

research snapshot

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Business plays a key role in shaping regulation.

What is this research about?

'Regulation' refers to the rules, laws, and norms that governments impose on businesses. It has been thought that regulation can free a business from having to deal with ethical questions of right and wrong. But this is not always the case. A business cannot escape from having to make ethical decisions simply by complying with a regulation. In fact, a business often has to make decisions about how it will interpret a particular piece of regulation – or if it wants to follow it at all. (Prior to 1994, many businesses in South Africa felt that it was more ethical *not* to comply with Apartheid legislation.) Also, a business sometimes has to make ethical decisions because of a *lack* of government regulation. Recently, in the US and Canada, where governments have done little to regulate carbon emissions, there has been a growing unrest about the ethics of climate change. Some of this unrest has come from parts of the business community that, at one time, resisted regulation.

In short, the relationship between business ethics and regulation is a lot more complex than it may appear at first glance. More and more corporations are self-regulating; more and more are taking it on themselves to regulate their behavior and its impact on climate change. Some are even taking a hand in developing government regulations. And yet much of the existing research on business ethics and regulation does not address the complexity of these issues.

What you need to know:

The relationship between business ethics and regulation is complex. The role of MNCs in shaping regulation is growing. MNCs in emerging economies need to take an active approach in shaping their regulatory environments.

What did the researcher do?

Researchers at the Schulich School of Business came up with a novel framework: five ways to think about the relationship between business ethics and regulation. Then, working in this framework, they looked at how the business community in two developed countries, Canada and Germany, has responded to climate change regulation. They also analyzed the role of large multinational corporations (MNCs) in this process. Finally, they suggest some lessons that emerging economies can take away from these findings.

What did the researcher find?

On the surface, climate change in Germany would appear to be highly regulated. This would suggest that businesses in Germany are probably less likely to voluntarily engage in climate change initiatives. In contrast, there is less regulation of climate change in Canada. This would suggest that there is more space in Canada for businesses to launch their own climate change initiatives. But this comparison is too simplistic. As a result, the

researchers sketched out *five* ways to think about the complex relationship between business ethics and regulation:

1. *Business ethics as surrogate regulation.* This means that the ethical activities of a business can sometimes touch on areas that regulation does not. In Canada, the lack of regulation has caused some businesses to act on climate change in a proactive manner. Although this is less common in Germany, where regulation is stronger, there are still incentives for businesses to engage in greener practices on their own.
 2. *Business ethics as regulation.* This means that the ethical activities of a business can sometimes be thought of as a kind of regulation. In Canada, a growing public awareness of climate change has driven companies to be more self-regulatory. Such behavior, however, is less common in Germany, where there is more regulation.
 3. *Business ethics as orchestrated by regulation.* This means that the ethical activities of a business are sometimes led by government regulation. In Germany, the influence of the government on the ethical activities of the business world seems to be increasing. In Canada, however, the phenomenon is only just emerging at the provincial level. British Columbia, for example, has recently introduced a carbon tax.
 4. *Business ethics as preceding regulation.* This means that the ethical activities of a business can sometimes lead governments to make the activities mandatory for *all* other businesses. Most businesses in Canada are aware of the fact that at some stage there will be a new regulatory regime on climate change. As a result, some companies are initiating socially responsible practices, which would, in theory, give them a competitive advantage if and when regulations, modeled after these practices, are put in place. Some critics, however, fear that corporations, through lobbying, will have too great an influence on regulation.
- Business ethics as implicit in regulation.* This means that the ethical responsibilities of a business to its wider society do not need to be formally stated; they are already understood to be a part of a larger, social agreement that has

already been worked out. Germany is a good example of how business ethics can be implicit in regulation.

In short, the researchers found that business is a key player in shaping the regulatory approach of countries like Canada and Germany.

How can you use this research?

Multinational corporations (MNCs) in emerging economies, such as China and India, should focus on shaping policy that is related to climate change. MNCs need to develop corporate strategies with regard to climate change. A proactive, rather than a passive approach, has proven to be successful for companies in both Canada and Germany.

About the Researcher

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