2 *The Context of Globalization, Sustainability and Financialization*

Conversation about globalization and sustainability today, and even more so about financialization, is often confusing and can provoke multiple reactions – from anger and frustration to helplessness and disorientation or to wishful thinking and unrealistic expectations. Against this emotional backdrop the focus on wealth creation and human rights might produce a sobering effect and can help discern essential features, which shape our societies for many years to come, whether we like it or not. By describing the major traits of globalization, sustainability and financialization, this radically new approach to corporate responsibility will hopefully become more visible and understandable.

Globalization

Globalization can be understood as a kind of international system in the making. It is "not simply a trend or a fad but is, rather, an international system … that has now replaced the old Cold War system, and … has its own rules and logic that today directly or indirectly influence the politics, environment, geopolitics and economics of virtually every country in the world" (Friedman 2000, ix). It is characterized by an increasing interconnectedness of the world, due to the revolution of information technology and an immense reduction in the cost of transportation and communication. This dynamic system in the making is about "global transformations" in the plural, including political, cultural and environmental globalization, migration and the expanding reach of organized violence (see Held et al. 1999; Held & McGrew 2000, 2002). Moreover, one should add religion's growing influence in international politics (see Thomas 2010, chapter 7).

In business and economic terms, the increasing interconnectedness of the world means expanding markets and division of labor, reminiscent of the emergence of the Industrial Revolution in Europe, but, of course,

https://doi.org/10.1017/9781108913966.003 Published online by Cambridge University Press

at a definitively global scale. Trade, investment and the migration of people have dramatically increased, which forces all countries and businesses alike to account for the radical changes of the international system in the making.

Here is not the place to recall the empirical evidence of these groundbreaking developments in the last thirty plus years. The multiple dimensions of globalization, which were observed, analyzed and criticized at the turn of the millennium – expressed at and around the meeting of the World Trade Organization (WTO) in November 1999 in Seattle and in the wake of the terrorist attacks on September 11, 2001 in New York – have become even more complex and challenging in the years since. The build-up of the international production system, the expanding roles of markets and competition through liberalization, deregulation and privatization, the growing inequalities between winners and losers of these transformations and the powerful driving force of transnational enterprises characterize some important features of economic globalization.[1] Chapters 19 and 20 will discuss, in some depth, two major challenges: income inequality and corporate responsibility in the supply chains, respectively.

Although globalization is a key characteristic of our world today, it would be wrong to characterize all international relations as global. In fact, there is an enormous variety of international relations that cannot simply be subsumed under the category of "globalization." Hence, a more sophisticated understanding of international relations is required. Although the decline of the nation-state has been rung in (for example, by Ohmae 1995) and a new, globally oriented post-Westphalian world order seems to be emerging (see, for example, Habermas 2001), the nation-state has proved to be quite resilient and has remained or become again a central and, in many respects, the decisive, actor in international relations. In fact, the recent rise of nationalism powerfully illustrates this trend, often in conjunction with increasing autocracy (see Foreign Affairs 2019). There is no doubt that "global centrifugal forces" (Hösle 2019) are at work. All the more is it important to emphasize patriotism as "the exact opposite of nationalism" (Emmanuel Macron in Baker 2019).

Global challenges such as climate change, international terrorism, cyber security and the COVID-19 pandemic undoubtedly require collective action at the global level. But many challenges are less global than they seem to be at the first glance; we may think of health epidemics like SARS or the instability threat to the financial system. Although the old times of colonial powers are gone, we can observe new forms of empires in political, economic, technological, business and other terms. Those in the driver's seat who determine the rules of the game may ignore, disregard or take for granted the power imbalances, while those affected by them usually feel the impacts, but have no say in changing them. Moreover, despite globalization, there are still pockets of countries, areas, and spheres of life that are secluded from and "foreign" to outsiders. Ethnological studies have often emphasized the striking differences of native cultures that should be recognized in their own right. Little or no interaction appears to occur between them and the rest of the world.

These few examples may illustrate the fact that there is indeed a wide variety of international relations. They have to be taken seriously in a differentiated way, if one wants ethics to address more concrete challenges and be relevant in international affairs. This holds true not only in general terms, but also in order to contextualize the topic of this book "corporate responsibility for wealth creation and human rights." Therefore, I suggest a typology of international relations, the criterion for which is the permeability of the borders between the national and the international realms. According to the degree of permeability, four types are distinguished, which intersect with the individual (micro-), organizational (meso-) and systemic (macro-) levels of analysis and form the "extended conception" of business and economic ethics developed in Enderle (2003a) (see Figure 2.1).[2]

To illustrate the varying significance of borders, one may recall examples such as the dramatic changes of relations between East and West Germany before and after the fall of the Berlin Wall, the far-reaching permeability of borders between the countries of the European Union, the reinforcement of the US-Mexico border and the erection of border barriers in conflict zones such as the occupied Palestinian territories. Border situations vary a great deal across the globe. They are visualized by photographers such as Valerio Vincenzo (in Kuper 2013) and Kai Wiedenhöfer (2013) and discussed by journalists such as Simon Kuper (2013), Gary Knight (2013) and Raja Shehadeh (2013). In addition to borders in geographic, historic, economic and political terms, they can be defined in technological, socio-cultural, environmental and other terms. Needless to say, this diversity of perspectives renders the understanding of borders far more complex

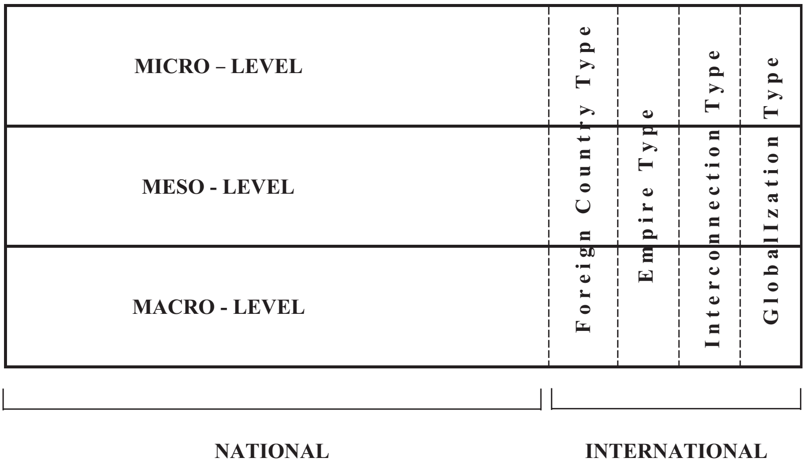

Figure 2.1 The extended conception of business and economic ethics

and much richer. In this chapter, however, the systematic considerations are limited to some key characteristics of border permeability in general.

Borders can be permeable in various degrees. At one extreme is hermetic seclusion, which characterized the Ming Dynasty in China in the late sixteenth century or the former communist Albania *vis-a`-vis* its neighbors. At the other extreme of the spectrum is the complete abolition of all borders and total openness as proposed by some proponents of globalization. In-between these extremes are multiple forms of international relationships, which encompass all cross-national variants, including both imminent conflicts and opportunities for collaboration between various actors. These variants can be classified into four types of international relations: foreign country type, empire type, interconnection type and globalization type. Although these types can be found at all three levels, the explanations below refer mainly to the macro- and meso-levels.

(A) The *foreign country* type is exemplified by the relationship of a small economy or small company with a foreign country, for example, Switzerland or Schläpfer *Embroideries* with Nigeria. International relations differ significantly from domestic relations and have no relevant repercussions on them. The international relations are added to the national framework and can be

https://doi.org/10.1017/9781108913966.003 Published online by Cambridge University Press

relatively easily detached from it. Each country is different. Foreigners have to adapt themselves to the host countries, and national borders are relatively impermeable in both directions.

(B) Examples of the *empire* type are seen in the relationship between Great Britain and India during British colonialism and the United Fruit Company in Central America. This type characterizes international relations as a pure cross-national expansion of domestic relations without significant modification. From the host country's perspective, the asymmetric power relationship often involves misunderstanding, exploitation and repression. Repercussions on the home country are negligible, since national borders are much more permeable from the home to the host country than in the opposite direction.

(C) The *interconnection* type can be illustrated by the relationship between Italy and the European Union. International relations differ significantly from domestic relations, but are intrinsically interconnected with the latter. What is beyond national borders impacts on domestic relations and domestic relations impact on international relations. Interdependence blurs the notion of a national interest that disregards the interests of other nations and supranational entities. Although they are still important, national borders are pervious to a significant extent in both directions.

(D) In the *globalization* type, exemplified by global warming, international relations are so important that national borders become almost irrelevant. Citizens turn out to be cosmopolitan; multinational firms change into global entities and nation-states fade away. In principle, this type can comprehend the whole Earth, although until now it has not been fully realized.

This extended three-level conception of business ethics provides a useful mapping to identify different levels of decision-making and acting in various national and international environments. How can it contribute to clarifying the understanding and relevance of wealth creation and human rights?

Significance for Wealth Creation

The seven features of wealth creation outlined in the first chapter gain more profile by relating them to the four types of international

https://doi.org/10.1017/9781108913966.003 Published online by Cambridge University Press

relations. Several examples (out of the $4 \times 7 = 28$ possible combinations) may illustrate the usefulness of this conceptual mapping. Natural capital as part of the comprehensive definition of wealth appears in a large variety of ways. The foreign country type (A) may indicate locally limited, clean or polluted groundwater, which exists independently of other countries. An example of the empire type (B) are natural resources such as oil, gas and minerals exploited by dominant transnational corporations (Cameron & Stanley 2016). Sharing the river Rhine as common border and space between France and Germany exemplifies the interconnection type (C). And, standing for the globalization type (D), the global climate does not know any national borders so that no country can exclude itself from it.

The relevance of the typology of international relations becomes particularly clear when considering public goods and public bads, public wealth and the lack thereof. Public wealth in the foreign country type (A) is a matter for the foreign country and neither affects nor concerns other countries. The empire type (B), however, can exert a huge impact on the creation or destruction of public wealth. In the interconnection type (C), public wealth (and the lack thereof) in one country depends on the public wealth (and the lack thereof) of another country. As for the globalization type (D), nobody on the planet Earth can be excluded from the benefit of public wealth and from the harm the lack thereof generates.

Because the productive and the distributive dimensions of wealth creation are intrinsically interrelated, each type of international relations accounts not only for production and growth but also for distribution and inequality. Regarding the foreign country type (A), inequality – within the country and related to other countries – may not play an important role from the perspective of the outsider. In the empire type (B), inequality is deeply shaped by powerful countries and corporations. The interconnection type (C) allows for a certain balance between and within interdependent countries; an example is the Cohesion Fund of the European Union that aims to reduce economic and *social* disparities and to promote sustainable development.[3] Since virtually no borders exist in the globalizing type (D), the challenges of inequality are becoming even more visible and pressing.

Creativity and innovation are also strongly influenced by the type of international relations. The first type (A) brings little stimulation for new ideas and practices to the foreign country. As for the empire type

https://doi.org/10.1017/9781108913966.003 Published online by Cambridge University Press

(B), innovation may spread through the dominated countries, but its impact is not necessarily good and can be devastating. The interconnection type (C) can generate mutually beneficial outcomes when, for example, two countries complement each other in research and development as well as market opportunities (see the expectations of Macron's visit to China in January 2018; *Financial Times* 2018). The globalization type (D) offers great opportunities for innovation at a global scale; but, irresponsibly managed, it also can lead to confusion and chaos.

Significance for Human Rights

Considering the four types of international relations explained above, one may ask which types are more or less conducive to securing human rights. Given the small and unilateral degree of permeability of borders respectively, the foreign country type (A) and the empire type (B) hardly allow promotion of the advancement of human rights. As many historic examples of isolated countries and multiple forms of colonialism have revealed, these types have prevented rather than promoted the emergence of human rights by spreading ethical relativism and ethical imperialism. More conducive to securing human rights have been the interconnection type (C) and the globalization type (D) of international relations. Both types open national borders substantially, to the point that, in the latter case, they are practically irrelevant. While the interconnection type presupposes a relatively robust system of nation-states with some fairly established international institutions, the globalization type is still in need of a set of strong global institutions.

Both types can lead to better ways of securing human rights because they strongly expose countries to other countries' and peoples' attitudes and behaviors. In the interconnection type the flows of goods, ideas, people and other items in one direction are reciprocated by flows of goods, ideas, people and other items in the opposite direction. The way one affects others is strongly influenced by the way one is affected by others. This mutual dependence calls for an ethics of reciprocity or, simply speaking, for the Golden Rule between collective entities (which, originally, is a moral principle for interpersonal relationships). In expanding this relation between interconnection and reciprocity further, one can understand that human rights have become necessary basic ethical standards within the European Union.

The globalization type assumes that the inflows into the country are so overwhelming that national borders are insignificant and meaningless. Sooner or later, the country has to face these threats willy-nilly from outside and try to turn them into opportunities. With good reason one can say that "all human beings on earth are in the same boat." Regardless of nationality, ethnicity, sex, race and religion, we are all "naked" human beings. This insight calls for a universal ethics in terms of human rights, given the fact that there are no feasible alternatives.

It is noteworthy to recall that these four types of international relations exist simultaneously, to some extent, and influence each other. While the third and the fourth types are growing in importance under the impact of globalization, the first and the second types remain powerful, causing multiple conflicts between all four types. Moreover, the interconnection type and the globalization type are important correctives to each other, the former emphasizing the rootedness in the nation-state and the reciprocity between partners and the latter transcending the nation-state and affirming the universal common ethical ground.

Sustainability

As globalization with its multiple layers is a main feature of our situation on the planet Earth today, sustainability proposes to us the direction in which we ought to move. However, the term "sustainability" has proliferated in many and confusing ways. In business circles, a sustainable activity or company often means that, "functioning roughly as it does, it can continue indefinitely" (Audi 2009, 47). Similarly, most CEOs equate corporate sustainability with the company's continuity over time (Rego et al. 2017, 133–36). Moreover, not infrequently, sustainability is taken as synonymous with eco-efficiency, which denotes both economic and ecological efficiency. However, as the World Business Council for Sustainable Development warns, "eco-efficiency should not be confused with sustainable development, which is a goal for society as a whole." Indeed, "it is even possible to have a world in which every company is becoming ever more eco-efficient and yet the planet's resource base is deteriorating due to population growth and the sheer increase in business and industry" (Schmidheiny & Zorraquín 1996, 17).

In this book I stick to the famous definition of the World Commission on Environment and Development in its report *Our Common Future* published in 1987. Sustainable development means "to meet the needs of the present without compromising the ability of the future generations to meet their own needs" (WCED 1987, 8).

This definition adopts a long-term, intergenerational perspective and has been widely embraced not only by scientists and policy makers but also by business and civil society. It overcomes the separation of environmental and development concerns, which had characterized the public discussion before this groundbreaking report. It also provided the conceptual basis for the UN Conference on the Environment and Development 1992 in Rio de Janeiro, in its Agenda 21, to call upon all countries, poor and rich, to commit themselves to sustainable development. Sustainability in this comprehensive sense "recognizes and incorporates the social, economic and ecological objectives of multi-generations" (Prizzia 2007, 20). This three-fold conception has also shaped the so-called "Sustainability Reporting Guidelines" launched in 1997. They enable all organizations to measure and report their performance in three key areas: economic, environmental and social, recently supplemented by governance as a fourth key area (www.globalreporting.org).

Again, at the UN Conference on Sustainable Development in 2012, the three-fold conception of sustainable development played a fundamental role and shaped the Rio+20 outcome document *The Future We Want* (UN 2012b). In "our common vision" the signatories renew their commitment "to ensuring the promotion of an economically, socially and environmentally sustainable future for our planet and for present and future generations" (§ 1) and acknowledge "the need to further mainstream sustainable development at all levels, integrating economic, social and environmental aspects and recognizing their interlinkages, so as to achieve sustainable development in all its dimensions" (§ 3).

On September 25, 2015, the UN General Assembly adopted the Resolution *Transforming Our World: The 2030 Agenda for Sustainable Development* (UN 2015). It promulgates 17 Sustainable Development Goals (SDGs) and 169 targets, which succeeded the Millennium Development Goals of 2000 and were elaborated in multiple consultations around the world.

They seek to realize the human rights of all and to achieve gender equality and the empowerment of all women and girls. They are integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental. The Goals and targets will stimulate action over the next 15 years in areas of critical importance for humanity and the planet. (UN 2015 from the Preamble)[4]

It is easy to see that the SDGs substantiate comprehensive wealth creation and human rights in multiple ways. The importance of natural capital is highlighted in Goal 6 (clean water and sanitation), Goal 7 (renewable energy), Goal 13 (climate action), Goal 14 (life below water) and Goal 15 (life on land). Economic capital relates to Goal 1 (no poverty), Goal 8 (good jobs and economic growth), Goal 9 (innovation and infrastructure), Goal 10 (reduced inequality), Goal 11 (sustainable cities and communities) and Goal 12 (responsible consumption). Human capital in terms of healthy and educated people is emphasized in Goal 2 (no hunger), Goal 3 (good health), Goal 4 (quality education) and Goal 5 (gender equality). Social capital pertains to Goal 11 (sustainable cities and communities), Goal 16 (peace and justice) and Goal 17 (partnerships for the goals). Moreover, all goals not only consist of private goods, but are also made up of public goods. Needless to say that the goals relate to each other and are interdependent. Regarding the time horizon of their implementation, fifteen years (until 2030) are given for the implementation of this ambitious agenda.

The UN Resolution clearly relates the 17 goals and 169 targets to human rights, stating that "they seek to realize the human rights of all." While the goals are rather general, the targets are more specific and indicate in many cases how they concern particular groups of people (women and girls, minorities, disabled persons, etc.) and involve specific human rights such as civil, political, economic, social and cultural rights or the right to development. It is noteworthy that the document defines the rights as goals to be achieved, not only as constraints to be respected (see Chapter 13).

Financialization

While the terms of "globalization" and "sustainability" are fairly well established and defined, the term of "financialization" is not widely

https://doi.org/10.1017/9781108913966.003 Published online by Cambridge University Press

known. It is absent in most encyclopedic works on economics, money and finance, and, when used, it can take on very different meanings. Kevin Phillips describes the financialization of the United States (1980–2000) as a process that substituted the securities sector for the banking sector as the linchpin of the overall financial sector. This allowed finance to make a mega-leap in economic importance (Phillips 2002, 138–47), leading to extremes of income and wealth polarization, a culture of money worship, and overt philosophic embrace of speculation and wide-open markets (Phillips 2009, 21).

In *Financialization and the World Economy* Gerald Epstein defines the term as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein 2005, 3). Greta Krippner presents systematic empirical evidence for the financialization of the US economy in the post-1970s period (Krippner 2005). She looks at the activities of both financial and non-financial firms and uses two distinct measures to gauge financialization: (1) "portfolio income" (comprising income from interest payments, dividends and capital gains on investment) relative to revenue generated by productive activities on the side of non-financial firms and (2) the profits generated in financial and non-financial sectors of the economy. The data show a considerable degree of financialization with regard to the ratio of portfolio income to corporate cash flow and to the ratio of financial to non-financial profit.

While these and other studies (Palley 2007; Orhangazi 2008) focus on macro- and micro-economic developments from a progressive angle, Paul Dembinski offers quite a different view that can be described as both holistic and radical: financialization as a profound social transformation. Finance is understood as a kind of rationality that is incorporated in a pattern of behavior and becomes an organizing principle, leading to far-reaching psychological, social, economic and political changes (Dembinski 2009, 5–6). As stated in the Manifesto of the Observatoire de la Finance (of which Dembinski is director), financialization has led to the almost total triumph of transactions over relationships; the ethos of efficiency has become the ultimate criterion of judgment and, when dissociated from moral considerations, it has led to the increasingly brutal expression of greed (Dembinski 2009, 168). Therefore, the manifesto calls to "reverse the financialization process and ensure that finance once again operates in the interests of human dignity and progress" by providing the basic services of channeling savings and giving the finances for productive investment (Observatoire de la Finance 2011). It is noteworthy that the manifesto (in its first version) was proclaimed in April 2008 before the outbreak of the global financial crisis. It is also interesting that financialization is presented as a main characteristic of the world of business today in the Vatican document *Vocation of the Business Leader. A Reflection* (Vocation 2018, §§ 17, 22, 23), defined as "the shift in the capitalist economy from production to finance. The revenue and profits of the financial sector have become an increasingly large segment of the worldwide economy. Its institutions, instruments and motives are having a significant influence on the operations and understanding of business" (ibid., § 22). Here financialization is assessed in a cautious way, distinct from Dembinski's radical view.

It does not come as a surprise that in the wake of the financial crisis and the European sovereign debt crisis, the financial services industry has been caught in sharp criticism and the accusations of financialization have become even stronger. Christine Lagarde, managing director of the International Monetary Fund (IMF), called upon the financial services industry to align financial incentives with societal objectives (Lagarde 2015). And Professor Luigi Zingales self-critically scrutinized in his presidential address to the American Finance Association in 2014 how finance, without proper rules, can easily degenerate into a rent-seeking activity and what finance academics can do, from a research and from an education point of view, to promote good finance and minimize the bad (Zingales 2015).

These few remarks on financialization are only meant to point to the undeniable fact that financialization, in some form, has taken place and become a major challenge, along with globalization and sustainability. Obviously, it stands in stark contrast to the comprehensive conception of wealth creation advanced in this book. It does not properly account for economic capital, let alone for natural, human and social capital. The stability of the financial system, an indispensable public good for the functioning of the economy, is jeopardized and undermined. The innovation of a host of highly complex financial products, hardly understandable even for financial specialists, may help to make a lot of money in the short run, yet fails to create, or even destroys, wealth. Financialization in business organizations, as a consequence of a management imperative to maximize shareholder

https://doi.org/10.1017/9781108913966.003 Published online by Cambridge University Press

value, "can cause insecurity, work intensification, suppression of voice … [and] prompt distress and anger … amongst workers" (Cushen 2013, 314). It has even led to sixty-nine employee suicides at a French telecommunication company (Chabrak et al. 2016).

This is a drastic example of how financialization can violate human rights. But there are many more cases of how financialization impacts on human rights through extreme inequality of income and wealth, through paying starving wages, through the destruction of jobs, the loss of homes and the shutdown of good businesses. When transactions triumph over relationships, the dignity of people gets lost in indifference and contempt.

* * * * *

After depicting the contemporary context of globalization, sustainability and financialization, we now turn to the main theme of the book and develop, first, the conception of wealth creation as the purpose of business and the economy.

Notes

1 From the immense literature on globalization, only a few publications can be added here: Hesse 1993; Mazur 2000; Stiglitz 2002, 2006; Virt 2002; Arruda & Enderle 2004; Bhagwati 2004; Enderle 2005; Radin 2018, *Journal of Globalization and Development* (since 2010).

2 The three-level conception of business and economic ethics has evolved under the influence of globalization. Early testimonies of this comprehensive understanding are articles by Goodpaster (1992/2001) and Enderle (1996, 2003a). Over time, this framework has been widely adopted, by, among others, Ulrich (2008) and in the *Global Survey of Business Ethics* edited by Rossouw and Stückelberger (2011). A three-level approach is also used by Allenby and Sarewitz (2011) for analyzing technology (see Chapter 9). Regarding the typology of international relations, see Enderle (2015a).

3 The *Cohesion Fund* is aimed at EU member states whose Gross National Income (GNI) per inhabitant is less than 90 percent of the EU average. See http://ec.europa.eu/regional_policy/en/ funding/cohesion-fund.

4 An extended preparatory discussion can be found in *Journal of Global Ethics,* 11 (1) (April 2015): "Forum: The Sustainable Development Goals."