



Responsabilidad de las corporaciones



Ethics in Action

Statement on Corporate Responsibility

August 24, 2017

The corporate sector has an essential role to play in solving the grave and urgent problems of sustainable development. Business enterprises have the capacity to improve the quality of life in many dimensions. All religious and ethical traditions represented by *Ethics in Action* affirm that business can be—in the words of Pope Francis—a “noble vocation”, but only when it orients its activities and directs its ends toward the common good, acting according to the requisite individual and social principles, values, and virtues.

Regretfully, many corporations today are far from this ideal. The business sector has the capacity to create great wealth, but in the world economy today this wealth is not created, managed, or distributed in accordance with justice, solidarity, subsidiarity, sustainability, or the common good. Some of this results from bad politics, but much of it results from adverse corporate practices. Corporate leaders have both the responsibility and the means to promote the common good much more than they do today.

From this perspective, the global financial crisis of 2008—the most devastating economic crisis since the Great Depression—was in fact a “crisis of ethics.” Financial institutions engaged in rampant fraud, insider trading and other illegal practices, but also in a form of reckless risk-taking tied to a judgment that they would be bailed out by governments in the event of losses.

Corporations also bear considerable direct responsibility for the environmental crisis. A mere one hundred companies account for around 70 percent of all greenhouse gas emissions since 1988, fossil fuel companies chief among them.[1] These corporations impose negative externalities on society, in the sense that the harm they do is not reflected in market prices. They know this but they still persist. Even worse, they often attempt to hide or blur the truth, and lobby aggressively to prevent regulations to end their negative externalities. Many multinational companies also have a dismal record in degrading the environment of developing countries in order to extract resources, and then fight aggressively against legal actions for restitution.

Another way corporations harm society is through abuse of market power in the form of monopolies, oligopolies, and abuse of intellectual property protection (such as patents). For instance, pharmaceutical companies regularly jack up the prices of life-saving drugs to make exorbitant profits, knowing full well that many needy people will remain sick, and that some will die, as a result of the price-gouging. The rise of corporate concentration in recent years has proven detrimental to the common good—it harms both competition and human collaboration; it hurts solidarity, subsidiarity, and human dignity; and it even has the potential to undermine democracy.

Many multinational companies also exploit globalization to avoid and evade taxes, and to demand the weakest regulatory standards from host governments. Too many companies degrade human dignity across

supply chains by denying workers just wages and even subjecting them to inhumane work conditions—most notoriously and shamefully through complicity in new forms for slavery, including forced labor and human trafficking.

Corporations are also 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.

All of this corporate misbehavior is rooted in a flawed model suggesting that the sole goal of the business enterprise is to maximize profits, typically identified with shareholder value, even if the company's gains come at the expense of losses imposed on innocent stakeholders. A similar improper transfer of benefits from society to the corporate sector occurs through "corporate welfare" or state subsidies to big companies that many critics rightly characterize as "socialism for the rich, capitalism for the poor" or "privatizing profits and socializing losses".

The approach of maximizing shareholder wealth at the expense of others detaches wealth creation from the common good, market competition from human sociability, financial incentives from intrinsic motivation, and individual freedom from responsibility to others. It builds on values such as egoism, hedonism, materialism, instant gratification, and zero-sum competition. Such an approach goes against human nature by creating a "bifurcated life" whereby human beings are presumed to be virtuous only outside of the economic setting.

Fundamentally, there are two kinds of institutions in society—those oriented toward the common good, such as the family, and those thwarting it, such as human and drug traffickers. In a well-functioning society, corporations and the governments certainly belong to the first category. Yet too often, anti-social business practices make corporations the enemy of the common good. Corrupt governments are similarly destructive.

Pope John Paul II, in the wake of Pope Paul VI in *Populorum Progressio*, defined the destructive institutions as "structures of sin." These structures are harmful not only because of their own evil purposes and activities, but also because of their corroding effect on other social institutions. It is clear that many corporations participate in structures of sin. This is especially the case when corporate power dominates the state as well as over institutions that should provide countervailing power, such as unions, small businesses, and civil society organizations.

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 for oneself and for the other as another self. The second dimension is institutional reform to dismantle the embedded structures of sin, which in turn requires the pursuit of justice in accordance with the principle of subsidiarity (assigning functions to the national or supranational level, depending on the degree to which the harm spills across borders).

Such reform must be predicated on the cultivation of individual and social virtues within the core function of business, so that corporations support human flourishing in the broader context of a market that embeds human sociability rather than inhuman exploitation. "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. And business leaders should be required to take a professional oath, similar to the Hippocratic Oath taken by medical practitioners: *Primum non nocere!* (*First, do no harm!*)

Turning to the duties of businesses, *Ethics in Action* proposes the following "Ten Corporate Commandments."

The Ten Corporate Commandments

1. Produce Goods and Services 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 Sustainable Development Goals (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 to All Stakeholders*

Adopt a fiduciary duty not only to shareholders but to global stakeholders including workers, suppliers, customers, the environment, and society at large. Do not seek profits from the 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*

The universal destination of goods means that private property rights are not inviolate; they must accord with the moral commitment to 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 making special efforts to employ 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.[2]

8. *Commit to Responsible CEO Compensation*

Set compensation schemes for CEOs and senior executives based on such factors as avoiding social harms (ending pollution), respecting the law, ending self-seeking lobbying, and contribution of 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] Source: CDP Carbon Majors Report, 2017.

[2] *“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.