

LINKING CORPORATE GOVERNANCE TO PEACE*

by

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A front page May 20, 2001 *New York Times* news stories reported that Hindus in scattered areas of the world are protesting McDonald's decision to cook its French fries in beef fat, although in 1990, it had announced that it would cook its fries only in vegetable oil.¹ As a result, "the news ricocheted to India, where restaurant windows were smashed, statues of Ronald McDonald were smeared with cow dung, and Hindu nationalist politicians called for the chain to be evicted from the country. On the other hand, not only may McDonald's cite the employment it brings to local areas, but its influence not only on economic affairs, but perhaps even peace, has been trumpeted as well.

This example illustrates much of the complexity involved in assessing the ways multinational corporations may or may not foster beneficial relationship among the people they encounter. In short, the relationship between corporate action and an ideal such as sustainable peace seems to be ambiguous. To date, very little attention has been devoted to this topic. In this manuscript, we hope to begin a dialogue and offer the following observations.

First, there is a plausible, conceptual relationship among corporate governance, business ethics, and sustainable peace. Accordingly, Section One is concerned with developing this connection in terms of recognizing the protests against as well as the benefits of globalization, the reciprocal benefits between stable geopolitical entities and economic activity, and specific historical events that collectively add to the ambiguity, but which may also contain foreshadow of patterns to be illuminated.

Section Two looks more deeply at those patterns. In this section, we argue that the contribution multinational corporations make to sustainable peace is more likely in mitigating internal wars rather than wars between sovereign nations. There are exceptions. Sometimes, economic exchange may reduce the likelihood of warfare between countries. The April downing of the U.S. spyplane in China may well have had a different outcome if the economic exchanges between the two countries were not already so great² and their potential for increase so large.³ Nevertheless, we believe that the more promising area for corporate contributions to peace may lay in the way corporations do their work in countries through economic progress in general and through mitigation of existing rivalries in the workplaces. If this contribution is a valuable one, then the way in which corporations are governed will make a difference to the ethical values that are promoted within the workplace. This governance question lays bare the assumptions underlying the reasons for which corporations are established.

Finally, we will conclude with our observation that enough evidence exists to move beyond being content with a plausible relationship among governance, ethics, and peace and suggest that future work may uncover increasingly precise corporate models that contribute to the reduction of bloodshed. If this argument is true, of course, the stakes for corporations to practice ethically responsible governance practices increase

dramatically, as does the pressure on governments to create legislative frameworks to encourage responsible governance practices.

I. **THE PLAUSIBILITY OF CONNECTING GOVERNANCE, ETHICS, AND PEACE: THE IMPORTANCE OF TRANSPARENCY**

In this section, we demonstrate that there is a plausible correlative and conceptual connection among governance, ethics, and peace. For purposes of this paper, we wish to sketch this correlative connection by providing an initial empirical link between corruption and peace and then, in interpreting this data, we provide a conceptual rationale for the connection and further link this connection to corporate governance. Finally, we further identify the most telling connections. An underlying theme is the need for transparency of governmental and corporate processes in order to battle corruption.

A. **An Initial Empirical Connection**

Transparency International (“TI”) is a non-governmental organization, which attempts to document the level of corruption that exists within countries today.⁴ As its chairman, Peter Eigen, states “the scale of bribe-paying in international corporations in the developing countries of the world is massive ...[and] ... the results include growing poverty in poor countries, persistent undermining of the institutions of democracy, and mounting distortions in fair international commerce.”⁵ In attempting to determine perceptions of the level of corruption in countries TI conducted 779 interviews with representatives of companies doing business in emerging markets.⁶ In conjunction with this index devoted specifically to bribe-taking, TI also utilizes other indices to create a “Corruption Perceptions Index.”⁷ The rankings of these ninety countries provides an indication of levels of corruption that exist today.⁸

The Heidelberg Institute for International Conflict Research produces an index related to conflict around the world.⁹ This index uses a variety of sources and twenty-eight variables to define the types of conflict involved and the methods used by parties to those conflicts to resolve them.¹⁰ “Conflict” is defined as

the clashing of overlapping interests (positional differences) around national values and issues (independence, self-determination, borders and territory, access to or distribution of domestic or international power); the conflict has to be of some duration and magnitude of at least two parties (states, groups of states, organizations or organized groups) that are determined to pursue their interests and win their case. At least one party is the organized state. Possible instruments used in the course of a conflict are negotiations, authoritative decisions, threat, pressure, passive or active withdrawals, or the use of physical violence and war.¹¹

Conflicts, therefore, could involve any number of issues. The intensity of those conflicts, however, are even more important. According to the Heidelberg Institute index, there are four levels of conflict: latent conflicts, which are completely nonviolent; crisis conflicts, which are mostly nonviolent; severe crisis conflicts, where there is sporadic use of force; and war, where there is systemic, collective use of force.¹²

From 1989-1999, this index showed that there were 146 conflicts in the world and that 82 of them were addressed either through war or through mostly violent means.¹³ More interestingly, however, is examination of the particular countries engaged in conflict and the intensity of the conflict. If we compare the frequency of how conflicts are addressed with the TI index, we find that since 1975 those countries that had the least amount of corruption (i.e., those in the top quadrant of TI’s Corruption Perception Index),

only 12% of conflicts were addressed by mostly violent means or by warfare. Countries in the second quadrant of TI's index used mostly violent means or warfare to address 26% of their conflicts. In the third quadrant, that figure rose to 44% and in the bottom quadrant, that is the countries with the most severe corruption, it escalated to 60%.

Table 1

Transparency International Quadrant	Resolution of Conflicts by Violence
Quadrant #1 (least corrupt)	14%
Quadrant #2	26%
Quadrant #3	44%
Quadrant #4	60%

We wish to emphasize that we do not mean to suggest that corruption causes violence. There are many reasons why nations go to war or why individuals and groups resort to violence within borders.¹⁴ There may be explanations as to why nations that are least corrupt do not result to violence to address disputes. For instance, in examining the TI chart, the countries in the top quadrant are, essentially, functioning democracies. Thus, it could well be that a functioning democracy provides the means for disputes to be resolved in a peaceful manner.¹⁵

On the other hand, according to Fortune magazine's 100 Largest Economic Table, only three of the TI top quadrant – Iceland, Luxembourg, and New Zealand – were not large economic units.¹⁶ This might suggest that wealth precludes the need for corruption, in other words, countries that are already wealthy can afford the luxury of carefully complying with the law. This would be more persuasive if not for the fact that other countries not fairsing as well on TI's index, such as China and Mexico, were ninth and thirteen respectively on the Fortune list.¹⁷ Regardless of whether corruption causes violence or whether corruption is an indicator of something more fundamentally askew in a country, the data above show that it is at least plausible that corruption and violence are in someway linked. Corporations engaged in corruption seem to at least be in the midst of a social milieu that is prone to bloodshed. If this correlation is plausible, then the question becomes whether corporations might have a role to play in rectifying this situation.

B. A Plausible Normative Rationale for Action

With the exception of those industries that have a specific reason to profit from war, rarely will business people advocate for warfare for reasons of profitability.¹⁸ They may, of course legitimately be concerned with other national goals that require warfare and their businesses may profit from that warfare.¹⁹ We do not wish to diminish the economic leverage and political weight that such industries may wield in making decisions leading to military conflict.²⁰ Instead we pose the more narrow question of whether companies not engaged directly in producing military hardware benefit from warfare. It is at least plausible to believe that they do not.

The cost of violent conflict is large. One study shows that “every major famine in recent years has taken place in a war zone.”²¹ Famine results, in large part, because of the inability to deliver foodstuffs within a war zone. These difficulties may arise either because of the danger inherent in navigating between warring armies or because the armies in control of certain areas wish to prevent delivery.²² As recently as 1994, forty-two million people were displaced as a result of warfare²³ and the impact on other social

institutions, such as medical care and the legal system can be large as well. This kind of disintegration can have a direct economic impact as was the case in Kashmir, where the number of tourists dropped from 722,000 in 1988 to 10,400 in 1992.²⁴ Moreover, with eighty percent of the population of Kashmir dependent upon agriculture, the fact that during this period, self-sufficiency was replaced with food rationing is indicative of the kind of social and economic hardship that can be experienced when conflict grips a region.²⁵ Even those defense industries that benefited from the conflict could conceivably have redirected their productivity toward manufacturing that could have combated poverty rather than built armies.²⁶ Kashmir is not an isolated case. Similar kinds of economic displacement and hardship have been chronicled in Yugoslavia,²⁷ Sudan,²⁸ Peru,²⁹ Mozambique,³⁰ Iraq,³¹ and East Timor.³²

These cases are important and suggestive. They suggest that there can be a business cost to warfare. There may also be, of course, a social and humanitarian cost as well; it is hard to think of a modern war that does not include human suffering.³³ More generally, however, there exists a dialectically supporting relationship between business and sustainable peace: business needs stability to thrive and peace can be sustained through the relationships businesses build.

B. Benefits For Commerce Resulting From Stability: Three Economic Reasons

Perhaps the best way to understand the benefits that accrue to businesses by stability and peace is to look at the subject through the eyes of three influential economists: F.A. Hayek, Amartya Sen, and Hernando DeSoto. Although each of these economists has significant ties to the United States, their global breadth (Hayek being Austrian; Sen being Indian, and DeSoto being Peruvian) makes them a diverse trio through which the importance of peace to economic enterprise can be seen. Three important benefits for business can be identified through their eyes.

1. Virtues, Stability, and Trade (Hayek)

F.A. Hayek provides an important argument for linking ethics and trade.³⁴ Hayek argues that integrity virtues, such as promise-keeping, truth-telling, and honesty, as well as production of high quality goods and services and enforcement of voluntary contracts, are essential to flourishing business.³⁵ The reason they are important is not necessarily because these virtues are ennobling – Hayek does not pass judgment on this issue – but because they allow for an extended order based on efficient trading.³⁶ Hayek suggests that the way to establish global ethical values and, in fact, more peaceful international relations, is to encourage international trade, because then potential trading partners can see the benefit to practicing these kinds of relationship-sustaining virtues.³⁷ In this conceptual understanding, ethics and trade are mutually reinforcing. Integrity virtues lead to more trade and more trade demonstrates the efficacy of practicing these virtues, at least in the long run. In the short-run, however, there are always risks of individuals seeking the advantages of trade without practicing virtues that would sustain trade, which is why a governance system is required.³⁸ Unfortunately, it is not enough to simply rely on individuals to practice these virtues.

It can be inferred from this that business is more likely to flourish when societies practice integrity virtues. As demonstrated above, however, those countries most prone to addressing conflicts through violent means are also those countries in which corruption is most prevalent. In other words, they do not practice integrity virtues. Moreover, some

have noted that the technologically connected global economic system is vulnerable not so much from cross-border wars, but from the actions of individuals empowered to wreak havoc on the system. Thought of otherwise, globalization requires even more attention to the practicing of integrity virtues, because the reaction against perceived injustices can be violent. For instance, the chief of network designs for Sun Microsystems, Geoff Baehr, has been quoted as saying that his “biggest worry, and it cannot be overstated, is that this entire infrastructure is very vulnerable to attack, not just from a computer hacker, but from someone getting into the telephone switches. In this world the attacker can go to the telephone front, go home and have a sandwich, and come back and attack again.”³⁹ Globalization, in fact, provides the opportunity to link society, but also provides the “super-empowered individuals who hate America more than ever because of globalization and who can do something about it on their own” with the ability to disrupt the system.⁴⁰ It would seem to be a simple truism that a technologically linked world is dependent on a certain level of stability simply to be able to keep the phone lines open. Indeed Friedman notes that a stable political and economic environment is the precursor to encouraging entrepreneurship.⁴¹ Thus, if integrity virtues are a component to justice, then flourishing commerce benefits from virtuous behavior and is threatened by nonvirtuous behavior.

2. Creativity and Growth (Sen)

A second related benefit to business from stability and peace is its enhancement of the possibility of freedom and freedom’s benefits to the alleviation of marginalization as well as the flourishing of markets. The leading spokesperson for this viewpoint is economist Amartya Sen.⁴² Rather than focusing on the numerical increase in trade as an indicator of development, Sen looks at the process that allows individuals, particularly the poor, to reach the potential they would have not been able to achieve had they remained in poverty.⁴³ An important reason for this emphasis is that, as Sen notes, the increase in “overall opulence” in today’s global economy produces “elementary freedoms” to a large number of individuals simultaneously, perhaps even to the majority of people on the globe.⁴⁴ The satisfaction of material needs allows individuals to unleash their potential and that creativity further enriches the market. In this sense, freedom results from individuals being free from constraint imposed by the grinding harness of poverty and from “tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over activity of repressive states.”⁴⁵ Rather than focusing solely on economics, this can be done by integrating values and economics. According to Sen,

The exercise of freedom is mediated by values, but the values in turn are influenced by public discussions and social interactions, which are themselves influenced by participatory freedoms. . . . It is important not only to give markets their due, but also to appreciate the role of other economic, social, and political freedoms in enhancing and enriching the lives that people are able to lead.⁴⁶

Friedman notes the consequential validity of this approach by noting that “when you put assets in the hands of the poor in a politically distorted environment, such as Liberia or Burma, not much happens. But when you put assets in the hands of the poor in reasonably stable and free environments a lot will happen.”⁴⁷ From this, one can believe that it is plausible that participatory freedoms empower individuals who can engage the

market and enjoy its benefits. Values and business opportunities are thus enhanced and thereby provides a way to combat marginalization of the poor and reduces the threat of violent reaction borne of desperation.

3. **Stability From Legal Structures Can Unleash Capital (DeSoto)**

Not only does the focus on the development of freedom lead to an emphasis on governance so that freedoms can be achieved by unleashing human potential, but proper legal governance regimes can free trapped capital as well. The spokesperson for this view point is economist Hernando DeSoto.⁴⁸

DeSoto argues that the major difficulty that most of the world's poor have in obtaining the benefits of capitalism exists because countries do not have the legal infrastructure for registering proper title to real estate. This lack of legal infrastructure, for instance, makes it virtually impossible for the poor to make use of the assets they have, such as their homes, to become entrepreneurs.⁴⁹ The West, he argues, takes its property law system for granted so much that it typically ignores the history of legal development where gradually governments provided reliable property documentation for ownership where title was otherwise obscured.⁵⁰ Thus, the poor have houses built on land where there are no recorded ownership rights and as a result, lenders have no reliable collateral to support loans that could be used to start a business.⁵¹

The latent economic potential of this situation is immense. DeSoto calculates that in Haiti, for instance, sixty-eight percent of those living in the city and ninety-seven percent of people in the countryside reside in homes where there is no clear legal title.⁵² In Egypt, the same problem arises for ninety-two percent of city dwellers and eight-three percent of the people in the countryside.⁵³ DeSoto estimates that the total assets held by the poor in the Third World and former Communist countries that cannot be accessed because of defective property registration systems is at least \$9.3 trillion.⁵⁴

The institution of property registration systems in the West, De Soto argues, required legitimizing the extant, albeit informal, rules of customs practiced by the population to provide productive economic activity, a greater good to society. The connection of this process to peace is that by doing so, the chances for social confrontation, particularly over scarce resources, are reduced and economic growth is encouraged. DeSoto argues "everyone will benefit from globalizing capitalism within a country, but the most obvious and largest beneficiary will be the poor."⁵⁵ As we have already intimated, this benefit can have direct consequences for sustainable peace. Klaus Schwab of the World Economic Forum recognizes that "if we do not invent ways to make globalization more inclusive . . . we have to face the prospect of a resurgence of the acute social confrontations of the past, magnified at the international level."⁵⁶

It follows that the failure to avoid social confrontations is itself a threat to business. Business and peace are connected by a mutually supporting atmosphere where members of society are engaged in a market economy rather than marginalized to the point of resentment. The western property system allows for the production of surplus value beyond what a home would otherwise represent because it is possible to tap into the economic potential of the real estate itself.⁵⁷

The difficulty for the legal system is that if it does not keep pace with such basic natural impulses as that of building a home, it will frustratingly marginalize individuals so that they remain outside of the economic system. If this occurs, individuals will invent

their own extralegal substitutes for property protection.⁵⁸ This occurs now in Third World and former communist countries, but it was also the case in the West.⁵⁹

Rather than maintain a system that was out of touch with the norms of the people they governed, Western nations gradually began to recognize these arrangements as legitimate and found ways to absorb these contracts into the legal system.⁶⁰ The law maintains its legitimacy by staying in touch with the norms that guide daily life.⁶¹ If the law fails to do so, those operating by those extralegal contracts will not enter the economic and legal system.⁶² “What governments in developing countries have to do is listen to the barking dogs [marking local territory] in their own communities and find out what their law should say. Only then will people stop living outside it.”⁶³

C. Reciprocal Relationship between Business and Peace

Business has an interest in peaceful relations for several reasons. One of the implications of the foregoing discussion is that in order to foster sustainable peace businesses will need to do more than attend to profitability. The causes of war are more multifaceted than any one business or set of businesses can eliminate, but businesses can play a role in mitigating those causes when they attend to human issues. Thus, although development of wealth is an appropriate interest of business, as Sen also argues that “the usefulness of wealth lies in the things that it allows us to do – the substantive freedoms it helps us to achieve.”⁶⁴ Indeed, it is more of an ideological mantra to assume that human beings are selfish than it is a fact of human life.⁶⁵ A goal of achieving freedom is itself a moral determination and its consequential efficacy is demonstrated by Sen’s finding that “no famine has ever taken place in the history of the world in a functioning democracy.”⁶⁶

The notion of democracy is that people have a voice in the laws that govern them. Not only does attention by business to the development of freedom reinforce the processes by which peace is achieved, but the internal dynamic by which domestic policies are created require attention to, as DeSoto puts it, listen to the “barking dogs” to understand the informal, but very real, contracts that people enter into and the appropriation of which serves to legitimize government itself.⁶⁷ Thus, there is a reciprocal, even cybernetic relationship between business and peace, where business is benefited by the stability peace brings and achievement of stability requires business to engage in issues of human development, to encourage legal development of institutions such as property, and to nurture, as Hayek would argue, integrity virtues.

D. Benefits of Business to Peace

In addition to the reciprocal relationship between business and peace identified above, business may contribute to stability in other ways. Recently, a symposium identified just and sustainable economic development as one of the ten practices necessary for abolishing war.⁶⁸ There is considerable support in history for this sentiment. Philosophers such as Montesquieu have argued that by trading, nations make it more unlikely they will go to war.⁶⁹ Immanuel Kant held a similar view⁷⁰ that has been carried into the present as well.⁷¹

There is, however, another view. Donald Kagan, for instance, argues that the hope for lasting peace based on the emergence of a free market economy or on the basis of the history of democratic nations not fighting one another is misguided.⁷² Kagan warns that the “only thing more common than predictions about the end of war has been war itself.”⁷³ Moreover, anthropologist Lawrence Keeley’s studies show that groups who

trade may not fight each other in the midst of war, but they do fight each other before and after war.⁷⁴ Not only was this true “before civilization” but the United States and Japan actively traded prior to the attack on Pearl Harbor and all of the combatants of World War I traded with each other before and after hostilities.⁷⁵

Nevertheless, even after undertaking his study, Keeley recommends that engagement between countries is more likely to lead to the kind of relationships where they are less likely to go to war.⁷⁶ In addition, others have noted that although there has always been trade and there have always been multinational nongovernmental organizations, there is something unique about this particular time and place, because “what is new is [transnational factors and organizations’] number and variety and, more significant, their challenge to the control that state actors have over world affairs.”⁷⁷

From all of this, it can be discerned that business can contribute to peace in at least three ways: (1) use of track two diplomacy; (2) promotion of economic development; and (3) redesign and utilization of corporate governance structures that are modeled on peaceful societies. In looking at these alternatives, we wish to stress that we are considering them in light in the most basic definitions of peace: the absence of war. As Robert Pickus has argued, evils such as oppression and starvation have their own names, but “something previous is lost when the word “violence” is blurred.”⁷⁸ Unlike Pickus, who even further wants to preserve the term “violence” for mass, organized warfare, we believe that a sense of violence in terms of the willful killing of people through acute means is a sufficiently concrete and precise enough understanding of the evil we wish to avoid so as to maintain an appropriate focus on the means by which businesses can constructively mitigate its prevalence.⁷⁹

1. **Track-Two Diplomacy Issues**

Track-two diplomacy is unofficial interaction among non-state actors with the goal of creating an environment in which political leaders become freer to reach accords.⁸⁰ Certainly, an economic enterprise that provides benefits to two different countries embroiled in a dispute contributes to an environment where the leaders of the countries can point to the mutual economic advantages of resolving a conflict as a reason to avoid escalation. This is true of trade generally, as exemplified by the 2001 negotiations regarding the Chinese downing of a U.S. spy plane.⁸¹ It could also occur when a business person who has credibility and access conveys messages between governments without going through formal diplomatic channels. In each of these scenarios, corporations can build relationships that cross boundaries in a way that might not be done through traditional political means. In doing so, they can provide the environment and channels for communication that might not otherwise have been there.⁸²

There is another important insight implicit within this understanding of track two diplomacy.⁸³ Just as informal diplomacy or fostering of economic relations can create the atmosphere for political leaders to take risks, there is also an opportunity for multinational corporations to “arrest the dehumanization process between the groups in conflict, and gradually to educate the population about the human dimension of the pain and loss all sides suffer from the conflict. It is a difficult cognitive and group psychological process.”⁸⁴ This insight is particularly relevant for corporations because, as demonstrated below, corporations can perform this role within the boundaries of one country where there are disputes among various groups. Thus, not only may corporations play a role in diffusing conflicts between nation-states by building relationships enabling

political leaders to negotiate with a government that might otherwise be considered a violent enemy, but corporations, through employment, trade, and outreach, can also “humanize” adversaries within countries to mitigate the possibilities of domestic violence as well.

2. Economic Opportunity and Growth

Just as there is a correlation between corruption and violence, “there is a highly positive correlation between underdevelopment and armed conflict.”⁸⁵ It has also, not surprisingly, been found that war creates poverty.⁸⁶ Complaints regarding poverty are frequently involved in wars.⁸⁷

Another interpretation of the correlation between corruption and violence, is that the correlation exists because poor countries are frequently dominated by corrupt governments.⁸⁸ It is because of this connection that economic assistance provided to emerging countries is typically tied to reforms. Such incentives, such as those provided by the International Monetary Fund and the World Bank, typically provide access to First World funds and markets in return for budgetary and sometimes political reform.⁸⁹

Therefore, there is the possibility that poverty contributes to warfare more than does corruption. If this is true, then it would make sense to spur economic development, even at the price of corruption, in order to reduce poverty. There is, undoubtedly, some truth to this claim. As already mentioned, there are studies demonstrating a highly positive correlation between underdevelopment and violence.⁹⁰ Tying violence to corruption, however, may be a more helpful indicator of a social structure more likely to beget violence. If this hypothesis is also true, then multinational expansion should be justified not only upon the capacity to alleviate poverty, but to do so in a way that also mitigates corruption. Again, the link between corruption and violence requires additional research, but there are at least three initial reasons supporting the hypothesis that they may be linked in some way.

First, in Amartya Sen’s assessment of poverty, he describes poverty in terms of a “capability deprivation.”⁹¹ He argues that there are deprivations that are intrinsically important.⁹² He further contends that there are other influences on capability deprivation than low income and that the relationship between low income and low capability is variable among different communities.⁹³ Factors influencing this variability include the age of a particular person, gender and social roles, location insofar as that location is prone to disruption due to natural disasters, famine, or violence, and the epidemiological atmosphere.⁹⁴ Moreover, the relative deprivation in terms of income can lead to an absolute deprivation in terms of capability because “being relatively poor in a rich country can be a great capability handicap, even when one’s absolute income is high in terms of world standards.”⁹⁵ In part, this relative deprivation occurs where the desire to avoid “social exclusion” creates a demand for the poor in a rich country to devote resources to the acquisition of goods, such as televisions and automobiles that would not occur in a poor country where such goods are not as widespread.⁹⁶ A consequential example of this, Sen writes, lies in comparing premature mortality. For example, African American men possess significantly higher income than Chinese, Indian, Sri Lankan, Costa Rican, and Jamaican men, but have “remarkably higher death rates.”⁹⁷ Another possible reason for these death rates might be the significantly higher level of violence that occurring in African American communities.⁹⁸

From this, Sen does not deduce that inequality should be eradicated. Rather, Sen notes that such attempts can “lead to loss for most – sometimes even for all.”⁹⁹ He does, however, argue that insufficient attention has been directed to ways in which equality can be manifested, i.e., that capabilities of the poor are influenced by factors more complex than comparisons of income.¹⁰⁰ In particular, he emphasizes the need for social participation and public discussion in making economic policy so as to inform such policy of the complex dynamics that foster frustration and dampen human development.¹⁰¹

Second, anthropologists provide two helpful clues as to why low income is itself not explanatory. One reason is that premodern societies were relatively poorer than today’s world, yet they were also less violent. Anthropologist Leslie Sponsel, for instance, argues that by studying the accumulated specimens of fossil hominids in museums and universities, one can conclude that “nonviolence and peace were likely the norm throughout most of human pre-history and that intrahuman killing was probably rare.”¹⁰² Although eschewing the notion of a prehistoric, peace-loving hominid, anthropologist Lawrence Keeley similarly concludes that adjusted for population sizes, the twentieth century killed at a rate twenty times higher more than at any time during hunter-gatherer era.¹⁰³ Yet, there is no evidence that these societies were materially more prosperous than the world is today.

Sen’s explanation for relative capability deprivation provides at least a plausible explanation for this. Although hunter-gatherer societies were often hierarchical, it was a hierarchy frequently based on stable environments. This is not to say that premodern societies did not experience catastrophes – they did – but they more frequently occurred as the result of natural influences such as earthquakes or volcanoes than with disruption of political and economic arrangements.¹⁰⁴ Change, however, produces stress that can accentuate capability deprivation in two important ways. The first way is in the sense of a loss of the capability to have control over one’s life. The free market, for all its merits, directly undermines this capability.¹⁰⁵ Unfortunately, globalization introduces stress, threat, and social change. “The bigger, fast and more influential the herd becomes, the more individual citizens start to feel that the locus of economic matters is shifting from the local level, where it can be controlled, to the global level, where no one is in charge and no one is minding the store. When all politics is local, your vote matters. But when the power shifts to these transnational spheres, there are no elections and there is no one to vote for.”¹⁰⁶ This phenomenon creates disempowerment, or to use Sen’s phrase, a capability deprivation, because it deprives individuals within a community from having a sense of stability and control in their lives. The fact that no one person is responsible does not mitigate the effect because “the most arbitrary powers in history always hid under the claim of some impersonal logic – God, the laws of nature, the laws of the market – and they always provoked a backlash when morally intolerable discrepancies become glaringly visible.”¹⁰⁷

One reaction against this kind of disempowerment occurs through fundamentalist militancy.¹⁰⁸ In such a time, a religious tradition that typically preaches compassion, forgiveness, and tolerance can switch to messages intolerance and violence because these are not “normal times.”¹⁰⁹

One final anthropological example demonstrates the moral difficulties, as well as the capability deprivations, produced by economic change and material distributions.

When Hawaii encountered the West, though the interaction with British Commander James Cook, the practice of *kapu* (or taboo) was part of the religious mythological system by which the Islands kept themselves in *pono* (or balance).¹¹⁰ *Kapu* derived from the *Kumulipo*, the Hawaiian creation myth and it was part of an extremely hierarchical social system so rigid that if the shadow of an *Ali'i Nui* (a noble) fell on a common person, the person had to be put to death.¹¹¹ Nevertheless, the *Moi* (or king) had strict responsibility to govern for the common good and if the land was not fertile, Hawaiian religion deemed it a judgment on the gods for the lack of the *Moi's* purity.¹¹² The difficulty with *kapu*, however, was that once westerners showed that *kapu* rules (such as violating the prohibition for men and women to eat together) could be violated without retribution and further than *kapu* rules could be used by *Ali'i Nui* to restrict new western goods for themselves to the exclusion of the common people, the notion of *kapu* was transformed from something that was part of a system that required reciprocal duties from all elements of society to something that was simply a rule, like "no trespassing" that was imposed on the poor without an obligation to treat them well.¹¹³ By making this kind of transformation, *kapu* rules created a capability deprivation for the common people. In other words, *kapu* rules were divorced from their communal context and simultaneously made less transparent, the combination of which creates a relative disparity that is different from simply material disparity.

Thus, it is plausible to conclude that it is not simply low income that contributes to violence, but that the ordering of social institutions, particularly in times of stress and change that can disempower individuals and thereby increase their capability deprivation. The dis-ordering of social institutions thus can create the seeds of exploitation, alienation, and deprivation for which there are fewer "weapons" for the disadvantaged to use to claim resources necessary for development as well as creating a moral disparity by which those in power may be more inclined to use violence as a way to avoid discussion as to whether the distribution of capabilities is fair. It is not simply inequality that is a problem nor is it poverty. Instead, what threatens violence is a governance mechanism that has become corrupt because it fails to allow individuals to influence in the rules that govern them.

II. THE IMPORTANCE OF GOVERNANCE

The backlash against capitalism is quite real in that there are people demonstrating and protesting a world dominated by free markets, and more particularly multinational corporations. To some, the rioting in Seattle in 1999 or at various other meanings demonstrates the anger that spreading capitalism inspires, even if the reasons for the anger are very diverse.¹¹⁴ To others, the diversity of the grievances, ranging from protectionist labor unions, environmentalists, anti-sweatshop protestors, save-the-turtles activists, save-the-dolphin activists, to anti-genetically altered food activists will prevent the development of a "coherent alternative ideology."¹¹⁵

Yet, to think of a reaction against capitalism in the form of a clearly defined alternative framework may miss the point. What corporations operating around the world may face is not the opposition from an alternative ideology, such as communism, but rather protests against capitalism on the basis of identity and community. It is this more guerilla-like kind of locally defined opposition that makes not just political governance important, but also corporate governance. Corporations must have a mechanism within their own governance mechanism to provide the capacity to address identity-related

conflicts that can be fueled by resentments resulting from disrupted local economies. Moreover, one of the strengths of the free market, its ability to be able to float freely from particular identity and religious commitments makes it more difficult to present itself as an inspiring force that local communities should embrace in overthrowing traditional ways of life.¹¹⁶

Indeed, the difficulty of free markets is that it tends to challenge the identity of communities.¹¹⁷ And dealing with identity-based conflict may be the most likely kind of problem corporations deal with and the kind of problem most likely to threaten corporations themselves.

For instance, peace research shows that mass violence is no longer waged between different states as frequently as it is within borders or about borders that states claim.¹¹⁸ According to one study, nearly two-thirds of 1993 conflicts could be defined as identity-based "constituting a direct challenge to existing state authority as their salient characteristic."¹¹⁹ Another widely reported study shows that ninety-one percent of conflicts since the end of the Cold War have occurred within rather than across borders.¹²⁰ For corporations, these statistics are meaningful because they suggest that violence is more likely to occur within the domestic settings in which corporations operate. It may be true, for instance, that business interests and business persons can serve to mitigate the likelihood of violent conflict between nation-states¹²¹ but as powerful as corporations are, they still are not nation-states with armies engaged in warfare. Corporations are, however, engaged in and dependent upon the relative stability of the local business environment and they simultaneously are entities that arouse suspicion, protest, and violence. Simple self-interest requires that corporations take steps to mitigate the likelihood of violence in the countries in which they operate. More particularly, they may be able to do this by taking steps to improve the atmosphere of the countries in which they operate. As suggested by the correlation described in Section I between corruption and violence, one way corporations can do this is by adopting policies that discourage corruption. This is a notion of transparency that was an underlying theme of Section I. In addition, corporations can adopt structural policies designed to mitigate the outbreak of identity-based violence that their actions may trigger. This is a notion of community that is an underlying theme of this Section.

Before sketching why governance itself is a critical factor in developing a sense of community, it is important to also be clear as to the meaning of violence. It is possible, of course, to equate many kinds of structural injustice with violence. Given the nascent nature of the connection between business practices and peace, we focus on the clearest kind of violence: actual killing.¹²²

Relying on this definition does not preclude consideration of the basic needs of individuals which, if not met, could lead to actual killing. As John Vasquez writes, "peace is something that is consciously constructed and not something that just appears in the absence of violence."¹²³ Nevertheless, our emphasis concerns the perception of business justice as it relates to actual fighting and violence rather than as it relates to structural issues in and of themselves.

A. Identifying Sources of Conflict

Attempting to determine the reasons people go to war is an exhaustive process. In particular, there is the ever-present instinct to revert to notions of justice in order to preserve peace. While this instinct is one worth preserving and pursuing, the attempt to

determine an objective, universal standard of justice is a never-ending quest itself. Instead, we wish to heed Zartman's warning that "peace is sometimes the enemy of justice, and conflict can be ended only at the price of objectively fair outcomes. Such peace, so the objections go, is illusory: there is no lasting peace without justice. But justice has many referents and is ultimately subjective. A conflict resolution that perfectly combines peace and justice is rare as are as other moments of perfection in human action."¹²⁴

Nevertheless peace and economics research identify two key theories that are helpful to understanding this issue and that are particularly relevant for corporations. These theories, denoted herein as Needs Theory and Security Theory, provide a template for the identification of human interests that must be met in order to prevent the kind of dissatisfaction that can lead to conflict. They fit well, in fact, with Amartya Sen's capability deprivation thesis explored in Section I and also interface with ethics theory, described below.

Needs Theory is an attempt in peace research literature to determine what needs, when they are not met, are most likely to produce grievances that lead to conflict. Zartman and Rasmussen, for instance, argue that many if not most current conflicts result from "the failure of political, economic, and social institutions to pay sufficient attention to the grievances and perceived needs of significant groups in the population."¹²⁵ They acknowledge that identification of the relevant specific needs is difficult because those needs can change according to context and cultural setting.¹²⁶ Nevertheless, there are some basic needs one can identify, such as "physical and psychological security; basic survival needs, such as food and shelter; identity needs, such as dignity and respect for distinct cultural and linguistic identity; economic well-being in terms of educational and economic opportunity; the need for political participation; and the freedom to control one's own life (for example, the panoply of democratic rights, such as freedom of speech, movement, religious preference, and association)."¹²⁷ Denial of these needs may result in conflict.¹²⁸

The second framework is that of Security Theory. Michael Klare identifies six sources of insecurity: income level, clean water, literacy, lack of food, lack of housing, and preventable death.¹²⁹ This list is at least consistent with, although less expansive, than those that are identified in Needs Theory. The combination of them, however, along with Sen's articulation of five kinds of freedoms provides a set of characteristics necessary to avoid conflict. Sen's freedoms, are "instrumental" in that they lead to a *telos* of individual human development rather than being ends themselves. They include: (1) *political freedoms*, (2) *economic facilities*, (3) *social opportunities*, (4) *transparency guarantees*, and (5) *protective security*.¹³⁰

It is important to see three important attributes of the items on the lists provided by Needs Theory and Security Theory, and their interface with ethics theory. First, there is a set of very basic needs that are concerned with the sustainability of life itself in terms of water, food, housing, health, and preventable death. In business ethics literature, these are akin to Patricia Werhane's notion of "basic rights," protections without which life would be intolerable.¹³¹ This suggests one possible link between corporate behavior and business ethics insofar as to the extent that corporations are engaged in activities that violate basic rights, they risk sewing the seeds for violence. For example, several years ago, Green Giant moved an agricultural processing plant from Salinas, California to

Irapuato, Mexico.¹³² The stated reason for the move was to enable production of high-quality vegetables, particularly broccoli and cauliflower, year round.¹³³ One of the consequences of the relocation, however, was that the water level in Irapuato dropped to an impossible level given the resources of the local population.¹³⁴ Prior to introduction of the plant, water could be found at a depth of sixty feet. After introduction of the plant, it was necessary to drill 450 feet to find water. Although the company did bring economic development to the area, the water issue caused some resentment, nonetheless.¹³⁵

Second, there are psychological as well as physical interests at stake. These theories do not simply consider income as a need requiring some degree of stakeholder satisfaction, but also consider the *level* of income. They do not simply identify protection from physical harm, but also *psychological* security. They do not simply identify the absence of corruption, but also the *guarantees* of transparency. In short, and consistent with Sen's argument from Section I, there is an important component of *perception of fairness* that is more elusive than what might be measurably and arithmetically counted, that serve as important interests that require stakeholder satisfaction. If these perceptions are not addressed, a perceived treatment of unfairness could be as real as actual deprivation. The relative levels of these interests and the psychological importance attached to these interests require a clear communication mechanism for articulation of *how* needs and interests of stakeholders are being addressed as well as a mechanism for those needs to be *voiced* by stakeholders themselves.

This approach is also congruent with that of stakeholder theory and social contract theory. Stakeholder theory, most prominently championed by Evan and Freeman,¹³⁶ argues that corporations should take into account anyone who is affected by a corporate action.¹³⁷ While we are skeptical that corporations can, in fact, pragmatically take into account all stakeholder interests in making business decisions,¹³⁸ we acknowledge that stakeholder theory provides an important insight in that the individuals most able to identify the significance of an action on a particular stakeholder is the stakeholder group in question rather than a manager attempting to hypothesize what that impact might be.¹³⁹ An important reason for this, consistent with the psychological component of Needs Theory and Security Theory, is that stakeholders must perceive that important interests will be voiced and that the complaints about those deprivations will be taken seriously.

Similarly, the notion of contract theory in business ethics is based on the validity of consent of the negotiating parties. This is true in the shareholder version of contract theory, as articulated by Easterbrook and Fischel,¹⁴⁰ who argue that corporations are simply a "nexus of contracts" for various individuals to negotiate the fulfillment of needs and desires.¹⁴¹ It is also true of the social contract, such as articulated by Michael Keeley,¹⁴² Steven Salbu,¹⁴³ and Thomas Donaldson and Thomas Dunfee.¹⁴⁴ In the social contract version, consent to a norm is "the justificatory linchpin."¹⁴⁵ To the extent then, that stakeholders believe that they have not freely negotiated a contract, the more likely they would perceive an action as unfair.

The structuring of these devices plays into a governance strategy not only for communicating how corporations support local interests, but also to structure mechanisms for corporations to receive information from its stakeholders.¹⁴⁶ The latter will need to be an institutional device and, to be actually authentic as well as perceived as

authentic, the device will need to make a difference in the way corporations address the interests of local stakeholders.

Finally, there is a communal aspect. Corporations will do business within particular countries and in doing so will be working with individuals who, as residents of those countries, are subject to the rivalries that exist within it. The hiring of employees,¹⁴⁷ the location at which pollution is released,¹⁴⁸ and the relocation of people in order to construct pipelines¹⁴⁹ have all been cited as examples of ways in which otherwise productive business enterprises can become embroiled in ethnic controversies. Moreover, to the extent that corporate behavior undermines the traditions of local communities, resentment may build toward the enterprise itself.¹⁵⁰

As with the previous two implications, this approach also connects with virtue theory of business ethics because virtues are always connected to a particular community.¹⁵¹ What becomes particularly difficult is that virtues appropriate for a community may favor one group over another and may also be perceived as imposing a set of western values displacing traditional values.¹⁵²

Thus, by focusing on basic needs we can see how corporations may play a role in enhancing or depriving needs. In addition, we can see that the perception of how corporations address these needs can be characterized as fair or unfair even within contemporary business ethics theories. For corporations to cope with these perceptions, they must adopt governance practices which institutionalize ethical frameworks in order to directly address needs as they arise and as they are perceived by the affected individuals who may have the capacity to violently undermine corporate activities to the detriment of both the corporation and society.

B. Identity Conflict

As we have already noted, most violence today occurs not across borders but within borders and, in particular, among groups where identity is a critical issue. What makes identity-related conflicts especially difficult to deal with is dehumanization of those outside of one's in-group conjoined with "deeply internalized images of a moral self and diabolic enemy."¹⁵³ As this language suggests, identity-related conflicts often carry a religious element. In addition, these conflicts may also arise as groups clash over scarcity of environmental resources.

Religious and ethnic clashes are rarely as much about battles over the efficacy of sacramental creeds as they are the selection of certain aspects of religious tradition that can be used in defense of the threatened existence and/or way of life of a particular community.¹⁵⁴ In addition to the potential benefits that may accrue from dialogue among religions to foster atmospheres of peace and understanding,¹⁵⁵ an important aspect of resolving conflict exists in understanding how competition for resources can exacerbate existing rivalries. Once raised to the rhetoric of "diabolic enemy" and "evil," conflicts are far more difficult to resolve. An example can be found in environmental issues.

Thomas Homer-Dixon identifies five types of conflict that may arise in connection with environmental issues and concludes that ethnic and civil strife are the most likely forms. The first of these conflicts are those that arise directly out of local environmental degradation, such as from factory emissions, logging, or dam construction.¹⁵⁶ The second are ethnic clashes that result from migration and "deepened social cleavages" arising from environmental scarcity.¹⁵⁷ The third is civil strife when environmental scarcity affects economic productivity.¹⁵⁸ The fourth relates to battles

over particular environmental resources, such as water.¹⁵⁹ Finally, the fifth relates to conflicts between the developed and emerging worlds over addressing global environmental problems such as global warming or ozone depletion.¹⁶⁰ The reason that ethnic clashes and civil strife are the most likely is because "experts suggested that environmental pressures could "ratchet up" the level of stress, within national and international society, increasing the likelihood of many different kinds of conflict and impeding cooperative solutions."¹⁶¹ Although Homer-Dixon is dismissive of some of the early research making this claim,¹⁶² he agrees that scarcities of resources such as cropland, fresh water, and forests contribute to violence, especially in emerging economies, because those nations are highly dependent upon natural resources and less able to buffer themselves from social crisis.¹⁶³ The reason for this violence, according to Homer-Dixon, is not simply contests over valuable resources. Instead, he claims that "scarcity by itself is neither a necessary nor sufficient cause [of violent conflict] . . . it is hard to identify any cause of violence that is, by itself, either necessary or sufficient; the causes of specific instances of violence are always interacting sets of factors, and the particular combination of factors can vary greatly from case to case."¹⁶⁴

Homer-Dixon's claim shifts the rationale for violence from that of contests over resources to structural distributions of power and resources, distributions which connect with rivalries and perceptions of injustice. He argues, for instance, that recent violence in Chiapas, South Africa, Pakistan, the Phillipines, and Haiti are connected to environmental scarcity.¹⁶⁵ But scarcity does not simply result from environmental devastation. Instead, "scarcity is often caused by a severe imbalance in the distribution of wealth and power that results in some groups in a society getting disproportionately large slices of the resource pie."¹⁶⁶ In these instances, powerful groups controlling a political structure use their power to redirect laws in their favor.¹⁶⁷ This kind of scarcity, which he calls structural scarcity can be contrasted with ecological marginalization in which an "imbalance of resource distribution joins with rapid population growth to drive resource-poor people into ecologically marginal areas, such as upland hillsides, areas at risk of desertification, and tropical rain forests."¹⁶⁸ Even so, just as famines do not occur in functioning democracies because those affected have a voice and a power to demand political redress¹⁶⁹ so also environmental scarcity is itself an "indirect cause of violence, and this violence is mainly internal to countries."¹⁷⁰

Homer-Dixon argues that there are ways to address these kinds of resource competitions. He argues that to avoid "Malthus-predicted catastrophes" one must address "ingenuity, market pricing, and quality of institutions."¹⁷¹ Technical ingenuity addresses resource extraction in the physical world, but depends on the infrastructure, such as education, that produces the scientists and engineers who can address these physical problems.¹⁷² Thus, social ingenuity -- the creation, reformation, and maintenance of public and semipublic goods, such as markets, funding agencies, educational and research organizations, and effective government "is thus a precursor to technical ingenuity."¹⁷³ These social institutions are issues related to governance and the importance of governance to sustainable peace is the next subject.

C. The Importance of Governance

In the global economy, no one is really in charge. With free markets, powerful and inexpensive communication, and no world government, people, capital, and ideas can

all float across borders. It is tempting to think that, in this environment, government and governance matter less. In fact, the opposite is true. As Friedman puts it:

In the era of globalization it is the *quality* of the state that matters. You need a smaller state, because you want the free market to allocate capital, not the slow bloated government, but you need a better state, a smarter state and a faster state, with bureaucrats that can regulate a free market, without either choking it or letting it get out of control.¹⁷⁴

Governments of nation-states which are able to provide this kind of balanced, regulatory environment generally provide transparency so that decisions can be made by those with capital, labor, and ideas to know where they want to invest their talents.¹⁷⁵ This has been the story of the successful emerging economies, such as Poland, which have not simply opened their doors to free markets, but have also undergirded free markets with legal structures that protect capital and contracts.¹⁷⁶

Not only do nation-states require good governance practices that blend transparency with institutions that protect property and contract, but as Connie Peck argues many levels of governance structures are necessary to support sustainable peace.¹⁷⁷ It is not just any kind of governance that contributes to sustainable peace, but what Peck calls "good governance" whose linchpin is a participatory structure.¹⁷⁸ Such a structure has benefits of fairness that reduces the likelihood of grievances growing into major flashpoints of conflict.¹⁷⁹ What reduces that likelihood is the capability of people "to determine their own priorities; safeguard and promote their civil, political, economic, social, and cultural rights; and provide a pluralist environment, within which they can live with one another in peace, with the freedom to develop in all ways."¹⁸⁰ This premise that democratic systems contribute to sustainable peace is not promoted simply because it is the dominant governance system of the West, which if adopted, would bring an end to ideological battle,¹⁸¹ but rather because inherent within democratic processes are inevitable checks which limit the ability for a fundamentalist obsession with the one or two points of ideological differences that cannot be comprised and, as a result, lead to war.

As R. J. Rummel writes, "democratically free people are spontaneous, diverse, and pluralistic."¹⁸² Because they are truly pluralistic, people will belong to different interest groups, which will pull them in different directions.¹⁸³ This creates "cross-pressure" so that "the very strong interests that drive people in one direction to the exclusion of all others, even at the risk of violence, do not develop easily. And if such interests do develop, they are usually shared by relatively few persons. That is the normal working of a democratically free society in all its diversity is to restrain the growth across the community of that consuming singleness of view and purpose that leads, if not frustrated, to wide-scale social and political violence."¹⁸⁴ On the other hand, a totalitarian structure is not spontaneous but commanded.¹⁸⁵ This creates, in Rummel's words a "management-worker, command-obey division" with the kind of bureaucratic organizational system that incorporates "coercive planning, plethora of rules, lines of authority from top to bottom" that ultimately polarizes major interests.¹⁸⁶ In short, a command-control, hierarchical oriented society fosters the milieu for polarized interests, which are more difficult to be compromised, a finding validated by anthropologists, who have concluded that "strong respect for authority and the tendency to obey authorities is another predisposing characteristic for group violence. Given this characteristic, in the

face of difficult life conditions or external threat members of the group will be more dependent on guidance by authorities.”¹⁸⁷

A key preventative mechanism for developing the hostility that leads to violence then is the prevalence of at least participatory institutions so that individuals, have the legal infrastructure that permits them to develop their capabilities as they see fit. Certainly, this is the case on the national level. Peck argues, however, that "good governance must be instituted at all levels of society – local, national, regional, and international.”¹⁸⁸ Does this need for participatory structures also apply to corporations? In one sense it does. Friedman, for instance argues that in order to obtain better governance even without a global government to fix issues such as the environment, human rights, and worker conditions, it is necessary for activists "to compel companies to behave better by mobilizing global consumers through the Internet.”¹⁸⁹ This “network solution for human rights” depends on "bottom-up regulation" that empowers the bottom, "instead of waiting for the top, by shaping a coalition that produces better governance without global government.”¹⁹⁰

D. The Importance of Corporate Governance

There is a tendency in contemporary business strategy that, as long as one operates within the bounds of the law, one is free to engage in any business practice that does not harm the self-interest of the company.¹⁹¹ Implicit in this understanding is the notion that other societal institutions are in place to protect interests that require protecting so that it is not the responsibility of a corporation to be concerned with these issues.¹⁹² In addition, the argument goes, if stakeholders wish corporations to behave otherwise, the market will send the appropriate signals so that corporations change their behavior.¹⁹³ Even prominent business ethicist/corporate governance scholar, Thomas Dunfee, has expressed sympathy for this viewpoint in arguing that embedded within markets are moral preferences which, provided they are expressed, provide incentives for corporations to take into account the impact of actions on corporate stakeholders.¹⁹⁴

This approach might be denoted a balance of power approach. There is an inherent balancing mechanism in this approach that prevents corporations from unduly exerting their influence to the detriment of others who participate in that market. Corporations are thus able to pursue their self-interest attentive only to the market,¹⁹⁵ which will send them the appropriate information regarding whether consumers value the corporation's actions.¹⁹⁶

Corporations undertake, what business ethicist William Frederick calls, an economizing function.¹⁹⁷ By this, Frederick means that in all aspects of life, to combat entropy, it is necessary to convert resources into useful materials and energy.¹⁹⁸ When corporations do this well, they are rewarded with profitability.¹⁹⁹ Corporations cross borders and establish relationships that might not otherwise exist and in doing so, they provide the opportunity and frequently raise standards of living for the societies in which they are located.²⁰⁰ Yet, there are at least three reasons why one might be skeptical of the sufficiency of the balance of power analogy.

First, while markets provide information regarding the views of various economic actors, it is unclear whether markets convey adequate breadth of information. Material goods and services are easily quantifiable whereas less tangible notions are less susceptible to arithmetic quantification. How does one quantify the value of a just peace? This, in fact, is one response provided by religious leaders, for instance, in critiquing

balance of power conceptions of national security. The National Conference of Catholic Bishops, for instance, have argued that peace is not the result of the balance of power.²⁰¹ In their approach, peace contains an ineliminable aspect of justice that is different from the equilibrium produce by a set of competing interests.²⁰²

Second, the work of a balance-of-power scholar, Henry Kissinger, reveals an even more pragmatic rationale for the dangers inherent in such an approach. Kissinger describes the balance of power that the Concert of Europe, which successfully maintained almost uninterrupted peace from 1848 until 1914, as one based not only on an equilibrium of national power within Europe, but also based on a "moral element of moderation," particularly linking three Eastern powers of Prussia, Austria, and Russia.²⁰³ This moderation muted the contests for geopolitical and ethnic dominance for many decades so much that Austria muted its claims to its next-door Balkan nations while Russia soft-pedaled its identification with the same countries who shared ethnic identity.²⁰⁴ Eventually, however, the moderation between these countries was jettisoned in exchange for a rawer form of pursuit of power for national self-interest.²⁰⁵ The resulting *realpolitik* eventually produced an insecurity and desperation for power that resulted in the kind of polarization of interests and alliances that led to World War I.²⁰⁶

The import of this analogy is that reliance upon a balance of power, shorn of moral moderation, risks polarization of interests that ultimately fails to value all of the interests in the market itself. In a sense, this kind of competition for market supremacy is akin to fundamentalist notions in which one criterion for success such as profitability or market-share is singled out to the exclusion of other interests. A company, for instance, insistent upon profitability may be willing to substantially contribute to the corruption of a given country in order to obtain market share and profitability. Yet, for a corporation to do this, it engages in the social milieu that is correlated with violent resolution of conflicts.

A third reason for being skeptical about the persuasiveness about a marketplace, balance of power model for corporate behavior is simply that it may well be unsustainable for business purposes. If corporations contribute to corruption of a given country in order to produce short-term profitability, it may well also sew the seeds for opposition to that company's actions within that country.²⁰⁷ In other words, if the market is an attempt to produce utilitarian benefit -- that is, the greatest happiness for the greatest number of people -- then E.F. Schumacher's warning is telling. Schumacher, in something of a cult classic, argues that a person "driven by greed of envy loses the power of seeing things as they really are, of seeing things in their roundness and wholeness, and his very successes become failures."²⁰⁸ The foundations of peace, Schumacher argues, cannot be attained by cultivating drives such as greed and envy, because those drives "destroy intelligence, happiness, serenity, and therefore the peacefulness of man."²⁰⁹ Although the rhetoric and political philosophy is diametrically opposed, even free market theorist F.A. Hayek would seem to agree, because he too argues that virtues must be taught by religious and other institutions in order for individuals to value moral notions such as truth-telling, honesty, and promise-keeping that sustain the market itself.²¹⁰

E. Why Corporations Should Incorporate Peace as a Telos

A starting point for why corporations should consider incorporating peace as a governing teleological goal lies, surprising, in the realist and neorealist notion of foreign relations. As Donald Kagan assesses, realists believe that states and nations seek as much

power as they can whereas neorealists understand the behavior of states in terms of security.²¹¹ The notion of security connects with governance, in that "the evidence suggests that the most secure are those that provide the greatest human security to their populations. Weak states are those that either do not, or cannot, provide human security."²¹² Moreover, this very weakness may lead political elites into a vicious cycle that further weakens their security and that of their people. Securing the interests of the people requires responding to human needs, and thus

involves the institutionalization of participatory processes in order to provide civil and political rights to all peoples. It requires adequate legal enforcement and judicial protection to ensure that all citizens are treated equally and fairly and that their human rights are safeguarded. It involves equitable economic development and opportunities so that economic and social rights can be provided. Finally, it entails the development of pluralistic norms and practices that respect the unique cultures and identities of all. Sustainable peace also requires education of dominant groups to convince them that their own long-term security interests lie in the development of a just society.²¹³

In this light, there may be a self-interest for corporations to undertake action that might alleviate the pressures that cause conflict if for no other reason than to limit the likelihood of the "angry empowered person" of which Friedman writes.²¹⁴ More generally, we suspect that if the correlations and arguments we have found supporting these correlations are true and understood, there may be a genuine interest among corporate leaders to aspire to orient policies in order to mitigate the likelihood of bloodshed.

We do not advocate an international law that requires corporations to alter their governance practices. As Myles McDougal writes, "in pluralistic and rapidly changing communities, rules are always complementary ambiguous, and incomplete The conception of "international law" as a body of rules regulating the interrelations of nation-states is doubly-myopic."²¹⁵ Beyond the infirmities of its over-estimating of the potentialities of rules, it has infirmities in the scope of the activities it seeks to make subject to law."²¹⁶ Rather than taking a deontological approach that mandates duties for corporations, we want to suggest a reflexive model that allows corporate boards to add an additional criterion to that of increasing shareholder value: that of aiming toward sustainable peace. There are five reasons for this approach.

First, clear aims are important for establishing ethical governance mechanisms designed to foster peace. Two business ethicists with training in psychology demonstrate the importance of this. David Messick notes that psychological studies demonstrate the unsurprising finding that human beings tend to value their own self-interest over that of others.²¹⁷ Because of this tendency, Messick argues that clearly identified ethical principles provide a check against individuals simply acting in their self-interest.²¹⁸ Ethical principles create a distance that makes individuals think about additional consequences to their actions beyond what an individual who wants to undertake a particular act might recognize.²¹⁹

The same holds true in corporations. If the only criterion for success is increasing shareholder value, then it is more difficult for other considerations, which may have an impact on profitability in the long-term, to enter into a decision-maker's calculus.²²⁰ One

commentator has argued that the corporate constituency statutes, which have been passed in twenty-eight states in the U.S. and which generally allow managers to take into account the impact of actions on nonshareholder constituents are superfluous because a well-run company must always take such stakeholders into account.²²¹ The difficulty, however, is that not all companies are well-run; they may not take nonshareholder constituencies into account.²²² What a clearly identified responsibility to stakeholders does is to make it more likely that such interests will be considered.

Indeed, a clearly identified goal has also been called an “aim” by another business ethicist, Joshua Margolis.²²³ Margolis argues that psychological study shows that a clearly defined “aim” acts to discipline the mind so as to hold it accountable.²²⁴ This Aristotelian notion suggests that corporations must do more than be aware of the possibility that their actions could contribute to a social milieu that fosters violence and, to the extent that they wish to avoid contributing to bloodshed, establish a goal, an aim, or a telos that commits the corporation to practices that lead to the achievement of that goal. In doing so, corporations may be aspiring for more than one goal. To some, this is dangerous because it requires the corporation to serve “too many masters.”²²⁵ Yet, well-run corporations already serve masters of shareholders, public opinion, bondholders and other stakeholders: “serving multiple masters is part of the job.”²²⁶ More concretely, even shareholder value proponents Daniel Fischel and Frank Easterbrook note that the New York Times is free to pursue goals of profitability as well as journalistic excellence.²²⁷ Thus, in addition to the probability that adding peace as an ethical, governing aim will be in the long-term interest of the corporation, it is also something that is within the capabilities of the corporation.

Second, this raises the question of the role of law. As we have indicated, we do not advocate an international law requiring corporations to adopt this kind of telos. We suggest that there be an opportunity for corporations to include peace as a goal and, perhaps, even to encourage that corporations do so through various domestic and international incentives. Domestically, this could be in the form of tax incentives and internationally, it could be in the form of trade benefits. The difficulty with a law that mandates specific rules, however, is the diversity of communities. Even natural law, which “did achieve conceptions of a larger community of humankind and of a common human nature and, hence, ma[d]e immense contribution to the development of transcommunity perceptions of law” also tends to attempt to apply ethnocentric interpretations of the natural law as a universal principle when there can be a diversity of belief concerning the evidence supporting the prescription.²²⁸ It is important to identify overarching aspects of human nature and human events, but it is also important to do so in a way that does not disempower individuals in particular communities. The characteristics of good governance that we have already identified stress the importance of individuals within a community to voice their concerns. Thus, the level of overarching governance structure is one which allows for that kind of contribution from those affected by a corporate action rather than a model that is not open to the fluidity of those voices.

There is a question, in fact, as to just how much law individuals really need. Ghandi, a British-trained lawyer for instance, thought that ninety percent of our people did not need to be governed.²²⁹ The only people who required governance were the top five percent, comprised of the avaricious, the hoarders, and the black marketers, and the bottom five percent, comprised of common thieves, the murderers, and the gangsters.²³⁰

Rather than attempt to provide specific rules for all individuals, a corporate governance regime could, however, provide a forum by which individuals can have a voice in their own affairs while coercively protecting against the mere few who may cause problems.

The third reason why it is important for corporations to consider pursuing peace as part of their business identity relates to the power of corporations generally. We do not wish to confuse economics and politics. Nevertheless, it is hard to dispute that multinational corporations are powerful. A central premise of democratic institutions is that power requires checking; otherwise that power can do evil as well as good.²³¹ In an advanced nation-state, an effective government may check corporate power,²³² but when a large multinational corporation does business in an emerging market, the relative power of the corporation vis-à-vis the government suggests that governmental regulation of business may be insufficient to prevent corporate misconduct.²³³

Thus, we believe it is important for individuals to have the opportunity to voice concerns regarding issues that affect them. It is this voice that is important more so than the particular organization to which the voice is directed. The relative power of corporations requires checks and if those checks cannot be achieved through external regulation, then there is a reason to modify corporate governance regimes so as to provide internal checks.

Fourth, peace literature and psychological research emphasize the importance of doing. In corporations, people work side-by-side with others with whom they may not otherwise have an association. Sociologist Ronald Takaki, for instance, argues it is at work that Americans encounter diversity they may not find in neighborhoods, churches, families, and voluntary associations.²³⁴ If countries are more prone to ethnic violence and civil strife than they are to cross-border warfare, then a business can serve as a place where individuals can make connections with those of other identities that they might not otherwise have made. This can have an important psychological and consequential effect.²³⁵

Business organizations provide a place where individuals can develop face-to-face relationships with others. They can form a sense of community with those that they previously did not know. This kind of learning-by-doing has roots in other kinds of peace-related projects. For instance, the “Seeds of Peace” program annually brings approximately four hundred Arab and Israeli teenagers to Maine.²³⁶ One of the first steps is simply to give the enemy a face.²³⁷ Doing so, by creating personal relationships, breaks through stereotypes,²³⁸ and doing so creates a sense of community with individuals who have a stake in the preservation of that community.²³⁹ Further, giving youngsters a voice, that is the opportunity to speak, empowers them.²⁴⁰

The fifth reason that corporations should include peace as a corporate goal is that it creates a sense of community. Aristotle long ago emphasized the connection between individual virtue and the role of the community in forming the moral character of someone who possessed excellent virtue.²⁴¹ A community is held together by a common goal or set of goals.²⁴² If people learn by doing, as we have just described, then the doing that occurs within an organization will impact how people behave generally. If a corporate community is held together by a pursuit of profit that rationalizes corruption and abuse, that culture is bound to have deleterious effects on individual behavior. The nature of the corporate community is, in fact, the critical link between ethics and governance because it is in the governance of a community that certain kinds of

behaviors are produced, whether for the good or not. Thus, it is important to specify more clearly the attributes a corporation would possess if it is to link governance, ethics, and sustainable peace.

III. CONCLUSION

Anthropologists have studied the attributes of peaceful societies and these studies provide an understanding of what a corporate community that fosters peace may look like. Leslie Sponsel, for instance, in studying ethnographies of the Semai, Chewong, Buid, and Piaroa peoples concludes that there is a positive correlation between gender equality and nonviolence/peace.²⁴³ Sponsel also notes the work of David Fabbro, who has provided a more comprehensive list of those attributes that are absent and those that are present in peaceful communities.

Peaceful communities, says Fabbro, do not have intergroup violence or feuding, internal or external warfare, a threat from an external enemy group or nation, social stratification, a full-time political leader or centralized authority, or police or military organizations.²⁴⁴ Peaceful societies, he argues, tend to be small and open communities with face-to-face, interpersonal interactions, possess an egalitarian social structure, maintain a generalized notion of reciprocity, reach decision making through group consensus, and encourage nonviolent values throughout the community.²⁴⁵ This list would seem to argue against a hierarchical community structure and, given the size and bureaucracy of multinational corporations,²⁴⁶ the likelihood of the other attributes related to interpersonal interaction and equality seem remote. Indeed, Nicholas Carr notes that globalization works directly against these tendencies even though it pays lip service to a diluted dimension of cooperation in terms of teams.²⁴⁷

It is important to note, of course, that the anthropological studies of nonviolent societies are not done within the context of multinational business organizations. One of the salient characteristics of these groups, in fact, runs entirely counter to the thrust of globalization in that these groups are often remotely located so that external threats are rare.²⁴⁸ In contrast, globalization connects people so that they cannot be remotely aloof from the rest of the world.

The anthropologists are onto a conception of mediating institutions. Mediating institutions are relatively small organizations where moral identity and behavior is formed.²⁴⁹ The sizes of organizations are critical because “people can be themselves only in small comprehensible groups.”²⁵⁰ Large business organizations, like any large organization,²⁵¹ may contain economic efficiencies, but “most of the sociologists and psychologists insistently warn us of . . . dangers to the integrity of the individual when he feels as nothing more than a small cog in a vast machine and when the human relationships of his daily working life become increasingly dehumanized.”²⁵²

A central difficulty of modernity is its emphasis on large organizations. As Michael Nagler writes that the shift from *oikos* networks to that of *poleis* in ancient times and further codified by the nation-state system “led in similar ways to less peace in their respective systems . . . because they swept aside valuable modes of association that had evolved in their respective cultures while creating a framework for even larger polarizations.”²⁵³ Yet, small-scale organizations do not necessarily have the perspective by which they can adopt policies for a common good, such as the environment. Homer-Dixon, for instance, argues that small groups in developing countries may already have wealth, power and status because of their extant social position.²⁵⁴ As such, they

frequently have narrow interests that can impede efforts to establish social institutions, laws, and other broader interests of society.²⁵⁵ In critiquing Robert Putnam, whose civic association reliance would challenge the above argument, Homer-Dixon writes that “social segmentation can tear apart the civic networks essential to building and maintaining social trust and good will; in turn, loss of trust and good will removes a critical restraint on the severity and harmfulness of the social competition that arises from greater environmental scarcity.”²⁵⁶

The central task of a governance system that fosters peace then is one that both allows for the development of community, which empowers individuals by providing them with a voice in the institutions that govern them together with transparency so that actions of any one group or multiples of groups can be evaluated and called to account.²⁵⁷ We therefore propose a corporate governance system that incorporates the attributes of peaceful societies as the criteria by which good governance can be evaluated and which blends existing models of successful corporate governance regimes into a workable model that can achieve both economic progress and social harmony.²⁵⁸

FOOTNOTES

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¹ Laurie Goodstein, *Hindus and Vegetarians in Court As McDonald's Puts Beef in Fries*, N.Y. TIMES, May 20, 2001, at A1.

² Paula Lyon Andrews, *Slow Boat to China*, MARKETING NEWS, Sept. 10, 2001, at 1.

³ Trish Saywell, *Powering Asia's Growth*, FAR E. ECON. REV., Aug. 2, 2001, at 40.

⁴ See generally, Transparency International, at <http://www.transparency.de> (last visited Nov. 20, 2001).

⁵ Peter Eigen, *The Transparency International Bribe Payers Survey*, at www.transparency.de/documents/cpi/1999/bps.html (last visited Nov. 20, 2001).

⁶ *Id.*

⁷ *Id.* TI notes that there are countries that would likely rank even lower than those indicated in its 2000 Corruption Perceptions Index but insufficient polling data in many countries makes it difficult to assess.

⁸ TI, *The 2000 Corruption Perceptions Index*, at <http://www.transparency.de/documents/cpi/2000/cpi2000.html>.

⁹ Heidelberg Institute for International Conflict Research, at www.conflict.com/hiik/manual_en.html (last visited Nov. 20, 2001).

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¹¹ *Id.*

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¹⁴ Michael Cranna, *Introduction in THE TRUE COST OF CONFLICT: SEVEN RECENT WARS AND THEIR EFFECTS ON SOCIETY* at xv, xvii (Michael Cranna ed., 1994).

¹⁵ CONNIE PECK, *SUSTAINABLE PEACE: THE ROLE OF THE UN AND REGIONAL ORGANIZATIONS IN PREVENTING CONFLICT* 17 (1998).

¹⁶ *100 Largest Economic Table*, FORTUNE, Aug. 5, 1996, at F-1, 5-2.

¹⁷ *Id.*

¹⁸ See Cranna, *supra* note 14, at 197.

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- ²⁴ *Id.*
- ²⁵ *Id.*
- ²⁶ *Id.* at 70, 74.
- ²⁷ Angela Burke & Gordon MacDonald, in *The Former Yugoslavia Conflict*, in THE TRUE COST OF CONFLICT, *supra* note 14.
- ²⁸ Nichale Shalita, *The Sudan Conflict*, in THE TRUE COST OF CONFLICT, *supra* note 14.
- ²⁹ Donald Shave, *The Peru Conflict*, in THE TRUE COST OF CONFLICT, *supra* note 14.
- ³⁰ Shaun Vincent, *The Mozambique Conflict*, in THE TRUE COST OF CONFLICT, *supra* note 14.
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- ³³ MICHAEL I. HANDEL, MASTERS OF WAR 24 (3rd ed. 2001).
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- ³⁷ *Id.* at 38-47.
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- ⁴⁰ *Id.*
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- ⁴⁵ *Id.* at 3.
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- ⁴⁸ HERNANDO DESOTO, THE MYSTERY OF CAPITAL: WHY CAPITALISM WORKS IN THE WEST AND FAILS EVERYWHERE ELSE (2000).
- ⁴⁹ *Id.* at 6.
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- ⁵² *Id.* at 33.
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- ⁵⁴ *Id.* at 35.
- ⁵⁵ *Id.* at 189.
- ⁵⁶ *Id.* at 213.
- ⁵⁷ *Id.* at 51.
- ⁵⁸ *Id.* at 71.
- ⁵⁹ *Id.* at 102.
- ⁶⁰ *Id.* at 106.
- ⁶¹ *Id.* at 108.
- ⁶² *Id.* at 172.
- ⁶³ *Id.* at 168.
- ⁶⁴ SEN, *supra* note 42, at 14.
- ⁶⁵ SEN, *supra* note 42, at 118 (stating that “the presumption of ubiquitous selfishness is hard to defend empirically”)
- ⁶⁶ *Id.* at 16.
- ⁶⁷ DESOTO, *supra* note 48, at 178.
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- ¹⁷⁰ HOMER-DIXON, *supra* note 156, at 18-19.
- ¹⁷¹ *Id.* at 28-31.
- ¹⁷² *Id.* at 110.
- ¹⁷³ *Id.*
- ¹⁷⁴ FRIEDMAN, *supra* note 39, at 158.
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- ¹⁸⁰ *Id.*
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- ²¹¹ KAGAN, *supra* note 72 at 6-7.
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- ²¹⁴ FRIEDMAN, *supra* note 39.
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- ²²⁶ *Id.*
- ²²⁷ FISCHEL & EASTERBROOK, *supra* note 157, at 36.
- ²²⁸ McDougal, *supra* note 215, at 138-39.
- ²²⁹ VED MEHTA, MAHATMA GANDHI & HIS APOSTLES 214 (1977).
- ²³⁰ *Id.*
- ²³¹ MILTON FRIEDMAN, CAPITALISM AND FREEDOM, *supra* note 195, at 3.

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- ²³² Cf. CASS SUNSTEIN, REPUBLIC.COM (2001) (warning about the influence of corporate power even in places like the United States as demonstrated through debates over campaign finance reform).
- ²³³ See, e.g., Gladwin in ETHICAL ISSUES IN BUSINESS (Thomas Donaldson and Patricia H. Werhane, eds. 7th ed. 2002) (noting the influence of Shell on the government of Nigeria).
- ²³⁴ RONALD TAKAKI, THROUGH A DIFFERENT MIRROR: A HISTORY OF MULTICULTURAL AMERICA 426 (1993).
- ²³⁵ ERVIN STAUB, NATURAL HISTORY OF PEACE 140 (1998).
- ²³⁶ JOHN WALLACH, THE ENEMY HAS A FACE: THE SEEDS OF PEACE EXPERIENCE 3 (2000).
- ²³⁷ *Id.* at 7.
- ²³⁸ *Id.* at 39.
- ²³⁹ *Id.* at 7.
- ²⁴⁰ *Id.* at 52-53.
- ²⁴¹ ARISTOTLE, NICHOMACHEAN ETHICS (Martin Ostwald, trans. 1962); ALASDAIR MACINTYRE, AFTER VIRTUE (1981); ROBERT SOLOMON, ETHICS AND EXCELLENCE: COOPERATION AND INTEGRITY IN BUSINESS (1993).
- ²⁴² AMITAI ETZIONI, THE NEW GOLDEN RULE (1996).
- ²⁴³ Sponsel, *supra* note 102.
- ²⁴⁴ David Fabbro, *Peaceful Societies: An Introduction*, 15 J. PEACE RES. 67 (1978).
- ²⁴⁵ *Id.* at 108.
- ²⁴⁶ See, e.g. ROBERT JACKALL, MORAL MAZES THE WORLD OF CORPORATE MANAGERS (1988).
- ²⁴⁷ FRIEDMAN, *supra* note 39, at 424-25 (citing Carr).
- ²⁴⁸ Sponsel, *supra* note 105.
- ²⁴⁹ See TIMOTHY L. FORT, ETHICS AND GOVERNANCE: BUSINESS AS MEDIATING INSTITUTION (2001).
- ²⁵⁰ SCHUMACHER, *supra* note 208, at 80.
- ²⁵¹ See VACLAV HAVEL for a comparison of the attributes of socialist organizations and large corporations because of the diminution of the importance of the individual in each. Fort & Schipani, *supra* note 191, at 831.
- ²⁵² SCHUMACHER, *supra* note 208, at 257.
- ²⁵³ Michael N. Nagler, *Ideas of World Order and the Map of Peace*, in APPROACHES TO PEACE *supra* note 105, at 378.
- ²⁵⁴ HOMER-DIXON, *supra* note 156, at 118.
- ²⁵⁵ *Id.*
- ²⁵⁶ *Id.* at 122.
- ²⁵⁷ SCHUMACHER, *supra* note 208, at 80.
- ²⁵⁸ Metha, *supra* note 229 at 380-81.