

## **Towards a Fair Societal Division of Labor**

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It is well established that the moral quality of corporate behavior – and thus its impact on sustainable development – can be enhanced by a package of well-known measures.<sup>1</sup> In the spirit of enlightened self-interest, corporations can – of their own volition – create good and fair labor standards and practice environmental care well beyond local legal demands if these are not in line with today’s understanding of fairness and responsible care. Companies can also seek to ensure that they do not benefit unknowingly from human rights violations. Last but not least, corporations can contribute to human development through corporate philanthropy and in other ways.

Business, however, is only one of the many actors in society, and there are limits to what a single actor can do when dealing with complex and multifaceted problems, especially under conditions of widespread poverty. With regard to many issues, such as asking for the respect and protection of human rights or for better access to health care services, the essential justification of demands is not in question. The issue is *to whom* such demands are to be addressed.

The purpose of this paper is to set in motion a multistakeholder dialogue that eventually yields a conceptual frame for answering two questions: *What is a legitimate societal division of labor?* And, following on from this, *what are the boundaries of obligations of companies?* I will first discuss a system’s approach to societal realities and then propose a set of corporate duties and responsibilities differentiated, according to the degree of obligation, into three dimensions:

- *Non-negotiable essentials* – that is, duties that must be assumed by corporate actors;
- *Ambitious corporate citizenship standards that go beyond the legal minimum* – that is, the assumption of responsibilities that are not legally demanded but are expected from good corporate citizens; and
- *Additional desirables* – that is, assumption of responsibilities that are neither legally demanded nor commonly expected, but that are appreciated by citizens of affluent societies.

### **What is a Legitimate Societal Division of Labor and Responsibility?**

Modern societies are highly complex systems of human coexistence. They are made up of a multitude of actors (individuals, groups, organizations, institutions), whose skills, experience, strengths, and interests differ but who are nevertheless interrelated in the context of achieving wider social and societal objectives.<sup>2</sup> Different

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1 See Leisinger K.M. / Schmitt K.M.: *Corporate Ethics in a Time of Globalization*. Sarvodaya Vishva Lekha, Colombo / Basel 2003; see also Donaldson Th./ Dunfee Th.W.: *Ties That Bind. A Social Contracts Approach to Business Ethics*. Harvard Business School Press, Boston 1999, and De George R.T.: *Competing with Integrity in International Business*. Oxford University Press, New York 1993.

2 This complexity is probably best developed and explained by Niklas Luhmann: Luhmann N.: *Die Gesellschaft der Gesellschaft*. Suhrkamp Verlag, Frankfurt am Main 1997, two volumes.

actors have different concepts, skills, techniques, experiences, and resources. They are also driven by different motives. None of society's actors bears the whole responsibility for every single issue; none has to shoulder all the duties, and none enjoys every single right. As a result of different backgrounds and experiences, different actors are likely to analyze the issues and appraise both the problems and the opportunities differently.

While the individual actors – governments, churches, scientific institutions, nongovernmental organizations, or the private sector – may be very effective and efficient in achieving their specific goals, no single actor can solve every issue of common concern. To optimize the achievement of overriding societal goals (the “common good” in the sense of respect for human rights and the free development of the individual, the establishment of conditions for sustainable economic development, social justice, and so on), the various societal actors are expected to contribute their share according to their duties and abilities.

Although there is a rational and natural division of labor and responsibility, synergies through the cooperation of different actors are not only possible but necessary: the efficiency and prosperity of societies depends to a large extent on a fair division of labor among the various players – understood and accepted by all parties – and on cooperation between partners of good faith. The importance of an appropriate division of labor was underlined in the very first sentence of the first chapter of Adam Smith's great *Wealth of Nations*, published in 1776: “The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour.” Thus problems of a collective nature can only be solved sustainably in cooperation with other stakeholders acting in good faith.

### *Society and Its Subsystems*

If we think of society as an association of relatively independent subsystems with various players, different set of rules, and clearly distinguishable functions and interests, we can perceive:

- *a cultural subsystem*, in which the current values of society are stabilized and the preservation as well as development of social norms is guaranteed;
- *a political subsystem*, with the objective to realize the goals of society in a legitimate manner;
- *a legal subsystem* that ensures the creation of conditions in which an independent and efficient judicial system is entrusted with the enforcement of laws aimed at ensuring public welfare; and
- *an economic system*, which provides the means for increasing the material welfare of a society.

Other subsystems can be seen, for example, in religion (for safeguarding beliefs and as a level of transcendence), in science (for the acquisition of new knowledge), or in the family (for the satisfaction of emotional needs).

Since it is assumed that the various subsystems of society share the division of labor between them, each subsystem is assigned specific tasks, functions, and

responsibilities within the larger cohesive social system known as “society.”<sup>3</sup> In the course of time, every subsystem has developed a certain internal structure and specific modes of behavior and settles on certain tasks, functions, and responsibilities. Of particular interest in the context of the UN Global Compact debate is the economic subsystem.

The task of the organizations and individuals within the economic subsystem is to meet the needs of all members in a society as cost-efficiently as possible. This requires a meaningfully arranged dovetailing of everything that people in the economic subsystem do – competition and enlightened self-interest of the different actors serve as the organizing forces. In the sense of this division of labor and with the aim of deploying the resources available as productively as possible, the economic subsystem and the organizations and individuals within it develop specific forms of behavior and a fact-based, strategic rationality determined by the fit between ends and means. Decisions are taken according to market parameters, optimization criteria, the principle of economic efficiency (benefit-cost ratio), or other criteria of economic rationality.

These maxims for action and behavioral rules in the economic subsystem differ from those customary and efficient in other subsystems of society. Guiding values such as sharing with the needy as a way of showing solidarity or unconditional love based on the notion of humans as being made in the image of God (as examples of characteristic features of the subsystem of religion and the institution of the church) – as highly desirable as they are in themselves – are not suitable in the context of the functioning and effectiveness of the economic subsystem. Social redistribution policy or the transfer of benefits in the name of equity ideals or charity form part of the duties of other subsystems of society; they do *not* belong in the economic subsystem. The economic subsystem acts on markets and through them – a compassionate anti-economy could not be kept up in the light of competition and material constraints.

In the interest of the functioning of the overall system of “society,” the mainstream perception considers it to be legitimate that the economic subsystem defends itself against unreasonable demands that jeopardize its existence and compromise its further development and the freedom to shape its own organization. The definition of what constitutes “unreasonable demands” rests, however, in the eye of the beholder.

Prudent actors in the economic subsystem – like all other prudent actors in society – have an interest in society prospering, and they have the duty to contribute to this goal. The concept of a person’s *duties* implies that there are certain obligations all societal actors are bound to respect, and certain rules of action all are bound to follow, wherever they work and at all times. Problems arise when the contributions that are demanded from the economic subsystem are detached from a fair understanding of a division of duties within the system as a whole, or when too high a burden is put on one particular side. It is important to remember that the impact on societal welfare created by the economic subsystem depends to a significant degree on rational cooperative structures with the political subsystem (“good governance”) and on a coherent institutional framework.

### *Fundamental Importance of a Coherent Framework for the Economic Subsystem*

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3 For basics, see Parsons T.: *Structure and Process in Modern Societies*. Simon & Schuster, New York 1960 (*Das System der modernen Gesellschaften*, Munich 1972.)

The efficient functioning of “society” and the probability that individual players will act in a way that is mutually beneficial and hence of benefit to the common good depends quite substantially on everyone pulling together in the same direction. If ambitious corporate citizenship standards beyond legal social, ecological, or any other minima are exploited by contradictory behavior of competitors and free riders, well-intentioned actions run the risk of becoming moral heroism. Due to a differently structured systemic environment, such well-meant actions also lose their societal impact. The same is true where other subsystems – such as the political – are not assuming their well-defined responsibilities and try instead to push these off to other societal subsystems, such as the economic.

Thus the shaping of appropriate societal and political framework conditions and the insistence that all actors in society must first and foremost coherently and consistently assume their specific duties is quite important. Success is most likely when actors (including corporate actors) can contribute to the improvement of the common good in pursuit of their (enlightened) self-interest – and not against their interests.

To avoid any misunderstandings, let me state clearly that the absence of a societal framework that encourages appropriate corporate behavior neither legitimizes nor relativizes illegal or immoral acts. The binding nature of fairness and integrity norms exists regardless of whether institutions or individuals in a specific situation also actually do what is considered right because they sense an incentive to do so. The illegitimate remains illegitimate, even if others do it because it is perceived to be profitable. But a societal framework that encourages appropriate behavior of actors in the economic subsystem increases the likelihood that corporate ambitions beyond the legal requirements will be put into practice by an optimal number of actors.

The assumption that all actors have special duties peculiar to their specific assigned roles in the social system has as its corollary the conclusion that the duty of all actors has certain definite limits. The sense of responsibility of individual actors would be weakened as much by overextending the range of an actor’s (or subsystem’s) obligations as by freeing them from the actual consequences of their actions. To be effective, obligations must be both definite and limited, adapted to the capacities, competencies, and abilities of the specific subsystem and its actors.

### **Acceptable Boundaries of Obligations for “Good Corporate Citizens”**

A *good corporate citizen* is defined here as a corporate actor in the economic subsystem that perceives responsibilities toward society in general – that is, the common good. As noted earlier, according to differing degrees of obligation, a distinction can be drawn between non-negotiable essentials, ambitious corporate citizenship standards, and additional desirable contributions.

#### *What Are the Essentials?*

This “must do” dimension of corporate obligations, which by societal consensus goes without saying, covers in a general sense:

- manufacturing or supplying products or services that effectively meet customer demand and selling them at prices that enable the company to more than cover costs and to earn an income that will allow the interest on the invested capital to be paid off and will thus secure the long-term survival of the company; and

- compliance with existing labor, environmental, tax, and other laws and regulations.

Compliance with this “must” dimension is the minimum standard necessary for a corporation’s sustainable existence; it represents the “core duties” of any actor in the economic subsystem.

One of the essential insights of the moral philosopher and economist Adam Smith was that it is not out of the goodness of their hearts that the baker, the butcher, and the brewer provide us with our bread, our beef, and our beer, but out of accepted self-interest. In the same way, the primary function of, say, a pharmaceutical company is to pursue its own self-interest by discovering, developing, and manufacturing innovative medicines and marketing them as profitably as possible. If such a company succeeds through its innovation in managing its core duties, it will achieve profits that are high in relation to the industry average. Fortunately, we are not dealing here with a zero-sum game, where business interests are by definition pursued to the detriment of the common good. It is not true to say that whatever is gained by one side has to be lost by the other.

Corporate success in the context of delivering non-negotiable essentials does nevertheless contribute to the common good:

- The goods and services can provide society with different kinds of value added. The societal effects of the existence of modern medicines, for example, and the access that people have to them allowed the death rate to be reduced and diseases that were susceptible to drug therapy to be prevented or even cured. Being a successful pharmaceutical corporation therefore means not only being profitable, but also raising the quality of life of sick people, avoiding costly hospitalization, and allowing people to go back to normal working lives instead of being bedridden. The financial success of the company arises here as a result of market successes of the research, manufacture, and distribution of medicines of high social benefit.
- Profits ensure the preservation of productive jobs, the payment of attractive salaries and fringe benefits, contributions toward pension and insurance systems, and the development of new (and, for global sustainable development, much needed<sup>4</sup>) technical solutions. Moreover, through the resources they provide in taxes, profits make an important contribution to financing the functions of the state. Under positive political and social conditions (“good governance”), these corporate contributions are of major instrumental value for improvement of the common good. Therefore – and this tends to get lost sometimes in the debate – profits are not only necessary from a business point of view, they are also relevant in terms of societal welfare.

There is no “either/or” relationship between responsible corporate behavior and profitable business-making. It is not profit as such or the level of profit that is the crucial criterion for ethical analysis, but the way in which the profit was achieved and the situation-specific application of the profit principle. Quality criteria are generally recognized factors such as the preservation of human rights and human dignity, justice and fairness in the context of employment and customer relations, and sustainability with regard to the environment.

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4 See e.g. Leisinger K.M. / Schmitt K. / Pandya-Lorch R.: *Six Billion and Counting. Population Growth and Food Security in the 21st Century*. IFPRI / Johns Hopkins University Press, Washington D.C. 2002.

While not subscribing fully to Milton Friedman's famous view that the business of business is business *only*, and that a corporation has no further obligations as long as it obeys the law,<sup>5</sup> I share Friedman's concern that bringing human and social values into decisions of the economic subsystem will lead ultimately to a shift from market mechanisms to political mechanisms. At times when the judgment of a just societal division of labor seems to be so blurred, a wake-up call to reality by speaking of the boundaries of corporate obligations is a political necessity; it creates transparency about what can be expected on a sustainable basis.

The understanding of the role of the state, however, has changed, and modern societies today assign to actors in the economic subsystem a relatively wide-ranging portfolio of obligations.<sup>6</sup> This is not least a consequence of decades of criticism regarding effects extraneous to the subsystem, whether it be damage to the natural balance of ecosystems, labor conditions in developing countries that are poor and in some cases damaging to the health, the concentration of global economic power in western industrial countries, or cases in which the autonomy of political decision makers is compromised by economic power. Corporations that strive to be successful in terms of a "triple bottom line" therefore are willing to deliver more than just essentials.

### *Ambitious Corporate Citizenship Standards Beyond the Legal Minimum*

A clear majority of people in modern societies expect that responsible companies strive for legitimacy and not just legality. This means that they:

- avoid questionable practices;
- are honest and fair;
- respond to the "spirit" of law rather than a narrow interpretation of the letter of local law – working legitimately beyond legal requirements means, for example, that they pay "living wages" instead of minimum wages and exercise state-of-the-art environmental protection even in countries where this is not legally required; and
- are responsive to legitimate concerns of relevant stakeholders, such as those working on human rights issues.

The action portfolio that is meant here is corporate behavior consistent with the UN Global Compact.<sup>7</sup> Convinced that weaving universal values into the fabric of global markets and corporate practices would help advance broad social goals while securing open markets, UN Secretary-General Kofi Annan challenged world business leaders to deliver this dimension of corporate obligations and to make globalization work for all the world's people.

### *Additional Desirables*

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5 Friedman M.: The Social Responsibility of Business is to Increase its Profits. *New York Times Magazine*, 13 September 1970; see also Friedman M.: The Social Responsibility of Business. In Beauchamp T.L., Bowie N.E. (eds.): *Ethical Theory and Business*. Prentice-Hall, N. J. 1983, pp. 81–83.

6 See, for this, Environics: *Millennium Poll*, New York 1999.

7 See [www.unglobalcompact.org/un/gc/unweb.nsf](http://www.unglobalcompact.org/un/gc/unweb.nsf) and [www.unglobalcompact.org/un/gc/unweb.nsf/content/LSE.htm](http://www.unglobalcompact.org/un/gc/unweb.nsf/content/LSE.htm).

This is the “can” dimension of corporate obligations – it is neither required by law nor considered standard industry practice. The fulfillment of this dimension deserves public praise, although a company not delivering in this area would not have to fear public blame. Examples of the “can” dimension include “corporate philanthropy,” community and neighborhood programs, and volunteerism.

Delivery on the “can” dimension will not protect a company whose actual operations do not comply with the law or other aspects of the non-negotiable essentials. And yet, it can nevertheless offer people substantial social or other advantages. Examples are social benefits, such as free or heavily subsidized meals for workers and employees, nursery schools for single mothers, free training opportunities using company infrastructure, or scholarship programs for the children of employees in low-income groups. The extras may also take the form of providing free or heavily subsidized facilities for diagnosis, treatment, and psychosocial care for employees with HIV/AIDS or other poverty-related diseases such as tuberculosis or malaria.

Corporate philanthropy, defined as expenditure beyond a company’s actual business activities without any specific association with direct corporate advantages and without any financially measurable rewards in return, is regarded by some stakeholders with skepticism, because these benefits are voluntary and can also be cut back again – for example, when the climate in the business environment gets harsher.

Given widespread poverty and the major human suffering associated with it, even if a company does nothing more than act purely as a financial sponsor for humanitarian purposes, this should be acknowledged as laudable. Normally, however, in addition to their financial resources, companies also have a wealth of knowledge and experience at their disposal that they can put to great use by investing in projects and programs of development cooperation and humanitarian aid to increase effectiveness, efficiency, and significance.<sup>8</sup> As part of such projects, a company may donate medicines but also may invest in social development programs to enhance the absorptive and institutional capacity of the recipients.

The establishment and endowment of corporate foundations with a humanitarian purpose can also be seen in the context of additional desirables. Companies that become engaged in this way create the opportunity to become competent regarding problems of poverty and familiar with poverty-related realities – experiences that do not otherwise form part of the normal cosmos of a company. As a result, a company’s understanding grows with regard to completely different viewpoints, and the company gains in terms of social competence – this is structurally different from any kind of “do good-ism” triggered by public pressure in a given critical situation.

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<sup>8</sup> See, for example, [www.novartisfoundation.com](http://www.novartisfoundation.com).