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Purpose of this paper: This is a short commentary on the negative consequences of contemporary global capitalism on society. Despite the economic growth experienced across the world over the last century, the so-called grand challenges which include, for instance, rising inequality, global warming, modern slavery, and child labor, are becoming endemic phenomena also in high income countries. We invite further research to come up with radical ideas to fix 'bad' capitalism.

Design/methodology/approach: The proliferation of negative business conducts has led international business scholars to propose new ways to address sustainability grand challenges. The articles in this special issue on which we were invited to comment, Holmström Lind, Kang, Ljung and Forsgren; Lashitew and van Tulder; Zagelmeyer, are contributing to this agenda. We contextualise these articles in the current scholarly discussion on the social role of Multinational Enterprises (MNEs).

Findings: Despite all the calls for business to be more responsible and despite the steps taken by MNEs through their Corporate Social Responsibility (CSR) policies, this is not enough to address contemporary grand challenges with any degree of seriousness.

Originality/value: We invite further research to propose new attempts to fix 'bad' capitalism that also involve a rethinking of the way companies reward corporate elites and redistribute their gains.

Keywords: bad capitalism; grand challenges; social value creation; multinational enterprises (MNEs)

Paper type: Conceptual paper/Viewpoint

> In the countries of Derbyshire, Nottinghamshire,...Lancashire, …the newly-invented machinery was used in large factories… Thousands of hands were suddenly required in these places, …the small and nimble fingers of little children being by very far the most in request…Many, many thousands of these little, hapless creatures were sent down into the north, being from the age of 7 to the age of 13 or 14 years old. (…) they were harassed to the brink of death by excess labour…were flogged, fettered and tortured in the most exquisite refinement of cruelty; …they were in many cases starved to the bone while flogged to their work and…even in some instances…were driven to commit suicide (John Fielden, quoted from Marx K., Capital, pp. 531-532 - 2013 edition)

> Radhamma, a 14-year-old girl who had been working and living at Sulochana Cotton Mills for a year, was admitted to hospital on 9 March 2014. Shortly after her admission to the hospital, Radhamma died. Reportedly, she committed suicide by consuming nail polish. According to the Tirupur People's Forum (TPF), Radhamma was depressed because of her excessive working hours. Like many others, Radhamma joined Sulochana after she was promised good food, decent accommodation, the chance to study while working, eight hours of work a day, weekly holiday and a lump sum payment at the end of three years" (Tirupur People's Forum for Protection of Environment & Labour Rights, press release "Tirupur People's Forum demands compensation & RDO inquiry into the death of Radhamma, a child labourer, 12 March 2014, quoted from Theuws, M. and Overeem, P. Flawed - 2014. Flawed fabrics: The abuse of girls and women workers in the South Indian textile industry, pp 33)

There is little doubt that the process of industrialization, which accompanied the industrial revolutions, and the technical globalization and internationalization of production activities witnessed during the 1900s, have been crucial for the world-wide increased economic growth. Many countries, worldwide, have experienced enormous progress and, more recently, Asian and Latin American countries have taken off to become new powerhouses of growth. This progress has been achieved within the general framework of capitalism, although different countries have developed different 'varieties of capitalisms' aligned to their particular institutions and cultural values (Hall and Soskice, 2001; Fainshmidt *et al.*, 2018). Overall, the expectation is that growth is accompanied by greater well-being and a more equitable world, enabled by a 'trickle down' effect of the functioning of the markets. However, this progress has not been without cost: it has been based on the exploitation of some portions of humanity, often in the form of slavery, human degradation at work and child labour, this last exemplified in the extracts at the beginning of this piece. The similarity between these quotes is quite stunning although the first refers to the mid-19th century and the second is reporting alleged occurrences in 2014. The reader might be lured into thinking that the economic growth experienced across the world over the last century might have made such cases of labour exploitation less likely than at the times of the industrial revolutions and, to an extent, this is true. However, we should not be deceived into thinking that such forms of exploitation are rare occurrences in current times: they are not. The statistics confirm this: ILO (2017) estimates that some 152 million children, 73 million working in hazardous conditions, and 21 million adults are working in conditions of slavery in the private economy. Scholarly research has focused increasingly on the grand challenges of contemporary capitalism (e.g., George, 2014; Ferraro, Etzion and Gehman, 2015;

George *et al.*, 2016) and there is a considerable body of research on Multinational Enterprises (MNEs) as the architects or exacerbators of these challenges. For instance, research on institutional arbitrage shows that MNEs tend to exploit institutional cross-country differences to benefit from the advantages in countries with less strict labour market regulation than their home countries, to achieve efficiency gains. This results, also, in MNEs shifting irresponsible business conduct away from their home countries, which are governed by alert press and judiciary, to countries where exploitative, irresponsible business conduct goes unpunished (e.g., Surroca, Tribo and Zahra, 2013; Fiaschi, Giuliani and Nieri, 2017). The business and human rights and the legal scholarship have uncovered numerous cases of corporate misconduct, based on MNEs' leveraging of the legal separation between headquarters and subsidiaries in order to avoid prosecution in the home country for torts committed in foreign host countries with dysfunctional judiciary systems and/or complicit politicians (e.g., Zerk, 2012). Here, again, the reader might be tempted to argue that such forms of exploitation occur only in low-income countries and are extinguished as these countries' economies grow – as the result, also, of such exploitative business conduct. However, the evidence tells a different story. Modern forms of slavery are occurring in some of the most advanced economies, including in Europe (Crane, 2013), and corporate misconduct is endemic in high income countries (Giuliani, 2018), to the extent that it is sometimes considered the norm (Palmer, 2012). Also, the climate change crisis and growing environmental awareness is revealing that corporate exploitative behaviour, clearly, is not confined to abusive treatment of workers, but extends to a more complex and diversified set of stakeholders and includes the risk to health of whole communities due to exposure to toxic substances in the air and, increasingly more often, in food. For example, WHO (2017) estimates that some 7 million people die prematurely each year from exposure to fine particulates, while Luzzati, Parenti and Rughi (2018) found that the incidence of cancer is, all other things being equal, higher in more affluent countries.

However, there is an agenda devoted to 'fixing' these problems. The United Nations (UN) launched its Sustainable Development Goals (SDG) agenda in 2015 and its various agencies are developing soft law initiatives to promote greater respect for human rights by the business sector (e.g., the UN Principles on Business and Human Rights promoted by the UN Human Rights Council in 2011); the OECD Guidelines for Multinational Enterprises (2011) includes a chapter on business and human rights and some governments are taking actions to prevent modern slavery, climate change and some of the other grand challenges. At the same time, international business scholars are starting to address sustainability grand challenges in their research (Buckley, Doh and Benischke, 2017; Wettstein *et al.*, 2019). In this vein, to advance the debate on how MNEs may contribute to create social value, Sinkovics *et al.* (2015) proposed to reconceptualise the idea of social value creation as social constraints alleviation. They suggest that MNEs may deal with social constrains by exploiting or bypassing them or by developing appropriate business model designs to understand and alleviate social constraints. The articles in this special issue on which we were invited to comment (Holmström Lind, Kang, Ljung and Forsgren; Lashitew and van Tulder; Zagelmeyer) are clearly contributing to this agenda.

The paper by Holmström Lind, Kang, Ljung and Forsgren explores the mechanisms that allow MNEs to produce social innovations. They suggest that in the context of MNEs' involvement in social innovations the use and leverage of their existing knowledge, networks, and power-relations, as well as the innovation environment differ quite extensively as compared to regular innovation. They suggest that the way MNEs use and recombine knowledge and capabilities, how they handle their business networks and non-traditional network actors operating in the same environment, and how they understand how power-relations evolve are fundamental aspects of the social innovation context. Next, the paper by Lashitew and van Tulder delves more deeply into the processes that might engender sustainable, base-of-the-pyramid social value creation. The authors propose some institutional novelties formed around the notion of embeddedness and explore conceptually how MNEs can leverage social embeddedness to develop proto-institutions conducive to social value creation. In their analysis, they identify three institutional fields (i.e. governance, market, and socio-cultural institutions) which MNEs can exploit to increase their social embeddedness and develop proto-institutions. Finally, Zagelmeyer's paper proposes a framework for the analysis of human rights governance in big international business. Based on subset-specific configurations of universally defined human rights, Zagelmeyer identifies four human rights subfields – i.e. labour, consumption, community, and environment. He argues further for the need in each subfield, to identify the specific duty-bearers (i.e. companies) as well as the rights-holders (such as workers and customers), and their respective interests which might be similar or conflicting. Thus, their relationships could be governed using different governance mechanisms and structures at different levels, e.g. individual, company, national, or international.

These attempts to investigate how MNEs can fix the wicked problems of contemporary capitalism are commendable, but the big question is whether these proposed 'fixes' (i.e. social innovation, social value creation and better governance of human rights) will spark radical change to the ways MNEs conduct their business operations and, in so doing, make a fundamental transformation to the functioning of capitalism, or will they be instrumental to the perpetuation of the current model and serve to legitimize MNEs' strategies.

This is also in line with the literature on strategic decoupling (e.g., Maclean and Behnam, 2010; Wijen, 2014; Tashman, Marano and Kostova, 2019) which raises issues about the latter being a possible scenario. An examination of MNEs' Corporate Social Responsibility (CSR) agendas and their CSR talk would suggest they are actively addressing these societal challenges, but may also fail to effectively solve them. For instance, in their paper on the Rana Plaza accident, Sinkovics *et al.* (2016) show empirically the difference between the mere adoption of CSR policies and the actual creation of social value. Indeed, while CSR compliance may fulfil the intended purpose of social upgrading in terms of measurable standards such as workplace safety, it can simultaneously lead to the destruction of previously present social value and leave workers worse off than they were before. Many MNEs have very diversified and rich portfolios of CSR initiatives and many emerging country MNEs appear to be aligned to western companies on this count (Gugler and Shi, 2009; Fiaschi, Giuliani and Nieri, 2015; Marano, Tashman and Kostova, 2017). However, although MNEs may have been active in the context of CSR, they have not devoted equal effort to tackling a fundamental aspect of corporate decision making, which concerns their corporate governance strategies: the way corporate elites (i.e., CEOs, executives, etc.) are rewarded. With a few exceptions, most companies continue to reward these leading actors based on the company's profits rather than on the sustainability of their business operations. Shareholders are rewarded on a similar basis. As Bivens and Mishel (2013, p. 71) put it: 'If a declining value of the minimum wage, or increased effectiveness in blocking union organizations, keeps wages in check at, say, Walmart, then….this could lead to higher pay for corporate managers and higher returns to Walmart shareholders'. Hence, there is a tension that is intrinsic to the current functioning of capitalism, which, by its nature, is undermining the capacity of companies to be socially and environmentally sustainable. Despite all the calls for business to be more responsible (Porter and Kramer, 2006; Kolk and van Tulder, 2010, among others), and despite the steps taken by MNEs via their CSR or otherwise defined pro-good policies, if this simple logic is not changed, then, we believe, it will be extremely difficult to address contemporary grand challenges with any degree of seriousness. Thus, in our view, attempts to fix 'bad' capitalism that do not involve a rethinking of the way companies reward corporate elites and redistribute their gains will lead most probably to the perpetuation of the current system and not its improvement over time.

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