business today with an overly broad brush, either positive or negative. We salute the millions of honest businesspeople around the world who manage their businesses according to honest, legal, and moral precepts. We applaud the more than 12,000 companies that have joined the UN Global Compact, committing businesses to sustainable development and honest business practices. Yet we must also bemoan business-led environmental destruction, financial fraud, monopolization of markets, human trafficking, modern slavery, tax evasion, and reckless financial speculation, all of which are deeply embedded in today's market economy. Without a moral framework guiding business, the recent gains in productivity and profits will prove fleeting in the face of poverty amid plenty, financial destabilization, social unrest, and pervasive environmental destruction.

In terms of fixing these dysfunctions, a first step is to take aim at the flawed assumption that the sole goal of the business enterprise is to maximize profits and shareholder wealth no matter the costs imposed on others. Profit that is based on causing harm to others and to nature is utterly unacceptable. Businesspeople who pursue such activities may gain short term profits but cause long-term disasters for their businesses and society. As Jesus asked, what good is it to gain the whole world yet forfeit your soul?

As a matter of priority, *Ethics in Action* calls for a reorientation of business activity around the common good. This will imply a two-fold strategy. The first dimension is personal spiritual transformation of business people, and especially business leaders, predicated on change from within, through love in action. The individual human being, irrespective of the institutional setting, must be personally accountable as a moral actor. Senior management has a particular responsibility to define and demonstrate the right values, and to set “moral enrichment targets” within the corporation to promote and reward virtuous behavior.

Yet as Pope Francis notes, “self-improvement on the part of individuals will not by itself remedy the extremely complex situation facing our world today” (*Laudato Si'*, 219). The pursuit of sustainable development requires a reform of the societal frame, creating a greater harmony between business success, environmental

sustainability, and social fairness. This also requires institutional reforms to dismantle the embedded structures of sin, including the criminalization of business and the relentless pursuit of profits at all costs, including harm to others. Businesses must aim for true social value rather than selfish profits at the expense of others. Governments must regulate against environmental destruction, tax evasion, corruption, and human trafficking.

“Business ethics” can never be optional, and “corporate social responsibility” can never be an add-on, mere window-dressing, or worse—a cynical exercise in public relations. For such change to take root, it must begin with moral education at different levels—for children, in universities, and among CEOs and managers. A particular challenge lies in changing the curriculum of economics programs and business schools towards a healthier and more realistic vision of human nature, and one that aims at the common good.

Business leaders should take a professional oath, similar to the Hippocratic Oath taken by medical practitioners. This must start with first, do no harm (*primum non nocere*) but it must also mirror the other elements—second, act cautiously (*secundum cavere*) and third, heal (*tertium sanare*). Turning to the duties of businesses, *Ethics in Action* proposes the following “Ten Corporate Commandments.”

The Ten Corporate Commandments

1. Produce Goods and Services not only for Markets but also for the Common Good

Produce goods and services that facilitate human flourishing and dignity rather than “bads” that cause addictions, diseases, environmental degradation, and other harms. Meet real human needs rather than false needs created by advertising.

2. Promote Sustainable Development

Be aligned with the SDGs, which are the globally agreed goals between now and 2030. Invest in sustainable development solutions, which, as Pope Francis notes, may also prove to be highly profitable (*Laudato Si'*, 191).

3. Extend Responsibility and Accountability to All Stakeholders

Adopt a fiduciary duty not only to shareholders but to stakeholders including workers, suppliers, customers, the environment, and society at large. Do not seek profits from harm to others; do not lobby against the common good; and support countervailing institutions such as unions and civic organizations.

4. Act in Accordance with the Universal Destination of Goods

Private property rights are not inviolate; they must accord with the common good and dignity for all. Firms should defend human dignity, for example by prioritizing decent wages and work conditions over extra profits, and by employing the marginalized and excluded, including minorities, refugees, and indigenous communities.

5. Eliminate all forms of Modern Slavery

Eliminate all forms of modern slavery, especially forced labor, prostitution, and organ trafficking within the company’s and the sector’s supply chain. Develop and disseminate innovative models, best practices and indicators to help end these crimes. Provide jobs and training to former victims of modern slavery proportionate to workforce size.

6. Ensure Environmental Sustainability

Embed environmental sustainability in core business models. Accept that the main cause of climate change is human activity based on the use of fossil fuels (*Laudato Si'*, 23), and pay the full social cost of using shared environmental resources, in line with Pope Francis’s teaching that environmental sustainability is a necessary condition for economic activity to be considered ethical (*Laudato Si'*, 195). Commit to becoming carbon neutral by using clean energy sources and to eliminating all forms of environmental degradation, including pollution and oil spills.

7. Link Profit to Social Benefit

Internalize the idea that profit-making at the expense of others is illegitimate, and that legitimate profits must be linked to the provision of a true social benefit. In this context, end negative externalities of the firm, and consider the allocation of a clear part of the company’s profits to support the common good, especially the poor.[3]

8. Commit to Responsible CEO Compensation

Set compensation for CEOs and senior executives based on factors such as avoiding social harms, respecting the law, ending self-seeking lobbying, and contribution by the company to the SDGs. Keep a reasonable

balance of the pay of the CEO and the workers in the firm and publish the income differentials between management and workers.

9. *Do Not Seek or Exploit Monopoly Power*

Do not seek to create or exploit monopoly power and monopoly rents, accept and cultivate a healthy balance between corporate competition and collaboration, and support antitrust efforts at the national and international level to ensure a competitive environment where market power is limited.

10. *Do Not Bribe, Evade Taxes, or Commit Financial Fraud*

Do not avoid or evade taxes, take bribes, offer bribes, or engage in any kind of financial corruption or malfeasance. Support the elimination of tax havens all across the world, and promote greater transparency, stricter reporting standards, and stronger criminal penalties for corporate managers and Board members in cases of corruption and criminal fraud.

Ethics in Action pledges to disseminate these recommendations among its networks, and to engage in partnerships with different stakeholders to further these goals. In particular, it pledges to work with the European Union in supporting corporate ethics and good governance.

End notes

[1] Vocation of the Business Leader, Pontifical Council for Justice and Peace.

[2] Source: CDP Carbon Majors Report, 2017.

[3] “Give alms from your possessions. Do not turn your face away from any of the poor, and God's face will not be turned away from you” (Tobit 4:7). For example, the Economy of Communion asks businesses to divide profits in three ways—re-investment in the business, giving to those in need, and funding the infrastructure to promote a culture of giving and reciprocity.