Sustainable Development and the New Ethic of Multinational Corporate Governance

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The sustainable development, the new ethic of multinational corporate governance

Sustainable Development and the New Ethic of Multinational Corporate Governance

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Abstract

When sustainable development cannot be implemented through the market, multinational firms seem to lack of incentives to improve their environmental or societal management. From an economic point of view, as the principal cannot valorize his agent's comportment on actions with no direct economic value, little will be done to engage in such activities which would be beneficial to the global sustainable development.

But if our scope is enlarged to consider the society and its mechanisms of social obligations such as described by French philosopher Henri Bergson, it seems that moral standards do impose to the top executives of multinational firms a duty of implementing sustainable development. The societal evolution will diffuse these standards of sustainable development throughout all the actors, and these moral standards will be integrated in the corporate governance mechanisms of the multinational firms.

Keywords: sustainable development, corporate governance, ethic
“The intricacies and paradoxes in relations between the individual and his actions in the social context have been put very well by the great sage, Rabbi Hillel: ‘If I am not for myself, then who is for me? And if I am not for others, then who am I? And if not now, when?’ Here we have, in three successive sentences, the essence of a tension that we all feel between the claims of individual self-fulfillment and those of social conscience and action. It is the necessity of every individual to express in some matters his intrinsic values. But the demands of society and the needs of the individual, expressed indeed only within that society, require that he be for others as well as for himself, that the others appear as ends to him as well as means.” (Arrow, 1974, p.15).

Sustainable development may be an objective for most of us. However, it happens to be more difficult to devise a consensus about the means we should adopt to pursue this objective. According to classical economists, the market should be able to induce such a sustainable development if we could give value to externalities which, until now, are not priced by the market (Suntum, 2004). One clear example is the market for polluting rights, where firms or countries could exchange these rights, with a balance between the demand and the offer and a price for the ton of pollution.

In this case, there is no specific problem of corporate governance. Countries and international organisms have to devise such a market and set the rules for the companies for paying to reduce their pollution or to acquire some rights to pollute. Enforcement of this market will surely be far from simple (see for instance Oman, 2001), however it is more a political problem than a corporate problem and it is beyond the scope of this article.

Our main thesis is that corporate governance is important when sustainable development cannot be translated in economic terms, i.e. when we do not have a market or taxes to drive the firms into a more respectable attitude on both environmental and social
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domains. According to a lecture of Henri Bergson French philosopher (1859-1941), we expect that morals will be a key driver in the engagement of corporate governance into the logic of sustainable development.

In a first part, we will define the difficulty of quantifying and valorizing the objectives of sustainable development, and specifically the problem arising when the externalities cannot be priced by the market. In a second part we will discuss the diverse corporate governance theories and we will see how they can be of some help to understand the relation between corporate governance and sustainable development. In the last part, we will try to understand the place of morals and its effect on corporate governance related to the objective of sustainable development.

1 The economic value of sustainable development

Most multinational firms are now engaged in sustainable development communication. They publish some information about their involvement in economic or social domains and it becomes a growing part of their institutional communication. Most of this information is freely published and not constrained by some regulation. The question is therefore: why do they get engaged in such issues?

1.1 The objectives of sustainable development

A branch of activities concerned with the sustainable development, the International Council on Mining and Metal (ICMM, 2003, p.1), uses the following definition of sustainable development: “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”, and declines it in ten points:
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1) Implement and maintain ethical business practices and sound systems of corporate governance.

2) Integrate sustainable development considerations within the corporate decision-making process.

3) Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities.

4) Implement risk management strategies based on valid data and sound science.

5) Seek continual improvement of our health and safety performance.

6) Seek continual improvement of our environmental performance.

7) Contribute to conservation of biodiversity and integrated approaches to land use planning.

8) Facilitate and encourage responsible product design, use, re-use, recycling and disposal of our products.

9) Contribute to the social, economic and institutional development of the communities in which we operate.

10) Implement effective and transparent engagement, communication and independently verified reporting arrangements with our stakeholders.

Some of these objectives can have direct impact on the profitability of the firms and are clearly related to a good management. For instance, the fourth objective should be pursued for its consequences on shareholders wealth. But the ninth objective is surely much more difficult to transform into operational objectives: how can we measure the contribution to
social development of the communities? And what will be the economic consequences for the firms? Why should a firm engage in such an objective if there is no economic contribution to its global development or profitability?

1.2 The individual transactions, Adam Smith and the sustainable development

When an individual engages in a transaction with another individual, for instance his butcher, he can clearly look for the better transaction according to the price and the quality of the steak, but he can also accept to pay slightly more for the quality of the individual relation between he and his butcher. Most of the shopkeepers even engage in conversations which are not directly related to the transaction. The arbitrage between the quality of the product and the price contains some factors related to the social aspects of the transaction and not only to its economical aspects.

When an individual is contracting with a firm, the social aspects of the transaction are much more difficult to apprehend. As a matter of fact, the employee of the firm is not employed to exercise social relations but to engage in economic relations. The employee of a supermarket has to be amiable to the clients but he (or she) is not paid to engage in social conversations. One main reason is that the principal of the firm cannot measure the real impact of the social relations implemented by his (her) agent. Even if the principal is clearly dedicated to the improvement of social relations, it is always very difficult to assert whether the agent uses the time allowed to improve these relations or to allow himself (herself) some free time.

For the multinational firms, the only way to control its employees is to engage them in activities which can be measurable. Even if a firm tries to pursue the above objective of
"Contribute to the social, economic and institutional development of the communities in which we operate", it will clearly do this only if it can measure it. Some researches in accounting try to offer classification scheme or metrics in order to improve sustainable development (Birkin, Edward and Woodward, 2005; Szekely and Knirsch, 2005). From a classical economic perspective, the firm will also move in such a direction only if the economic balance is positive, i.e. the externalities can be translated in either a diminution of the costs incurred or an augmentation of the revenues generated. An analysis of the value chain can therefore be a main incentive toward integrating all the stakeholders in the firms' objectives (Freeman and Liedtka, 1997).

2 The limits of multinational corporate governance

Corporate governance theory has been principally constituted for thirty years on the agency theory (Jensen and Meckling, 1976; Fama, 1980), which is based on the rights ownership theory (Alchian and Demsetz, 1972). The corporate governance would strictly belong to shareholders as these one are the firm owners. Moreover, they would be the most qualified to implement efficiency mechanisms of control and direction as they are paid with the firms’ residual revenue.

On the coverage of a book entitled "Principal and Agents: The Structure of Business" (Pratt and Zeckhauser, 1985), a picture was presented with a main puppet (the principal) moving the strings of a smaller puppet (the agent). The agency theory is interested in the economic aspects explaining or affecting the relationship between the principal and the agent. But as Sen (1987) observed: "Perhaps the economist might be personally allowed a moderate dose of friendliness, provided in his economic models he keeps the motivations of human
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beings pure, simple and hardheaded, and not messed up by such things as goodwill or moral feelings.” (p.1).

2.1 The model hypotheses

The usual corporate governance model depends on three main hypotheses which are: people rationality, individual interest maximization, and market efficiency. The agency theory inserts itself in this general equilibrium and focuses on the corporate governance objective. There is therefore a very great coherence with the global economical approach (Figure 1).

Figure 1: The global equilibrium of the financial corporate governance model

Theory of ownership rights

Theory of organizational structures efficiency

Central function of shareholders

General economic equilibrium

Principle of shareholders unanimity

Firm’s objective = profit maximization

Corporate governance objective = to align the top executives managers to the shareholders' one

The top executives interest is exclusively expressed in a monetary form

HYPOTHESES: • Individual rationality • Maximization of individual interests • Existence of an efficient capital market
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The three model hypotheses can be apprehended through two aspects: the first one is the technical form of the model; it is an analytical one where the relations are mathematical between some mechanisms and their consequences. The second is the condition for this analytical model: the individual comportment must be predictable, so the theory will consider this individual comportment just as if individuals were always opportunistic. Behavioral biases are negatively perceived by the theory (Charreaux, 2005, p.16).

2.1.1 A model asserting the instrumentalization of the individual

« It is common to see the firm characterized by the power to settle issues by fiat, by authority, or by disciplinary action superior to that available in the conventional market. This is delusion. (…) It (the firm) has no power of fiat, no authority, no disciplinary action any different in the slightest degree from ordinary market contracting between any two people. (…) Long-term contracts between employer and employee are not the essence of the organization we call a firm. (…) Wherein then is the relationship between a grocer and his employee different from that between a grocer and his customers? It is in a team use of inputs and a centralized position of some party in the contractual arrangements of all other inputs. » (Alchian and Demsetz, 1972, p.777).

By negating the relational and personal aspect of the contractual relations between an employer and his employees, or by reducing it to the personal relations that a grocer may have with his clients, these authors suppress any reference to moral standards which would take into account the multinational specificity. Morality is confined to the individual field (Comte-Sponville, 2004); there is no recognition of social relations or sustainable development. The individual is considered only as an animal laborans and is totally instrumentalized (Arendt, 1958). "The engineering approach is (…) concerned with primarily logistic issues rather than with ultimate ends such as questions as what may foster ‘the good
The sustainable development, the new ethic of multinational corporate governance of man' or 'how should one live'. The ends are taken as fairly straightforwardly given, and the object of the exercise is to find the appropriate means to serve them. Human behavior is typically seen as being based on simple and easily characterizable motives." (Sen, 1987, p.4).

2.1.2 A model asserting the opportunism of the individuals

One of the strong assumptions of this corporate governance model rests on the concept of opportunism of the individuals. This means that, within the theoretical framework of reference, one postulates that the individuals are likely to act in an opportunistic way according to the circumstances which arise. In practice, the majority of the models consider that the individuals will act opportunistically according to maximization of their personal interest (Jensen and Meckling, 1998, p.13; Williamson, 1985).

From a simple possibility, one passed to a rule of behavior. This does not mean that individual cannot act in an altruistic way, but simply that it will not be considered by the model. "One aspect of the new economic language or organizational economics is its evaluative tone. Accordingly, the manager is viewed as an individual who has the inherent propensity to shirk, to be opportunistic, to maximize his or her self-interest, to act with guile, and to behave in ways that constitute a moral hazard." (Donaldson, 1990, p.372).

But as Sen mentioned (1987, p.15): "Why should it be uniquely rational to pursue one's own self-interest to the exclusion of everything else? It may not, of course, be at all absurd to claim that maximization of self interest is not irrational, at least not necessarily so, but to argue that anything other than maximizing self-interest must be irrational seems altogether extraordinary."

2.1.3 A clashing model, the Enron case
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Just as the Ulysse trip or the Troye war, Enron collapse has become, for our modern societies, a mythical case. This bankruptcy underlines many characteristics and interrogations attached to one central aspect of our economical systems: the place of multinational firms in the development of our societies. The main question is: does the Enron collapse only be an epiphenomenon, or is it a phenomenon testifying the inadequacy between the corporate governance mechanisms and the reality of our societies?

Enron collapse has a double cause: the implementation of corporate governance procedures exclusively oriented toward the firm market value maximization, and an inadequacy between the old top executives’ moral paradigm and the cultural evolutions encountered by our societies.

When an inciting system leads the top executives to be freed from any ethical behavior, the incentive mechanisms are turned over against those to the name of which they were set up. The Enron bankruptcy results primarily from the unrestrained pursuit of the stock market price's rise. As the market was regarded as the ultimate referee of the performance, it seemed conceivable for the top executives, and their board of directors, to use creative balance sheet operations to manage the readable information by the market.

"The market mechanism (...) is a basic arrangement through which people can interact with each other and undertake mutually advantageous activities. (...) The problems that arise spring typically from other sources—not from the existence of markets per se- and include such concerns as inadequate preparedness to make use of market transactions, unconstrained concealment of information or unregulated use of activities that allow the powerful to capitalize on their asymmetrical advantage." (Sen, 1999, p.142). The reinforcement of incentive policies has thus the paradoxical effect to lead to a loss of economic efficiency. The model ends up exploding. It is therefore a key question when a theoretical model, which
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stands for explaining some corporate governance practices, turns to produce such
dysfunction.

2.2 The alternatives

One alternative to the agency modeling of corporate governance is the stewardship
theory. However, it does not allow understanding how inefficient top executives are
disciplined. Another theory is the stakeholder approach where the top executive is dedicated
to maintain the coalition of different persons or groups inside the firm.

2.2.1 The stewardship model

Introduced in 1990 by Donaldson, the stewardship theory states that "far from being an
opportunistic shirker, the executive manager essentially wants to do a good job, to be a good
steward of the corporate assets. Thus, stewardship theory holds that there is no inherent,
general problem of executive motivation. (...) Thus, stewardship theory holds that
performance variations arise from whether the structural situation in which the executive is
located facilitates effective action by the executive." (Donaldson, 1991, p.51).

"The steward realizes the trade-off between personal needs and organizational
objectives and believes that by working toward organizational, collective ends, personal
needs are met. Hence, the steward's opportunity set is constrained by the perception that the
utility gained from pro-organizational behavior is higher than the utility that can be gained

The stewardship concept is an old concept with religious implications (Chen 1975,
p.535). If man has a natural right to possess resources as his own, he also has a social
responsibility to use the property properly (Aquín, 1272, volume 3, question 66, article 2).
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The social responsibility is specified as the primary stewardship responsibility. In accounting, the concept of management's stewardship refers to (1) effectively directing and controlling an organization's human and material resources and (2) maintaining and reporting on the custodianship (stewardship) of resources. (American Accounting Association 1966, cited by Chen, 1975). More recently, at a joint IASB/FASB meeting, some future investigation in the stewardship meaning and its implication for the conceptual framework was decided (IASB, 2005).

According to Lutheran moral standards, such as highlighted by Max Weber (1864-1920), the top executive does not seek the profit to satisfy his needs but because it corresponds to his vocation, to what God and the society wait of him. The success of a top executive is thus related to his capacity to create wealth with his firm: "the single means of living in a pleasant way with God is not to exceed the morality of the secular life by the monastic asceticism but exclusively to achieve in this world the duties corresponding to the place which the existence assigns to the individual in the society, duties which become thus its vocation." (Weber, 1920, p.90).

The economic success was regarded as a form of human achievement in God intention. Incentive policy was important but not central as executive motivation was relevant to the capitalism ethic: "the money is so much considered as an end in itself that it appears entirely transcendent and absolutely irrational related to the happiness of the individual or the advantage that this one can enjoy to have some. The profit became the end which the man proposes; it is no more dedicated as a mean to satisfy his material needs." (Weber, 1920, p.50). The main change in Donaldson approach is the loss of any explicit ethical reference to the benefit of organizational psychology and organizational sociology. Top executives are "motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing
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inhernently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses (McClelland, 1961; Herzberg et al., 1959)" (Donaldson, 1991, p.51)

However this theory seems to suffer the opposite defaults as the agency theory. For the last one all the top executives should be considered as opportunistic shirkers; and for the stewardship theory, none of them seems to be like this. As Enron proves it, in some conditions, it may be very tempting to shirk. Furthermore, little is said in the stewardship theory on the top executives' ability. What happens if the top executive is not the more fitted one for this task, who will control and remove him? These questions are well documented in the agency theory but not in the stewardship theory.

2.2.2 The stakeholders approach

The agency theory proposes corporate governance mechanisms to detect and avoid bad decisions which destroy wealth. But the agency theory did not know how to deal with Enron practices which resulted of its recommendations. Another framework could be useful to analyze corporate governance in the sustainable development perspective, it is the stakeholder approach: "Stakeholder analysts argue that all persons or groups with legitimate interest participating in an enterprise do so to obtain benefits and that there is no prima facie priority of one set of interests and benefits over another." (Donaldson and Preston, 1995, p.68).

However, one main difficulty of the stakeholder approach relies on the diversity of these approaches. Some authors argue for a convergent approach which would unify the differences under a normative umbrella (Jones and Wicks, 1999), while others suggest that the stakeholder theory can be successful only through its instrumental approach and so there is no need for a convergent stakeholder theory (Freeman, 1999). But little is said about how we
The sustainable development, the new ethic of multinational corporate governance could reduce the occurrence of multinational bankruptcies. What will be the incentives for the top executives to be efficient in the management of the firm's resources, and to pursue some sustainable development objectives?

As the simultaneous analysis of the agency theory and the stewardship theory suggest, everybody could have a tendency to be an opportunistic shirker but not everybody will be. What is interesting is to understand the facts or the conditions which will induce a top executive to become an opportunistic shirker. When the firm introduces some sustainable development objectives it may become much easier to shirk as these objectives may be more complex to evaluate. However, it seems that societal moral standards are of main importance (Wilénius, 2005) to explain why top executives will try to manage efficiently the firm's resources and in the same time respect some conditions of sustainable development.

3 Ethic of multinational corporate governance and sustainable development

"What would it have arrived if Napoleon had been in my place and that it had to help his beginnings neither Toulon, neither Egypt, nor the passage of the Alps to the Mount Blanc, but instead of all these brilliancies exploits, a simple little perfectly ridiculous old woman, a widow usurer, that he should kill to steal her the money of her chest (...) I understood suddenly that, not only he would not have been rejected by it, but that the idea would not have come to him that this action could seem not very heroic; he would not have even understood that one could hesitate "(Dostoïevski, 1866, p.474).

Only ethic, and the conscience, limit the possibility that acts punishable, but unknown, are made. But, whereas Dostoïevski chooses the point of view of individual choices implying only their own destiny and their close relations, the rise of large organizations and the
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importance of the functions deferred to top executives of these organizations pose, in an increased way, the question of the morality of the acts. It thus appears necessary to look further into the question of regulations and moral standards to determine which impact they can, or they must, have on corporate governance.

The corporate governance has been the subject of various proposals aiming at framing the current practices. In France, employers took the initiative by creating commissions intended to avoid the enactment of a regulation. Nevertheless, some regulations were adopted within the framework of law NRE (New Economic Regulations, 14/05/2001). In the United States, Sarbanes Oxley Act (23/01/2002) was adopted following the Commission Report of inquiry parliamentary into the Enron bankruptcy.

However, is the regulation sufficient to limit the inequalities, or is it necessary to wonder about the behavioral models of the firms' top executives? The regulation acts as a restrictive process and not as an incentive process. It imposes limits which cannot be overthrown. By contrast the firm's ethic is much more flexible. If some attitudes or actions are disapproved, they are not formerly prohibited. One can overthrew them if he (she) thinks that he (she) has to do so. Firm's ethic can encourage leaders to adopt a behavior integrating the requirements of justice and reduction of the inequalities.

3.1 The limits of the regulation

The law gives the framework in which the mechanisms of top executives' incentives can be devised and the alignment with the shareholders' interests realized (Buchanan 1991, p.28). But law sanctions only drifts already carried out. As it appears difficult to fix, a priori, in detail, all the possible distortions in corporate governance, it is normal that the law appears, a posteriori, in reaction to some behaviors. In addition, the society evolves and the law must
necessarily adapt itself to such evolutions. Nevertheless, it could appear that the complementarities between law and incentives are enough to implement and ensure good corporate governance (Figure 2).

Figure 2: Complementarities of the respect of the law and the mechanisms of incentive

But this model (Figure 2) suffers from two serious imperfections:

- The first is due to the ignorance of the objectives of the principal by the agent.
- The second is due to the possibilities of non-observance of the legislation.

3.1.1 The ignorance of the objectives to be pursued

In the principal-agent relationship (Pratt and Zeckhauser, 1985, p.2), the agent does not know necessarily perfectly the nature of the principal's objectives. A majority shareholder can privilege the consolidation of his control compared to the maximization of the market value. He can also seek to increase his influence on his socio-economic environment, by privileging the firm's market shares, even if it is not firm market value maximizing. In addition, if the
efficiency of the markets is not perfect, the maximization of the firm market value in the long-term does not necessarily coincide with the instantaneous stock exchange price.

The financial theory solves this dilemma by considering that the maximization of the firm market value is the objective on which all the shareholders will agree, as each one will carry out its personal arbitrations on the other markets to maximize its individual utility. If this vision is justified from a purely economic point of view, it does not integrate the aspects related to sustainable development. A shareholder can expect that the firm CEO manage efficiently the firm's resources, without expecting that the profit pursuit be detrimental to some environmental or social aspects.

3.1.2 The law observance

The agency theory privileges the incentive mechanisms having a strong incidence on the reduction of the conflict of interest between top executives and shareholders. But, insofar as the objective of the shareholders can be in conflict with the legislation, some incentive mechanisms can push the top executives to discharge themselves from the legal provisions in order to meet the expectations of their shareholders.

The legal provisions involve sanctions. But if the sanction is not applied or of little occurrence, whereas the incentive is very strong, the agent may have a rational interest to transgress the legal provisions (Buchanan, 1991, p.58). Two attitudes are possible to repress social deviations (Foucault, 1975). The first one is to envisage sanctions of an extreme severity, so that whatever the probability of being taken and condemned, the prospect for such a punishment is enough to dissuade all the possible candidates. The second is to proportion the sanction with the fault, in which case each individual can carry out arbitration between the risk of transgression of a legal provision and the applicable sanction. Sarbanes
Oxley Act (sections 807 and 902), by strongly revalorizing the possible sanctions in the event of no compliance with the legal provisions, tends to increase the cost of a transgression for the firms' top executives.

But the choice of a punitive system has nevertheless strong consequences: first, at the macro-economic level, since repression involves some important material resources; and then at the firm level, since the risk of judiciarisation could discourage a spirit of initiative, necessary when confronted with risk and uncertainty.

3.2 Morality and ethic

If the corporate governance is reduced to arbitrate between the law compliance and the incentives effects, it seems that top executives will loss any form of humanity.

3.2.1 Ethics, or the quest of the good for oneself

For Spinoza (1675), to have an ethical conduct is to choose freely what is good according to his use of the Reason. Spinoza defines the good as "what we know with certainty to be useful for us" (4th part, definition 1), "what we know with certainty being a means of bringing us closer to the model of the human nature that we propose" (4th part, preface). By contrast, he defines the bad one as "what we know with certainty to prevent us from carrying out this model" (4th part, preface). Thus, the theft or the lie is bad because: "What leads to the common society of the men, in other words with the result that the men live in harmony, is useful; and on the contrary, is bad what introduces the discord into the State" (4th part, proposal XL).

For Spinoza, ethics is the reasonable thought that some behavior is not appropriate for the nature of man or woman living in society. This ethics supposes a capacity to think and
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apprehend what is good for oneself. There is thus incomprehension between an economic approach, where the attention to others is explained by the temporal impact of their utility on one own personal utility, and a more societal view where the attention to others indicates the possibility of a gratuitous act.

In Enron legal case, when Andrew Fastow appeared as a witness for the accusation, the lawyers of K. Lay and J. Skilling seek to show that Fastow did not have a moral human behavior and that he was only reacting to incentives (mainly monetary) received. There was no more ethics.

3.2.2 The conflict between ethics and mechanisms of incentive

The analysis of the modern society by Hannah Arendt (1958) makes it possible to understand how an excessive policy of incentives can carry such misconducts as revealed by the Enron case. The freedom of a person is characterized by his/her capacity to take actions that cannot be defined and apprehended a priori (Heidegger, 1927). If the actions of a person can be totally determined, then the person does not act any more as a person but as an instrument. The excessive use of incentive policies, focusing in particular on remuneration, tends to transform the top executives into instruments. For Hannah Arendt (1963), such a strategy leads to the dehumanization of the person, and it is what the lawsuit of Enron's top executives reveals. In this dehumanization, ethics disappears since ethics is consubstantial with humanity.

3.3 The moral concept for Bergson

The regulation cannot all solve, because it is confronted with a delicate arbitrage between the need of defending the general interest and the one to hold account of the particular cases. Moral standards, as the meaning of social obligations, offer, in this direction,
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an unequalled flexibility. Indeed, it is always possible to transgress moral standards if one estimates that the subjacent reasons have priority: the theft is morally acceptable if it is to avoid dying of hunger or cold and if there are not other solutions. As regards corporate governance, moral standards is thus a complementary source of efficiency and justice.

3.3.1 The two sources of morals

Bergson (1932) distinguishes two sources of morals. The first is the moral standards, which Bergson qualifies also as social obligation. This social obligation is related to the insertion of the man in the society. It is natural: "Became fully concretes, it (moral standard) coincides with a tendency, so usual that we find it natural, to play in the society the role that our place assigns us (...) It is the society which traces with the individual the program of his daily existence (...) a choice is essential at any moment; we choose naturally as regards in conformity with the rule (...) some cases appear where obedience implies an effort on oneself. These cases are exceptional; but they are noticed, because an intense conscience accompanies them, as it arrives for any hesitation". (Bergson, p.990). Nevertheless, this social obligation always aims at a closed society (p.1001). Between the society where we live and humanity in general, there is the same contrast as between the closed and the open one. There is a difference in nature and not simply of degree (p.1002).

The second source of morals that Bergson describes as complete moral doctrine is not any more an obligation, but a call, a movement, an aspiration. This moral doctrine does not apply any more to a society but to humanity. This second source of morals is communicated gradually to the first by the means of men of exception. It is not to this source of morals that we will rely in this article. For Bergson, the only means of studying the bases of the moral standards consists in thinking the society in a creative development. What does this mean for multinational firms?
3.3.2 Morals and corporate governance

If one adopts the point of view of Bergson, the finality of any morals is the society. Consequently, a corporate governance ethic would tend to make the actions of the firms coinciding with the society's interests. In a seminar held at the Paris IX-Dauphine University in 1997-98 on "Morals, spiritualities and business conduct", Michel Albert (CEO of the French insurance company AGF from 1982 to 1994), said: "It is, in my opinion, possible to advance (...) on the basis of element of common morals, which do not need necessarily to call upon the `transcendence' - I think for example of the extreme importance of the transparency of the accounts, concept which leads us directly to the fight against the corruption" (Badré, Chalmin and Tissot, 1998, p.15).

What reveal some firms' failures such as American Enron or French Alstom? The top executives of these two firms were not aware to act in an immoral way. The importance of moral standards does not rely in the determination of the decisions to be taken and the actions to be carried out, but in the obligation for the top executives to examine the relevance of their acts with respect to the society, and not only with respect to their shareholders and even less only with respect to their own particular interest. Alstom case is very interesting in some aspects: after having ceased his functions of CEO at the beginning of 2003, Pierre Bilger (CEO from 1998 to 2003) accepted very important termination payments (several millions euros) whereas he left a bloodless group with hard prospects for many employees. Even if he returned these allowances under the pressure of the public opinion, how could he morally accept these allowances? Was he really sensitive to his failure and to the consequences for all the stakeholders? The meaning of the Alstom case is the disappearance of old moral standards where the CEO was responsible of the success but also of the failures of his / her firm.
In a documentary film carried out in 1997, Michael Moore wonders about the morality of some American top executives. The meeting with Phil Knight, CEO of Nike, is, in this respect, very interesting. This CEO distinguishes between his personal ethic and the business conduct (in spite of the repeated attempts at Michael Moore to make him become aware of the immorality of certain situations: in particular the work of the teenagers in the developing countries). For this top executive, the business conduct was the good one and responded to the shareholders expectations.

3.4 The sustainable development as a new multinational corporate governance ethic

A lecture of Henri Bergson French philosopher demonstrates that the actual situation may be analyzed just as a maturation phase, or more exactly as a change in the top executives’ moral paradigm. In a creative evolution perspective (which is the Henry Bergson book title of 1907 which was worth the Nobel Literature Prize in 1927), society generates by itself the moral standards which appear necessary to insure its survival and development. Yesterday interdictions are not those of today. The new moral standards, by imposing themselves to the firm’s top executives, will oblige them to enlarge their horizons. This problematic joins the reflection of Amartya Sen, 1998 Nobel Economical Prize. For Amartya Sen, the society’s development reposes on a better equilibrium between efficiency expectancies and justice expectancies.

A change of paradigm supposes that one manages to identify the preceding model and to present contours of the future model. As regards moral standards of the firm, some writings (for instance Octave Gélinier, 1965, in France) popularized the concept of economic success as a criterion of moral standards achievement. But these moral standards seem no more
adequate in front of the rise of the individualism. However a new form of societal moral standards appears: the sustainable development expectancy.

Figure 3: Moral standards, corporate governance and sustainable development

A new ethic, or moral standards, can only constitute an advance for the society (Bergson, 1932). In corporate governance, such a new ethic appears to counterbalance the quasi-exclusive orientation towards the efficiency of the organizations (Figure 3). In a conference given in 1977, Amartya Sen underlined the limits of an exclusively utilitarian approach to appreciate the relevance of social investments implying the use of an actualization rate. He quoted in particular the case of investments likely to involve a future pollution and wondered about the relevance of the traditional criteria of choice of investment by noting that the ethical aspect could not be reduced to a simple modeling. He thus compared this case of investment with the case of recourse to the torture which, in certain
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cases, can be accepted according to criteria of utility maximization, whereas morally it remains unacceptable (p.194-196).

The globalization of the economy, with the new problems that are involved, imposes the emergence of a new ethical framework. The implementation of social responsibility charters by multinational firms lies within the scope of these new moral standards. The oil company Shell constitutes a good example of this tendency towards a socially responsible company. In its publicities (which although as being only declarations nevertheless imply the company in its actions), Shell stresses its research undertaken for the development of renewable energies in order to offer a preserved environment to future generations. Some distribution firms have done agreements with human associations to ensure the certification of their suppliers and to check that the latter do not exploit the child work and offer decent working conditions to their employees. In pharmacy, Pfizer devoted 300 million dollars to humanitarian actions during the last five years (which accounts for only 3% of the benefit for the year 2002). Merck devotes 50 million dollars for the access to drugs to the patients of the AIDS to Botswana. Even Wall Mart seems now to be obliged to become more attentive to its employees and to its suppliers to keep its customers.

These new moral standards impose themselves gradually in the firms' activities; they must also find their place within the systems of multinational corporate governance. One could thus imagine that, insofar as these social behaviors of the company become essential to appreciate the relevance of the firm's management, the control structures of the firms, and in particular its board of directors, would see some representatives of the civil society emerge to guarantee the respect and the application of those engagement charters. The top executives would not be thus any more solely evaluated on their capacity to manage efficiently the firm,
but also on their ability to contribute to sustainable development, like the environment respect, or the improving of employees’ working conditions wherever they are.

**Conclusion, the consequences of sustainable development as a new ethic of multinational corporate governance**

For Bergson, moral standards, like social obligation, evolve with the society. When the latter strongly changes, old moral standards become unsuited and must evolve to new moral standards. It seems that we currently observe this change of moral paradigm. Whereas old moral standards became unable to avoid the deviating behaviors of top executives, the development of multinational firms and the globalization of the economy imply gradually the appearance of a new form of moral standards which will unite all the actors under the sustainable development umbrella.

These moral obligations do not appear from nowhere. They are the result of societal evolutions. Even if there is no direct link between the moral standards and the economic valorization of the transactions, the multinational firms will be obliged to comply with these standards to be fully accepted as members of the society and, in the end, to keep their clients, their employees, their suppliers, and, maybe, their shareholders. Whereas, in old moral standards, the stress was laid on the economic success in compliance with the rules of market; in new moral standards, the accent is moved on the stakeholders.

The consequences of this change of morals must be integrated for the study and construction of the mechanisms of multinational corporate governance. At least three fields can be the subject of a thorough study. The first is the process of selection and appointment of the top executives. The second is that of the incentives applied. The last one relates to the reporting and check procedures.
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The process of selection and appointment of the top executives generally aims at making emerge the candidates having proved, in former circumstances, their capacity to create value for their shareholders. The mechanisms of tournament, where the preparation of the succession aims at maintaining a competing climate between several applicants, are part of this point of view. If the morals which govern the society evolve, the criteria of selection of the top executives has also to evolve. In old Greece, the leaders were not elected, nor selected according to their capacity to exceed the performance of the other applicants, but they were drawn with the fate within a minority from citizens considered as having the capacities necessary. What reveals this practice, it is that certain qualities, in particular human, do not appear in the competition, and that the process of selection can integrate other dimensions than those purely economic. The culture of a leader, his independence of mind, its integrity, can constitute qualities necessary and complementary to the qualities awaited as regards strategic thinking and management of the men.

The current inciting mechanisms privilege the factors related to remuneration, and in particular the distribution of stock options. Such practices tend to regard the top executive as an individual rough with the profit and sensitive to financial stimulation. As the Enron case shows it, the top executive can be instrumentalized to respond to the expectations of his shareholders. The change of morals tends to require top executives who should get a real personality and a capacity to carry out choices which, in certain cases, could go in opposition to their immediate financial interests. It can thus be useful to re-examine the systematic recourse to incentive remuneration.

If the direct bond between the top executive’s remuneration and the shareholders’ wealth is attenuated, it is then necessary to reinforce the processes of control and reporting. The board of directors should be provided with the necessarily varied information that they need to evaluate the action of the top executive, not only in terms of efficiency in the resources management, but also in terms of efficacy in obtaining the objectives, with the respect of sustainable development. The change of paradigm as regards morals thus opens
new fields of research, or rather, brings a different lighting to approach fields apparently well cleared.

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