

# Global Corporations are Global Citizens

They stand alongside states in an ever more interconnected world

by Barbara Matta

Multinational corporations (MNCs) are citizens of the world and ‘the most public face of globalisation’<sup>1</sup>. MNCs stand alongside states in the international arena, and their influence is a clear demonstration of a world that is turning more and more post-Westphalian in nature. Corporate Social Responsibility (CSR) before 1990 required business firms merely to obey the laws of their states. The global value chain revolution and the denationalisation of comparative advantage have introduced a new paradigm. Today, MNCs play an active role in global governance, and their social responsibilities have considerably increased.

## ***Corporate Citizenship is the new paradigm***

This new paradigm, which we name Corporate Citizenship, is one of the consequences that followed the advent of what Richard Baldwin called ‘the New Globalisation’ or ‘globalisation’s second acceleration’. This New Globalisation, the second round of worldwide intensification of economic integration, was triggered by the Information and Communications Technology (ICT) revolution and the drop of the ‘costs of moving ideas’. Consequently, Global Value Chains (GVCs), the phenomenon through which ‘different stages of the production process are located across different countries’ (OECD), replaced the international division of labour.<sup>2</sup> Under the Old Globalisation, each nation state increased its comparative advantage by exporting the commodities whose production required an intensive use of the factors (land, labour or capital) abundantly present in the national territory.<sup>3</sup> The concept of comparative advantage was initially introduced by David Ricardo and later theorised by the Heckscher-Ohlin model of trade. With GVCs the comparative advantage became denationalised. States lost control over the production process.<sup>4</sup>

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<sup>1</sup> Eric Thun in John Ravenhill, '*Global Political Economy*', (6th ed. Oxford University Press, 2020), p. 176.

<sup>2</sup> OECD, '*Global Value Chains (GVCs)*', 2018, Available at: <https://www.oecd.org/sti/ind/global-value-chains.htm>.

<sup>3</sup> Richard Baldwin, '*The great convergence: information technology and the new globalization*', (Cambridge, Massachusetts: The Belknap Press Of Harvard University Press, 2016), pp. 17-79.

<sup>4</sup> Michael J. Hiscox in John Ravenhill, '*Global Political Economy*', (6th ed. Oxford University Press, 2020), p. 78.

'Increasingly, the boundaries of competitiveness are controlled by firms who run international production networks.'<sup>5</sup>

### ***Nation-states' authority has been eroded***

The erosion of the nation-states' sovereignty was acknowledged in 1996 by Susan Strange in *The retreat of the state: the diffusion of power in the world economy*. In her publication, she looks at the 'non-state authority in society' and argues that along with International Organizations (IOs), transnational social movements, NGOs and powerful families, major firms have acquired legitimacy to act as global players.<sup>6</sup>

Global challenges are another important factor that led to the weakening of states' authority and the strengthening of MNCs. Climate change, international crises and global pandemics are just some examples of the challenges that international actors are bound to face. These challenges transcend the state dimension and cannot be countered by closing and reinforcing the national borders. States lack the ability to provide a fixed, stable context for market activities. Far from asserting that states are not critically important actors in the increasingly globalised world, it is however a fact that they now share the authority and responsibility with new international actors. Therefore, cooperation and coordination of action between states and non-state actors, including MNCs, are necessary in order to face global challenges.

### ***But business did not share the same aims as states***

According to Andreas G. Scherer and Guido Palazzo, businesses are responsible for filling 'regulation gaps and implementation deficits' left by nation-states, whose 'system of law and enforcement apparatus' has been undermined by globalisation.<sup>7</sup> It is true that globalisation has transformed and continues to transform the role of states in the international arena, but the argument that states have suffered a weakening of their enforcement apparatus due to globalisation does not apply systematically. Moreover, businesses strengthened their international positions in order to pursue their business objectives; their purpose was not to fill the regulatory vacuum left by states nor to offer states the ability to act more effectively in an interconnected world, even if that was one of the end-results of business globalisation. At all events, because of intense economic interdependence and the recognition of the indivisibility of security, the whole international community has at last become aware of the fact that the ability to face global challenges requires cooperation between states and non-state actors. Hence, MNCs and states are partners and both fully-fledged global players.

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<sup>5</sup> Richard Baldwin, *The great convergence: information technology and the new globalization*, (Cambridge, Massachusetts: The Belknap Press Of Harvard University Press, 2016), p. 12.

<sup>6</sup> Susan Strange, *The retreat of the state: the diffusion of power in the world economy*, (Cambridge Cambridge University Press, 1996), p. 135.

<sup>7</sup> Andreas Georg Scherer and Guido Palazzo in Crane, A. and Al, *The Oxford handbook of corporate social responsibility*, (Oxford: Oxford University Press, 2008), p. 413.

## ***Now, business must recognise and embrace its societal responsibility***

Why has businesses' responsibility increased? First, because greater power or influence inevitably brings greater responsibility. The voice of multinational corporations is strong enough to influence the decision-making process and to drive positive global change. Businesses are most often depicted as the bad actors, responsible for environmental damages, social inequalities, and human rights abuses. With the development of a more holistic interpretation of Corporate Citizenship, business firms not only must comply with obligations set by states or IOs but are also expected to promote sustainable financial performance and be positive participants in society, at the same time. Immanuel Kant would have argued that citizens are naturally bound to behave morally when acting rationally and in line with their sense of duty. Hence, when business firms are willing to be and act as good and rational global citizens, they naturally behave following 'categorical imperatives', laws that all citizens of the world are willing and expected to obey. Corporate Citizenship becomes the inner sense of duty that leads MNCs to internalise morally recognised narratives and practices — and behave as good global citizens.

A second reason for the increase in businesses' responsibility is related to the emergence of global risks, because 'citizens from very different communities and countries realise that their destiny is bound together' and international cooperation is necessary to solve common problems.<sup>8</sup> The existence of environmental disasters, global diseases and worldwide social problems such as migrations makes it necessary for MNCs to act and confers on them the authority and legitimacy to do so. Their multinational nature makes it easier for them to trigger horizontal changes. According to Mark C. Suchman, corporate legitimacy is the 'generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions'.<sup>9</sup> Common challenges, like climate change or the Covid-19 pandemic, in fact encourage the construction of a system of universal norms and values.

## ***Indeed, it is in business firms' own interest to display true Corporate Citizenship***

Why would business firms be motivated to become good global citizens? In an increasingly globalised world, profit and values are strongly interconnected and mutually reinforcing. First, because if business firms fail in satisfying societal expectations, they lose the legitimacy and the authority to act in the international landscape. Second, Corporate Citizenship 'can be viewed as a form of investment', comparable with other investments intended to enhance business firms' image and reputation.<sup>10</sup> Finally, most of the time, global risks involve significant losses for businesses. Corporate Citizenship requires firms to make responsible

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<sup>8</sup> Ibid., p. 5.

<sup>9</sup> Mark Suchman, 'Managing Legitimacy: Strategic and Institutional Approaches', (The Academy of Management Review, 1995), Vol. 20, No 3, p.574.

<sup>10</sup> Abigail McWilliams and Donald Siegel, 'Corporate Social Responsibility: a Theory of the Firm Perspective', (Academy of Management Review, 2001), Vol. 26, No 1, p. 119.

choices even at the expense of their own short-term interests.<sup>11</sup> At the same time, responsible choices are driven by long-term interests and purposes. Corporate Citizenship is, therefore, a form of insurance for profit-making in the long term.

### ***How the new Corporate Citizenship paradigm functions in fact***

Three main aspects define the nature of the new paradigm of Corporate Citizenship: a shift from a passive to a more active Corporate Citizenship; long-term oriented narratives and practices; and the alignment of profit, purpose, and values.

The empirical manifestation of the new paradigm of Corporate Citizenship is usually grasped by looking at three main fields of action. Global challenges, *inter alia* climate change and global pandemics, are included in the first field of action. With the Open Letter addressed to world leaders in 2015, forty-three companies made a clear commitment to 'manage climate risks and incorporate them in decision making'. They presented themselves 'as ambassadors for climate action' and showed their willingness to act as good citizens.<sup>12</sup> In periods of global pandemics, business firms' commitment to Corporate Citizenship, and the synchronisation of their action with states' and IOs' responses, become crucial for enhancing resilience.<sup>13</sup> Investments in new technology, research and development; philanthropic Corporate Citizenship actions; reliable and steady food supply; efforts in designing smart working platforms and innovative education materials. These are just some examples of how Corporate Citizenship can respond to global challenges.

The second field of action is related to human rights. Corporate Citizenship operates as a moral obligation that leads MNCs to act in compliance with international conventions such as the UN Convention on Human Rights and the International Labour Organisation Conventions on the Fundamental Rights of Workers and, of course, the UN Sustainable Development Goals. Finally, the war in Ukraine has demonstrated how influential the response and the actions of MNCs in favour of Corporate Citizenship leaders can be in times of international crisis.

Thirdly and above all, MNCs are the offspring of the New Globalisation: citizens of the world with great responsibility. They have the authority and the legitimacy to act, and the responsibility to act. They stand alongside states in the ever more interconnected and integrated world. Today, the traditional division of labour between nation states has been replaced by a more complex division of labour between states and MNCs. The new paradigm of Corporate

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<sup>11</sup> Leif Wenar, '*John Rawls*', (Stanford Encyclopedia of Philosophy, 2017). Available at: <https://plato.stanford.edu/entries/rawls/>.

<sup>12</sup> Myria W. Allen and Christopher A. Craig, 'Rethinking corporate social responsibility in the age of climate change: a communication perspective', (International Journal of Corporate Social Responsibility, 2016), Vol. 1, No 1, p. 1.

<sup>13</sup> Carroll, A.B. (2021). Corporate social responsibility (CSR) and the COVID-19 pandemic: organizational and managerial implications. *Journal of Strategy and Management*, 14(3), pp.315-330.

Citizenship legitimises and motivates the pursuit of lasting purpose. Purpose and performance go hand-in-hand, provided they both stem from a coherent, comprehensive business strategy that recognises the value of values as essential to the long-term health of the business firm in society. Corporate Citizenship thus becomes the means for business firms to be and to act as exemplary global citizens and, thereby, ensure their own future prosperity.

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