Illusions of Corporate Power: Revisiting the Relative Powers of Corporations and Governments

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ABSTRACT. A common opinion is that power has shifted from states to companies. This article discusses quantitative and qualitative aspects of power possessed by companies and by states. A more adequate comparison than that between company sales and gross national product is the one between company value added and GNP. Also more adequate is the comparison between the public sector and company net profit. These rival measures take down company power to about a tenth of the sales measure. Also in qualitative terms the "exit power" of the company gives a low impact compared to governmental action and the article concludes that company power by common measures is overestimated. However, the aggregated long-term effect of the market economy on the development of society is most significant. But it is a mistake to use that judgment as an argument for the opinion that business executives are the major power holders in modern societies. Perceptions of power also have an impact on which expectations and commitments that can be judged as realistic and therefore the issue of power is central for the normative discussion about corporate social responsibility.

Jan Tullberg is an assistant professor at Stockholm School of Economics. His research is focused on the virtue of practical and rational norms. Conventional ethics is strongly influenced by altruistic ideals in the religious and metaphysical tradition and has serious compatible problems with conventional economics with its focus on self-interest. A better fit seems possible with a less ambitious - and less rhetoric -ethics grounded in sociobiology. Scientific tools, like psychological and economic experiments, might be useful in the evaluation of normative rules. Economic games were used when investigating the effects of normative rules in Tullberg's dissertation "Reciprocity Ethical norms and practical cooperation". This title also adequately describes the current research.

KEY WORDS: power holders, corporatism, economic influence, executive power, responsibility

Introduction

Staggering numbers of multimillion sales are often used in the public debate as illustrations of the big and growing power of the multinational enterprises (MNEs). The dictator of a small country seems to have substantially less power and this impression is then used as a stepping-stone for the further analysis (Boda, 2002). Neocolonialism is not politically correct, but there are hopes and demands for multinationals to influence Third World countries to adjust to widely praised norms such as human rights (Klein, 2000). Also for problems in the developed world, there are hopes that companies will provide solutions that governments have been unwilling or unable to solve. The high estimate of corporate power is the fundamental basis for the expectations, demands, and commitments that are manifested in the debate about corporate social responsibility (CSR).

A statement of the Swedish insurance company Skandia can illustrate the link between corporate responsibility and power: "Since the world's economic development resources are in the hands of the companies, they are recognizing that they must take greater responsibility for global and local development matters". (Skandia Annual Report 2001, p. 48). There is little to say against this reasoning if one assumes that the premise is correct. But the conclusion is very dependent upon the premise. Responsibility is close to the construction "response-ability" when the focus is on the second part;

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the ability to respond or not to respond. Without this ability the attitude to response itself looses its practical relevance. It also opens for philosophical objections like Kant's dictum that an ought implies a can (Kant, 1797). This article discusses the realism of the high estimate of corporate power.

A shift of power?

James Carville, Bill Clinton's election campaign manager in 1992, made a reflection about power: "I used to think, that if there was reincarnation, I wanted to come back as the president, or the pope. But now I want to be the bond market; you can intimidate everybody" (The Economist, 1995, p. 13). This quote illustrates some ideas about power. Power is seen as shifted, but not distinctly from people in some positions to people in other positions, but from fixed places and persons to diffuse institutions and power holders. Is not a reincarnated soul in need of a body of flesh and blood?

Governments in the past had the power of controlling the exchange rate, but then the interest rate adjusted to the market. Or instead governments could fix the interest rate, but then the market would adjust the exchange rates. For some products governments stipulated the price, but then the quantity supplied by the market decreased or increased with the level of the price.

To some people this control of one factor is a sign of the good old times when the government had power. A main reason for liberalization is that many politicians started to downgrade this power over one factor when the outcome was disappointing. Not only center-right but also many center-left governments moved towards deregulation (Soros, 1998). It could be better that both exchange rate and interest rate were adjusted by the market rather than just one of them.

The advance of science has followed the dictum of Bacon, "Nature to be commanded must be obeyed". The old laws of economics claimed that you could borrow money only as long as you had a capacity to pay back. But in the end of the 90s these laws appeared less stern when small IT-companies could sell shares for billions even if they never showed a dollar of profit. If the market can provide money for that, why not for governmental programs even if there is no sign of balance between costs and taxes? Economic restrictions looked less like laws, but more like arbitrary decisions imposed by some financial market yuppies.

This liberation of political will from economic restriction has occurred before. Juan Peron, the leftwing dictator of Argentina, claimed that the restriction on politics that economists insisted on had no real foundation. The government does not need to "tax and spend", but the more popular policy of just spending works even better: "Give to the people, especially the workers, all that is possible. When it seems that already you are giving them too much, give them more. You will see the result. Everyone will try to scare you with the specter of economic collapse. But all that is a lie. There is nothing more elastic than the economy which everyone fears so much because no one understands it" (Fukuyama, 1992, p. 106). In hindsight we can conclude that the Peron economics did not succeed, and Argentina has been a slow learner.

From time to time the idea of economic constraints because nature "must be obeyed" is replaced by the idea that economic power players are inflicting a negative illusion which restricts the positive will of politicians. If the issue becomes a question of sufficient positive will, a possible solution would be that corporate managers switch to a positive attitude. If optimistic leaders are what is needed, business can certainly provide a lot of executives with optimism as well as high spending inclination. But do they have the economic muscles?

Quantitative powers

If comparing company revenues with national GNP, the multinationals look like midsize countries – Exxon has a slightly higher number than Turkey and Ford's is higher than Poland's. Zolt Boda (2002, p. 239) summarizes the overall picture by observing that of the 100 largest entities, measured this way, more than fifty are companies. Some company executives make presentations that emphasize company strength even more. Sir John Browne, CEO of BP Amoco, makes a comparison supporting perceptions of company dominance: ''… when the 10 largest companies in the world including BP Amoco, each have an annual turnover in excess of the gross national product of more than 150 of the 185 members of the United Nations that perception is inevitable and understandable'' (Browne, 1999).

My point is not that another impression will be created if calculating, for example, how many of the largest companies that will be needed to receive aggregated revenue equal to the GNP of one of the 10 largest nations. The issue at task is to ask if the comparison of company revenue and GNP has relevance. Let me start with two entities of the same size according to this measurement. In 2002 the GNP of Sweden was $240 billion (Statistics Sweden) and Shell's revenue was $236 billion (Shell, Annual Report). Shell's revenue is 98% of the Swedish GNP.

A multinational oil company can serve as an instructive example of how revenue is overrating company size. Often the situation of oil exploration has a design as follows. Out of a crude price of $25 a barrel, costs are $4 and the $21 profit is split between the state, which receives $20, and the company, $1. The revenue of a crude selling company is to a large extent the company collecting money for the benefit of the state. When selling in the industrialized countries there is a similar situation. Both the gross and net margin for the company are rather modest and a fraction of the taxes that the producer and the consumer countries add to the price. If one adheres to the common advise of detective stories ''follow the money'', it seems that a minor part goes to the companies. The political rational for attributing high prices on companies is easy to understand. But it is important to make efforts getting magnitudes straight instead of strengthening this misconception of all the money pouring into company pockets.

To claim that the company, being the last link in a value chain, is holding all the power is an unjustified simplification. This is especially evident for oil companies but applies also for other companies. When just regarding sales one ignores the level of integration of the whole production process and the impact of downsizing. It is more appropriate to see the value added by the company as its economic performance and also as the indication of its power. Value added is often labeled gross margin, margin, or gross profit in annual reports. The gross profit of Shell for 2002 was $28.2 billion (Shell Annual Report). That number corresponds to 12% of the Swedish GNP.

A third possibility would be to compare the amount available for social spending. For the company the net profit will be the amount of money that could be used for something benevolent and for a country it would be the amount that taxpayers have paid to the state. Both states and companies have competing obligations for these amounts, but in a broad sense this is what is available for spending. The net profit of Shell, $9.4 billion, can be compared to the total taxes of Sweden amounting to $124 billion. This third measure quantifies Shell's resources to 8% of the Swedish.

A fourth measure is to compare the workforces. Worldwide Shell has 111 thousand employees which amounts to 2.6% of the 4.250 thousand employed in Sweden. Thus, in general comparison of workforce gives lower proportions of MNEs than the three previous measures. However such a comparison, also with a developed country like Sweden, underestimates the economic significance of MNEs. But measurement by sales overrates them grossly, so I would not recommend using that one either. In my judgment, value added would be the most appropriate number for comparison.

In addition to the comparison of company net profit with taxes/public spending it can also be useful to look into the development over time of public spending. A reason for that is that one part of the discussion about increasing company power is the claim that the public sector is shrinking and power and resources are transferred from the public to the private sector (e.g. Korten, 1996; Saul, 1998). A quantitative way of measuring the economic activity of governments would be to follow its share of the GNP, and when so doing there is no sign of a change from the public to the private sector, but a continuous development in the opposite direction. On average, the government spending in the most important industrial countries has changed from 8.3% of GNP in 1870, to 20.7% in 1937, to 27.9% in 1960 and to 42.6% in 1980. During the rightwing 1980s and the globalization of the 1990s the trend has not been reversed. The public share was 44.8% in 1990 and 45.9% in 1996 (The Economist 1997, p. 11, IMF-statistics).

Company Philanthropy could also be mentioned as a specific component. Carroll and Buchholtz (2003) attribute significant expectations on companies for philanthropy, classing such activities as a forth component of company responsibility after economic, legal and ethical responsibilities. The PerCent Club in Britain is promoting donations of 0.5% of pretax profits (Moore, 2003). In the USA the social screening company KLD gives good behavior points to companies giving 1.5% of pretax profits to charity (Waddock, 2002, p. 207). Some people think these are nice gestures. One might have different normative opinions about these actions and ambitions, but descriptively it ought to be evident that this is a most marginal activity in the economy of society.

Financial transaction numbers are a lot more impressive, even more so than the sales of the multinational enterprises. One day's trade of currency often exceeds one trillion dollars (Giscard d'Estaing, 2002). That amount surpasses the combined reserves of the world's central banks. One estimate is that global financial transactions are 360 times larger than commercial transactions (Ugarteche, 2000, p. 159). That implies that money-trading volume dwarfs the GNP of USA, but such a relation would not only support economic megalomania, but illustrates the limitations of these kinds of comparisons.

Disraeli is often attributed the saying that there are three kinds of lies: "lies, damned lies and statistics". The reckless ways of measuring company power can be seen as an illustration. A more sober comparison would bring Shell down from 98% of Sweden to a more modest 12%.

Using economic power

A difference of kind rather than size is that the states have a more ultimate power over a territory with the control of force, while companies are always subordinated to that power. One potential source of power is "voice" (Hirschman, 1970) which might have some effects in a democracy, whereas one of the privileges of a dictator is that he does not need to listen. The diplomatic talent of company executives will probably not be decisive in major questions.

Then we come to the force of "exit" (Hirschman, 1970). For some people an analogy that might come to mind is a bank threatening to cancel the loans of a private person. But when looking at the walk-away power of a MNE there is a need for some revision about who is getting hurt. An exit from trade or production will hurt the regime but new partners will limit the impact. As a primitive adjustment a withdrawal of a $100 million in trade/production might inflict a loss of say $10 million on the punished government. A company is never the only choice so an abandoned government will find another trading partner, foreign or national, but that partner will probably demand some more favorable terms or will be less apt in some other respect.

It is reasonable to expect a larger impact from a politically coordinated boycott. Here alternative companies will be harder to find, so maybe a $100 million cut inflicts a $50 million loss. A third kind of economic sanction is likely to have even more impact, such as a cut of foreign aid of $100 million would imply a loss of $100 million. During the cold war, the other superpower or some of its allies were likely to show up as a new patron, but now a country deprived of aid because of human rights violations would have problems finding a replacing donor.

However, threats by donors are seldom carried out despite their ability to hurt the most. A major reason for this and the limited success of economic sanctions is that others than the ruling group carry the most devastating burden of the inflicted punishment. Redistribution of resources in dictatorships limits the impact upon the ruling group and the people most hardly hit are generally the ordinary or the very poor citizens that the action is supposed to help. The international political community has not been very effective in economic boycotts and the Saddams and the Castros prevail for long times.

Are then companies able to be effective guardians of human rights? With less efficient means, companies have limited possibilities of arm twisting and in any conflict the suffering of the third party, the population, is a countervailing factor to consider. If this third party does not get hurt, it is an indication that the company's act was symbolic. Little harm has been inflicted but unfortunately the pressure on the government has probably been quite insignificant. If more pressure is applied by the company this is likely to inflict damage on the third party. Normatively, it is disputable if companies – instead of a democratic political body – should make such calculations of direct negative effects versus possible political gains. Resentment in the Third World for ''western imperialism'' is likely to remain and the perceived unity in ideas as democracy and human rights is superficial (Huntington, 2002). It is hardly realistic to expect such resentment to be weaker if this western imperialism is managed by companies instead of nations.

In addition to normative doubts about company activism there are also efficiency considerations. Presently the regime in Myanmar is a major target for company action (Klein, 2000). The isolation of the regime and the limited economic importance of the country have caused many companies to abort their business rather than fight the NGOs insisting on their withdrawal. The boycott itself has so far been less successful than the recruitment to the boycott.

A company's decision about where to trade and invest can influence its image and brand. But that is a separate question of a lesser magnitude and more of a policy to keep away from bad companions and avoid guilt by association. It is often claimed that a company's presence helps the government more than the people, but that seems debatable. Trade and production are hardly the most suspected kinds of interaction with a dictatorship, but loans are. In addition to being supportive to the present government, the loans will be an additional burden for a future, hopefully more democratic and enlightened, government that could spend money more wisely.

Governments, not companies, have both the sharpest tools and perform the ethically most dubious interaction with dictatorships – giving them credits bilaterally or multilaterally. There are difficulties with using economic strength against economically weak regimes. It seems likely that a boycott by companies motivated by human rights concerns would be much harder to sustain than an embargo by UN. Even if succeeding to accomplish such actions, and given a significant impact, there is no guarantee that the dictator will give in rather than letting his people suffer. The embargo against the Saddam regime in Iraq cost many lives. The problems are even greater for companies because these lack both the power and the authority for such missions.

Irresponsible politicians?

The previous two parts have discussed quantative aspects and the potential impacts of company and state power. A further aspect discussed in this section is the difference in personal power position between politicians and corporate executives. Do these two kinds of leaders differ in the use of the power potential of their organizations? Are there restrictions for them to materialize their beliefs and wants?

Many politicians opt for the easy solution of being in favor of all nice things but distance themselves from everything that can be perceived as unpleasant even if such measures are necessary components to obtain a desirable goal. Instead of advocating packages with positive and negative features for their positive total effects, the emphasis is on the good, and the negative is something either unavoidable or decided by somebody else. Many European politicians are in favor of the EU, but Brussels has now made them powerless and all negative features are against their will. Globalization is not a choice, but a destiny and immigration is often described as a moral imperative according to human rights obligations rather than a political choice. Governments are tied in many ways and one leach is hold by the market. Are we witnessing vanishing states or just politicians avoiding responsibility?

This changing of the world is a way for center left parties to ditch old ideas without offending nostalgic voters. The left insists that those ideas were not wrong as the right claims, but rather good values and good policies that must be changed in a radically changing world. The politicians are forced to do something they do not really want to do. What they want are the votes of those liking the old values as well as the votes of those liking the new policies.

But also the center right uses arguments of non-volunteer character. Market reform in New Zealand was called ''Tina'' standing for ''there is no alternative''. In Sweden the center right reforms in the early 1990s were termed ''the only way''. One would expect political parties to claim there are at least two alternatives. The reason for a party deserving the votes is that it has the guts to promote the better alternative, also when this implies the ordination of a medicine, that is generally considered having a bitter taste.

Often the representatives of the people seem to see themselves more as appointed to a role of sympathetic lawyer than as appointed to a jury or as a judge. The lawyer makes an enthusiastic case for her client's needs and wants, but normally she is not the decision-maker. Something or someone is holding back. The judge and jury are outside the parliament. Are company executives the ones who have the real power in their hands?

There are some changes that can give a sense of less governmental power. The liberal society is more anonymous both in economics and politics than the old authoritarian state. The king was less of a multiheaded institution than the parliament and the market; one person was clearly in charge. The freedom of decision-makers has decreased since rules are institutionalized. Also these rules might be classified as whims or will when taken, but when in place they hinder decision-makers to make very different judgments in similar cases. Tax money is allocated in advance and much expenditure is indexed. The amount of money for discretionary spending is limited.

It might be argued that the executive is restricted by the market when taking economic decisions, and that the politician is restricted by the democratic system, but when the executive takes political decisions he is more free. In my judgment he seems to be under the same media pressure as the politician. He is not under the threat of loosing a general election but the main danger for the executive as for the politician is that he might be removed by his superiors, if considered a liability. The restriction by external pressure is not very different when taking decisions of public interest. But when it gets to power at disposition the situations are very different. The politician decides and the executive adjusts. In addition to the power deficit the executive also suffers from a mandate deficit.

Opinions of the media and the risk of irritating ordinary people are also a restriction on the public decision-maker. Opportunism and populism stop him from doing the things he would like to do. However, from a democratic point of view these limitations of governmental power can hardly be seen as impairment, but certainly, the politicians perceive them as restrictions. Furthermore, none of these limitations are initiated from business nor have these limitations transferred power to companies. Rather companies have been under the same kind of changes. Globalization has not only opened new markets for the company, but also increased the pressure from competition in the company's old markets. Rosabeth Moss Kanter writes: "The world is becoming a shopping mall in which ideas and products are available everywhere at the same time. This puts the power of choice in the hands of consumers, changing the terms of competition for ever" (Kanter, 1995, p. 37). This power shift limiting the power of companies is not perceived by the anti-globalization agitation, but in more reflective work like Norberg (2001).

As discussed above several factors combine to motivate the politician to play down her power. For the business executive the situation is very different. In business power is not only linked to responsibility but to better possibilities to make money. If the company is powerful that motivates more concession from other companies in business negotiations. If the executive is seen as powerful he is Mr Right, a person it is worthwhile to negotiate with and make concessions to. Apart from when merger proposals are investigated by authorities maintaining trade competition, there are few good reasons for an executive to restrict perception overestimating his personal power or the power of his company. Personal vanity pulls in the same direction. Executives confirm or exaggerate power attributed to them while politicians play down their power to avoid criticism from dissatisfied citizens. As John F. Kennedy remarked: "Success has many fathers while failure is an orphan". In politics few policies are solid successes but there are at least some consequences for which it is tempting for politicians to deny power and responsibility.

Long-term transformation

Surprisingly, one major experience is missing in the present discussion about capitalism and globalization – that trade brings nations closer. To intellectuals of the enlightenment like Montesquieu (1748) and Thomas Paine (1776) this political benefit was evident. Montesquieu wrote that "Peace is the natural effect of trade'' (Holmes, 1993, p. 217). Despite a few hundred years of supporting evidence this insight seems to be lost. A lot of wars took place during the last century, but not one of them was between two democratic capitalistic countries (Rummel, 1998). Despite this experience a message of old time religion is repeated: ''Money is the root of all evil''.

The positive long-term revolutionary capacity of capitalism is impressing. Capitalistic wealth and its way of functioning have been a strong influence for democratic development. In country after country capitalism has shown itself to be a necessary – but unfortunately not a sufficient condition – for democracy (Wilson, 1995). The capitalist influence has not been in telling the ruler what to do, but in a gradual transformation of society. Business cannot hinder governments from executing opposition representatives or attacking their neighbors. But they seem to influence a gradual development towards democracy. This is done by capitalism as a structure and a social force, not by managers ordering kings or telling bureaucrats what to do.

Tocqueville wrote that the main damage illiberal governments caused was not what they stole, but the production they hindered (de Tocqueville, 1840). Business is not protected by its power to resist but by the contributions of its productivity. Sustaining productivity is the main motivation for politicians in dictatorships as in democracies to limit their own interference.

The formula for democracy seems to be a rising middle class step by step engulfing and democratizing the old ruling elite. In that light, isolation through political or company initiative does not seem to be a promising path. By just operating in a country an international company is likely to give a positive contribution. However, the progressive solution seems to be using business managers as culture infiltrators, not as stand-in politicians or policemen.

A more activist policy was the company actions following the Sullivan principles in South Africa 1977–1987. General Motors (where Leon Sullivan was a board member) and other companies declared that they would not follow the segregation laws but treat, pay and promote their employees regardless of race and they would also in other ways agitate against apartheid. The regime accepted this disobedience. By 1986, no less than 172 of the 280 American companies in South Africa had joined this initiative. After 10 years Leon Sullivan himself changed his recommendation and suggested disinvestment, an advice that was followed by GM and several other companies (De George, 1999).

Sullivan overestimated the short-term impact of these actions, expecting the divergent behavior of these companies to destabilize the regime. When this did not happen he abandoned the principles. Despite this defection, I think it is reasonable to think that the presence of these companies between 1977 and 1987 did more good than harm. One reason for such a judgment is that they provided some experience for people working in racially integrated companies, which should be useful for the new regime. A speculation is that this inclusion of blacks might have contributed to the shift of ANC from a socialist to a more pro-capitalist ideology. I think Sullivan was right in his hypothesis of culture infiltration, but he made a mistake in expecting fast, short-term effects.

As previously discussed the ''exit power'' of a company is very limited. A government already criticized for offences of human rights will draw only limited additional criticisms for infringing company rights. Nationalization, price control, special taxes are all tools at the government's disposal. At the moment of investment the company has other options, but when the investment is made this operation is more dependent on the state than vice versa. The executive does not hold much of personal political power and this weakness contrasts to the significant long-term aggregated influence of the economic system. Sometimes these judgments of two different perspectives are mixed up and significant long-term effects are taken to imply short-term executive power.

Conclusions

The company does not have an antagonistic relation with consumers and employees but nor a harmony of interest. Regardless of the salary paid every employee has some reasons for why he or she should have a little more. There are always a lot of goods that the consumer cannot afford because the company asks a bit more than he can afford. The citizen often feels that the power of companies exceeds his own and that the state can be an ally. But in a conflict between the citizen and the state the power discrepancy is much larger. The problem then is that the company is too weak an ally to give any significant support. That the state, but not the companies, often is seen as a helping hand is not an indication that companies are more powerful than the state, but the reverse. It is homage to the supremacy of the state.

Why politicians tend to complain about a lack of power has been discussed. But there is more behind this than marketing a will to do good but being hindered by insufficient power to do so. Bureaucratization and centralization are some real factors limiting the influence of the ordinary politician. But these changes are not imposed by companies but decided by politicians themselves and nor do they transfer power to companies. Rather companies face a similar development. Many managers feel that they are loosing power because of centralization to the top, but also by horizontal interference. If stacked in a matrix chart constrained by powerful stakeholders and massive legislation, the freedom of action appears quite limited.

If many people feel less powerful it seems reasonable to suspect that there has indeed been a major power transfer. It is rather the insignificance of the business leader in the public domain that has made him the illusive stranger that must have received this transferred power. Business leaders are certainly interested in power and they see the attribution of power as flattering and seducing. However, promises are misleading if one has neither the ability nor the means to fulfil the expectations. The exaggerated ideas about company power are dangerous in themselves and become even more so if company executives pretend they are justified. When both parties are involved in a description of reality it is easy to take a unity in power attribution as a confirmation that this description is correct.

There are many reasons to argue for a link between power and responsibility. The descriptive issue of power is therefore of prime interest for the normative question of what companies should be responsible to do. If this article has succeeded in its purpose, it has challenged the view of a major shift of power from political bodies to companies. The quantitative size of company economics compared to country economics is distorted when comparing sales to GNP. The more justified measurement value added to GNP brings down the size of the company in the discussed example from 98 to 12%.

Regardless of being leftwing or rightwing there is a theoretical aversion to companies acting in cartels rather than competing. Surprisingly some popular ideas hold that company collaboration should be the solution to a number of social, political and environmental problems. In line with both liberal and anti-liberal theory, nobody expects companies to solve a lot of political problems. But if media claim that business is responsible and if business leaders frequently assert that the public has these expectations and they will comply to these expectations, this new responsibility might become the general perception (Henderson, 2001, p. 73). Pretending that some social responsibility in the boardroom is the solution might lead to two problems. The most serious is that no solution is formed. Secondly it misdirects responsibility for this failure, further delaying adequate measures. Blaming a bystander has seldom cut to the hart of a problem. The perception of companies and executives as the rulers of the world is a dangerous misconception.

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