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TRADITION AND NEW HORIZONS: TOWARDS THE VIRTUE OF RESPONSIBILITY
Volume I: Education, Values, Sustainability, Leadership, Corporate Responsibility

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Editors

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Track 1: Education

BUSINESS ETHICS EDUCATION: SOCIAL RESPONSIBILITY AS A MATTER OF JUSTICE

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Summary

Business ethics education has focused primarily on moral formation of individual leaders and managers in the context of ethical codes, organizational culture, and legal compliance. Important as this approach is, it fails to generate a sufficient level of business responsibility to satisfy legitimate social concerns regarding the use of natural resources, environmental sustainability, reasonable limitation of systemic risk in capital markets, and fair allocation of goods and services.

This author proposes that business responsibility regarding social conditions be addressed as a matter of justice and that three essential elements be added to business ethics education: (a) distinguishing personal moral accountability to one's conscience from ethical accountability on matters of justice in the public arena; (b) grounding businesses' social responsibility in justice and external accountability; and (c) preparing business leaders to engage in public deliberation to determine the legitimacy, priority, and justice of social claims.

Keywords: business ethics, moral education, justice, public deliberation, social responsibility

Part I. The Ordinary Pressures of Business Operations

Business ethics education has focused primarily on the moral formation of individual leaders and managers in the context of ethical codes, organizational culture, and legal compliance. Important as this approach is, it fails to generate a sufficient level of business responsibility to meet legitimate social needs regarding the use of natural resources, environmental sustainability, reasonable limitation of systemic risk in capital markets, and fair allocation of goods and services (Alsop, 2007; Holland, 2009; Friedland, 2009). Business educators have accepted some responsibility for this failure due to their emphasis on short-term gain and maximum shareholder profit (Quelch, 2005; Mangan, 2006). However, the lack of attention to social responsibility arises from more fundamental and ordinary pressures of business operations: uncertainty, liability, ambition, and loyalty.

The uncertainty of business outcomes increases pressure to pursue short-term gain over long-term benefits. Although investments in socially conscience labor practices and resource use may pay off in the long run (Porter and Kramer, 2011), businesses must succeed in the short term in order for any long-term benefits to accrue. As John Maynard Keynes pointed out, concern for the short term was already a preoccupation for "private business of the old-fashioned type" when individual owners and their local communities had to live with the effects of business decisions. Now,

With the separation between ownership and management which prevails today and the development of organized investment markets, a new factor of great importance has entered in, which sometimes facilitates investment but sometimes adds greatly to the instability of the system... [T]he Stock Exchange revalues many investments every day and the revaluations give a frequent opportunity to the individual (though not to the community as a whole) to revise his commitments. It is as though a farmer, having tapped his barometer after breakfast, could decide to remove his capital from the farming business between 10 and 11 in the morning and reconsider whether he should return to it later in the week (1932/2008, p. 99).

Thus the familiar uncertainties in predicting future resource, labor, and market conditions are compounded by uncertainties in ownership and investor confidence. Keynes also noted the disparity that communities are stuck with the long-term social consequences while managers feel pressured to succeed quarter by quarter.

Liability for harms increases pressure to minimize exposure at both a personal and business level. Business liabilities are managed internally through risk assessment and control systems in the context of external regulation, taxation, and litigation. Legal advisors routinely caution their clients to limit exposure that could increase liability. It is not surprising the managers are cautious about embracing personal or business responsibility for social effects of business operations. There is much less risk in acting on the basis of generous social concern, without accepting responsibility—and thus liability—for the social impacts of the business.

Ambition for advancement and wealth is the natural passion of capitalism. Adam Smith saw self-interest as the motivation for exchanges of goods and services that bind persons together in mutual support: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest” (1776/1981, pp. 26-27). As R. H. Tawney observed, however, the positive social function of ambition decreases absent the close mutual dependency that Smith described:

It is an invitation to men to use the powers with which they have been endowed by nature or society, by skill or energy or relentless egotism or mere good fortune, without inquiring whether there is any principle by which their exercise should be limited. It ... concentrates attention upon the right of those who possess or can acquire power to make the fullest use of it for their own self-advancement. By fixing men's minds, not upon the discharge of social obligations, which restricts their energy, because it defines the goal to which it should be directed, but upon the exercise of the right to pursue their own self-interest, it offers unlimited scope for the acquisition of riches, and therefore gives free play to one the most powerful of human instincts (1920, p. 30).

Ambition is thus freed from limits in its operation because it is “corrected almost automatically by the mechanical play of economic forces” (Tawney, 1920, p. 31) and in its ends because there is no clear goal or point of satisfaction. Ambition has this in common with finance: “Finance does not embody a goal,” according to Robert Shiller; “financing an activity really is creating the architecture for reaching a goal” (2012, p. 7). Ambition and finance are the goal-free combination at the heart of management and business, one supplying the energy and the other the skillful means, to achieve whatever substantive goals may be chosen. The manager's ambition in managing thus matches the investor's ambition in maximizing returns: both can succeed without concern for substantive value of the business's products or services. Such social outcomes are left to the marketplace—with perhaps some amelioration by charity or government. It is perhaps inevitable that ambition freed from social purposes can increase pressure to subvert fair processes or compromise quality of goods and services, replacing moral restraint with caveat emptor.

Loyalty to the team is essential for success—of managers and of businesses. Humans evolved in groups, with survival dependent on mutual aid and in-group identity, belonging, assistance, and accountability. Loyalty evolved as a deeply embedded moral instinct of our species, a desire and duty that shapes our identity, sense of purpose, and understanding of right and wrong (Naroll, 1983). When new managers join the leadership team, this evolutionary equipment kicks into high gear, smoothing their way from novices on the periphery to full mastery in the center. This process of “legitimate peripheral participation” (Lave and Wenger, 1991) combines individual learning and identity formation with team-building and loyalty. “The self has a historical and contingent character, unfolding through the creation of value in action, in relation with other selves in the setting” (Lave, 1988, p. 181).

The moral challenge in business ethics is not to maintain one's own values but to learn and adapt to the values and ways of the group. New managers must prove themselves in the eyes of the team.

At bottom, all of the social contexts of the managerial world seek to discover if one “can feel comfortable” with another manager, if he is someone who “can be trusted,” if he is “our kind of guy,” or, in short, if he is “one of the gang.” The notion of gang, in fact, insofar as it suggests the importance of leadership, hierarchy, and probationary mechanisms in a bounded but somewhat amorphous group, may more accurately describe relationships in the corporation than the more genteel, and therefore preferable, word “circle.” In any event, just as managers must continually please their boss, their boss's boss, their patrons, their president, and their CEO, so must they prove themselves again and again to each other. Work becomes an endless round of what might be called probationary crucibles (Jackall, 2010, p. 43).

Human beings are truly shaped by the institutions in which they participate (Bellah, Madsen, Sullivan, Swidler, and Tipton, 1985), and the desire and demand for loyalty supplies the energy for this transformation.

Uncertainty, liability, ambition, and loyalty are inherent moral pressures in any workplace. Businesses depend upon these pressures for their success, and their power to shape individual morals and compromise ethical practices must be recognized. To deal effectively with these pressures, business ethics education must be broadened from its focus on individual morals and extended to embrace business operations and their social impact. The remainder of this paper is dedicated to this effort.

Part II. Business Ethics as a Matter of Justice

What is proposed in this paper is to incorporate the social responsibility of business into business ethics education, not as a matter of individual moral formation but as preparation to address the social responsibility of business as a matter of justice.

This proposal has some affinity with existing efforts toward corporate social responsibility (Anshen, 1974) and stakeholder theory (Freeman, 1998), both of which incorporate social responsibility into the understanding and operations of business itself. These theories are complicated to implement, however, and the inherent pressures of business described above discourage widespread their adoption. Furthermore, by locating social responsibility in the hands of management, these theories leave it to managers to determine what social goods ought to be pursued, to what extent, and at what cost. This is problematic, because business managers may not be gifted with insight into social issues, many businesses are not ready to assume the burden of assessing such complex social concerns, and even well-informed parties disagree on priorities or outcomes worth pursuing (Buchholz, 2009, pp. 24, 32). At any rate, these theories have so far not replaced the standard business value proposition of maximizing profits and externalizing social costs.

Social entrepreneurship is a third kind of effort using standard business practices to serve social outcomes (Brinckerhoff, 2000, 2009; Light, 2008), not as an obligation of business in general but in creating businesses for particular social purposes. As such, it does not directly address the challenge posed by the ethics of business practices generally. Research on results is inconclusive (Andersson, 2011), in part because the definition of the field is unclear (Light, 2008, pp. 1-21).

The proposal in this paper combines moral education with critical ethical reflection and public deliberation on justice. In doing so, it takes full account of the ordinary moral pressures in business operations and the profit-making motive in business aims, addressing these in the larger arena of public good rather than in personal forum of individual conscience. This approach builds on a theory of moral education for pragmatic pursuit of the good, which is presented in the following section of this paper.

Three Prominent Moral Education Approaches

The common approaches to moral education can be broadly divided into four kinds: the cognitive-developmental approach, character education, values clarification, and pragmatic pursuit of the good. Although the practice of morality involves elements of all four approaches, each approach builds on different theories of individual development and ethics.

The cognitive-developmental approach is based on Piaget's theory that childhood moral judgment develops in stages (1965), and it is the educator's role to stimulate a child's natural reasoning power through the use of moral dilemmas to develop from pre-conventional to conventional thinking and ultimately to decision-making "centering on principles of justice" (Kohlberg, 1980, p. 71) in accord with universal moral principles as represented by Immanuel Kant's "categorical imperative" (1785/1956). Each new stage is an elaboration of the previous one in a progressive ability to organize cooperation (Rest, 1994, p. 5).

Character education is rooted in Aristotle's observation that moral virtue cannot be taught but must be learned by doing, and that virtuous character is formed as a habit of virtuous action (Nicomachean Ethics, Bk. VI. 1103a). The educator's role is thus to provide direction, practice, role models, and support in cultivating positive virtues, to the point that these become habitual (Lickona, 1991; Ryan, 1996).

The values clarification approach is designed to help students sort through conflicting moral imperatives in a culturally diverse world, respecting differences yet recognizing and holding firmly to their own core values (Fletcher, 1966). It focuses especially on the emergence of critical thinking at adolescence when youth are naturally inclined to question received beliefs, to help them move through questioning to settled moral views.

The pragmatic approach addresses student moral learning in the context of a moral community engaged in building a better world (Dewey, 1908/1980, 1909/1975, 1927; Zigler, 1998). In keeping with John Dewey's instrumentalist philosophy, the moral development of the person is facilitated by acting with moral ends in view.

Although business ethics texts incorporate elements from all four approaches, the most pervasive approach employed is character education. This is consistent with a focus on leadership studies in business schools, seeing ethics in terms of a leader's integrity and courage—a moral exemplar reinforcing core values and demonstrating that ideals can, in fact, be achieved (Ryan, 1996, p. 83). "Organizational pressures can

compromise our moral behavior,” Comer and Vega wrote. “To rise above these pressures, we need to understand and foster moral courage” (2011, p. xvii).

Character educators understand the student’s autonomy as the freedom to do what is right rather than as freedom from social restraints or openness to moral exploration as in values clarification. Explicit instruction on expected behavior and values is essential to helping students clearly apprehend a pre-determined set of values and to make these their own (Ryan, 1996, p. 83). These solid values provide “a compass to keep you focused on your True North and get back on track when you are pulled off by external forces or are at risk of being derailed” (George, 2007, p. 65).

Business ethics texts present moral dilemmas in the workplace, often actual cases, as complicated puzzles that reflect the conflicting moral demands managers face in business settings. These cases look similar to the moral dilemmas in the cognitive-developmental approach, but the use of these exercises differs. Kohlberg used moral dilemmas to stimulate “the ‘natural’ development of the individual child’s own moral judgment and capacities” toward higher levels of moral reasoning (Kohlberg, 1980, p. 72). In contrast, moral dilemmas in applied ethics—business and professional—emphasize analysis of intermediate-level concepts “such as informed consent, paternalistic deception, and privileged confidentiality” as well as “even a more concrete level of conceptualization...that is usually found in codes of ethics of professional organizations” (Rest, 1994, p. 9). The aim is problem-solving, rather than higher moral reasoning. For example, James Svava’s advice to whistleblowers includes pre-conventional concern for one’s family welfare and “skeletons in your closet,” plus several conventional concerns regarding use of company time and resources, adequate documentation, consulting an attorney, checking for allies, having a clear plan, and perhaps feeding the information anonymously to an outside group (Svava, 2007, pp. 121-122).

Mary Gentile provided a good summary of the aims of business ethics education in her popular *Giving Voice to Values* curriculum, that the “curriculum is designed to help individuals learn to recognize, clarify, speak and act on their values when those conflicts arise...[using] the approach that not only seems most likely to be effective in our particular situation, but also the one that is most comfortable, given our own personal style of communication and personality” (2010, p. 1).

From a character education perspective, however, business ethics education leaves out an essential part of character development: the moral community:

Moral sense, individual virtues, and integrity are nourished by ‘the community,’ and...in order to understand individual moral sense it is necessary to consider not only the biology and psychology of virtue, but also the relevant features of the institutions and social structures (such as business organizations) and communities in which moral agency is executed and moral identity is formed, and moral commitment of others, and the co-evolution of individual and organizational moral values with relevant institutional frameworks (Sadler-Smith, 2012, pp. 363-364).

Character educators insist that the formative power at the heart of character education is the moral community: the practice of moral behavior in a community of people upon whom one depends for esteem and support and to whom one owes loyalty, honor, and positive assistance. Moral character develops through earning the esteem of one’s “betters” and in turn becoming a model for others to emulate. To effectively communicate communally held values, it is necessary to “reward success and admonish failure,” evaluating “by formal and informal means, student’s growth in virtue and character” (Ryan, 1996, p. 83). The sense of group identity and unity is essential, with shared rituals, traditions, and symbols (Lickona, 1991, p. 102).

The power of social esteem in the eyes of one’s community can hardly be overemphasized: career advancement depends on it. Nothing is more formative than the actual agendas and actions in the workplace. No worker or manager can afford to be fooled about what really matters in the workplace. It is essential to learn the enacted practices and values, whether or not these contradict the espoused practices and values.

The reason why seeing is so important to the moral life is that many of the moral facts of life are apprehended through observation. Much of the moral law consists of axioms or premises about human beings and human conduct. And one does not arrive at premises by reasoning. You either see them or you don’t... Certain moral principles make sense within the context of certain visions of life, but from within the context of other visions, they don’t make much sense at all (Kilpatrick, 1992, pp. 133-134).

Rick Weissbourd cited research that “emotions such as shame, anger, and cynicism...eat away at caring, a sense of responsibility, and other important moral qualities,” making it difficult for workers to hold to their moral beliefs. “When people’s moral beliefs conflict with their immoral actions, many will change their beliefs to accommodate their actions, not vice versa. They will justify stealing, for example, because ‘society is corrupt’ or because ‘all people are basically self-interested’” (Weissbourd, 2003, p. 7).

The need for acceptance, cooperation, loyalty, and mutual protection is highest among close colleagues. Not surprisingly, as social distance decreases, the propensity to lie increases. "To the extent that employees are concerned about what others think of them, reduced social distance intensifies the concern. As a result, employees are more likely to expend time and effort on impression management activities, which could affect their work quality and performance. Lying is a useful means of manipulating others' impression[s]" (Ackert, Church, Kuang, and Qi, 2011, p. 619).

No doubt there are many business organizations in which moral communities thrive, but business ethics educators want to prepare their students for situations—also plentiful enough—in which clear and positive moral guidance is lacking. These latter are not well suited for the character education approach that predominates in business education.

Proposed Approach: Justice and Pursuit of the Good

The pragmatic approach to moral education offers a much-needed alternative. In this approach, moral education is not limited to formation in one's local moral community but should prepare students to transcend their local moral community in two ways: first, by going beyond "customary morality" to engage in a "reflective morality" that places conflicts about the good and the right in a larger context (1908/1980, pp. 3-7); and second, by specifically locating the good that one is trying to achieve beyond oneself and even beyond one's own community, ultimately in "remaking the social environment, economic, political, international" (p. 118). Reflective morality explicitly requires that one "not accept the standards of his group without reflection" (p. xxvii). Dewey pointed to Socrates and the Hebrew prophets as pioneers in this effort, challenging the accepted mores of their time and attempting to resolve questions of conduct in terms of universal principles (p. 3).

This step to reflective morality, or ethics, has two important implications for business education. First, it does not accept the individual conscience, as formed by upbringing in a particular moral community or as shaped within a particular business organization, as the last word on personal integrity. Rather, the ground shifts from customary accepted knowledge—one's "gut feeling"—to rational examination and evaluation. Specifically, the choice of what is good and right should be capable of rational explanation. Second, ethics is a shared enterprise of searching out the right course of action, rather than an individual decision based on one's own personal moral background or sense of direction alone. The shared reflection entails going beyond one's own group to seek common interests among groups.

From the standpoint of the individual, it consists in having a responsible share according to the capacity in forming and directing the activities of the groups to which one belongs and in participating according to need in the values which the groups sustain. From the standpoint of the groups, it demands liberation of the potentialities of members of a group in harmony with the interests and goods which are common. Since every individual is a member of many groups, this specification cannot be fulfilled except when different groups interact flexibly and fully in connection with other groups (Dewey, 1927, 147).

In this schema, the role of individual conscience or judgment appears as the final step of ethical evaluation—in the action—rather than at the beginning in the moral motivation or values. The aim of moral education is acting well, not merely meaning well (Dewey, 1916, pp. 348-350). Aristotle described this as completing the practical syllogism, an exercise in practical wisdom (phronesis (Nicomachean Ethics, Book VI, 1142a). Alasdair MacIntyre elaborated on Aristotle's practical syllogism, tying rational reflection to personal responsibility for actions in four steps: "There are first of all the wants and goals of the agent," without which there would be no point to the reasoning and no choice to be made. "The second element is the major premise," what Aristotle called the universal, a statement of the good that is desired. This assertion is subject to shared rational reflection, to test whether or not what is desired is in fact good beyond the self-interest of the individual. "The third element is the minor premise wherein the agent, relying on a perceptual judgment, asserts that this is an instance or occasion" on which the good in question can be achieved. This, too, can be a shared exercise, but in practice it may fall entirely to the individual to make this judgment. "The conclusion...is the action" taken by the individual (MacIntyre, 1984, pp. 161-162).

Dewey called attention to the emotional reaction in the first step of the practical syllogism, "a prompt and almost instinctive sensitiveness to conditions, to the ends and interests of others, [without which] the intellectual side of judgment will not have proper material to work upon" (1909/1975, p. 52). Therefore moral education should nurture "a delicate personal responsiveness" along with "excellent judgment." The good toward which one is oriented, however, must be good not merely for the individual, the management team, or their business organization, but also good in some larger social or even universal sense. This inquiry can be pursued from the inside or from the outside: from the perspective of the decision-maker within the organization or from the perspective of the public or the community evaluating the action expected from the

business organization. The aim, then, is what Aristotle defined justice: the good for oneself and others and the community as a whole (Nicomachean Ethics, Book V, 1129b-1130a).

The pragmatic approach to business ethics would give managers a distinctive and important tool in preparing them not only to perform but to lead a process of shared practical reasoning, of reflection on morals, that would place moral conflicts in the workplace in a larger arena of inquiry. This makes it possible to address questions of business ethics in terms of what good can be achieved for individuals, for their company, for other stakeholders, and—importantly—for the larger community or the public. As a matter of justice, what good is owed to those involved and to be affected? Pragmatic moral education invites—in fact, requires—decision-makers to consider the business organization as an institutional member of society with the benefits and duties this entails. “Justice is the first virtue of social institutions,” as John Rawls noted, and “laws and institutions no matter how efficient and well-arranged must be reformed or abolished if they are unjust” (1971, p. 3).

The pragmatic pursuit of the good incorporates the other three approaches to moral education. The practice of reflective morality incorporates the cognitive-developmental agenda of prompting moral reasoning at the level of universal principles, from which one can evaluate one’s action from outside conventional and pre-conventional frameworks. Reflective morality also incorporates a values clarification agenda by inviting different perspectives and rationales in attempting to articulate the good to be achieved, both within and outside the organization. Shared reflection and the nurture of emotional sensitivity incorporate key elements of the moral community in character education, reflecting together on the good and right and holding each other accountable for doing the good that is possible to do.

Whereas grounding business ethics in personal moral integrity leaves managers especially vulnerable to the common moral hazards of business operations, the pragmatic pursuit of the good provides for a deliberate conversation about the good that can be achieved for themselves, their company, and for the larger public. It is a shared enterprise of moral reasoning, rather than a test of individual moral courage only. Moral courage is still required, but in more varied ways: opening or convening a process of reflection on what action is right and good to take, making sure varied perspectives are heard, explicitly including the good the public or surrounding community, being open to the challenge of new information and perspectives, and—in conclusion—being willing to act for the good that has been clarified.

Whereas stakeholder theory, corporate social responsibility, and social entrepreneurship put the burden of prioritizing public needs and benefits on individual business organizations, the pragmatic pursuit of the good positions business leaders to convene a process of shared reflection on the good that is possible and expected. The pursuit of justice through a shared process of public deliberation removes a major liability in business social responsibility, enabling businesses to participate under the standards of public reason without assuming sole responsibility to determine what social goods are compelling and which claims are legitimate (Rawls, 1997). Shared responsibility is crucial, because determinations of justice and the good in specific cases are often in dispute and never settled in a final way (Hampshire, 2000).

Part III. Business Ethics Education: Adding Three Essential Elements

The pragmatic approach to moral education as the pursuit of justice adds three essential elements to business ethics education: a) distinguishing personal moral accountability to one’s conscience from public accountability on matters of justice; (b) establishing business responsibility for the social good as a matter of justice; and (c) preparing business leaders to engage in public deliberation to determine the legitimacy, priority, and just solution of social claims. Important features of these additions to the curriculum are outlined below, to facilitate further discussion among educators and take initial steps toward incorporation of these additions in schools of business.

Public Accountability on Matters of Justice

Public accountability on morals can easily become a violation of personal integrity. Individuals are required by their conscience to uphold their beliefs, and moral communities must be respected in their capacity to form an understanding the good life and the moral behavior it demands from members. Determinations of justice, however, validate the legitimacy of claims in the public arena and compel action accordingly. Such determinations must be based in reasoned deliberation and judgment, rather than personal moral conviction. Full respect can be given to personal conscience and particular moral communities, but attempts to obligate the public on the basis of cultural traditions or personal moral convictions are subject to ethical challenge and require public validation (Schweigert, 2011, p. 45).

It is imperative that business ethics education be clear on these two matters: the inviolability of individual moral conscience and the necessity of public validation on matters of justice. This will require a close examination of the sources and functions of moral authority, as well as careful delineation of the requirements for public determinations of justice.

The power of morals to guide human behavior is grounded in individual human development within families, communities, cultures, and traditions. The authority of morals lies in the social networks to which people belong and on which they depend for affection, support, accountability, and protection, including their ideologies on how the world came to be, the nature of reality, and symbols of meaning (Naroll, 1983, p. 390). These communal dynamics inform the conscience of each person, so that individuals can make judgments of right and good that conform generally to social expectations. At the same time, each individual feels personal responsibility for the decisions he or she makes. The regulative power of morals is therefore always both social and personal, “the varied, problematic, partial, and unintentional production of persons through historical and biographical time, in a multiplicity of identities constructed and reconstructed through participation in social practice” (Lave, Duguid, Fernandez, and Axel, 1992, p. 257).

Moral accountability by each individual is owed first to his or her primary normative reference group, which may be an extended family, a church community, a workplace, or some other social network. In industrial societies, most persons belong to more than one such group and must become adept at adjusting moral expectations and behavior as they move from one group to another. The difficulty presented by the interaction of primary normative reference groups with each other, however, presents a different kind of adjustment: it creates a public arena in which the moral expectations of particular communities and traditions often differ, yet within which these communities must achieve enough moral agreement to enable the function of markets, property, security, and government. It is this adjustment that requires the shift from personal accountability to conscience to ethical accountability to determinations of justice.

Ethics is the regulatory mechanism that enables communities, organizations, associations, or jurisdictions to dispute about right and wrong or worth and value in accord with public reason. It is an exercise aimed at common understanding rather than a matter of personal moral conviction, leading to public recognition or agreement. Even though ethical disputes are not settled once and for all, the attempts nevertheless define a just social order as best it can be understood (Schweigert, 2011, p. 45).

This agreement is not only to shared intentions and policies, but to outcomes. It is not only collective determination of which claims on the public will be recognized as rights but also what public duties social membership can demand and whether or not social practices and institutions contribute or detract from human well-being. Achieving agreement on these matters is essential for public order, peaceful cooperation, and material well-being. When it is necessary to demand, on behalf of the whole body, that individuals be held accountable to public commitments and resolutions of claims despite their personal or communal loyalties and values, ethics is employed to make the determination. Justice is the work of the public body, as its requirements are worked out through deliberation. Once citizens have determined through authoritative public deliberation what needs are legitimate and compelling—in other words, which claims are just—all members of society are accountable to these determinations, even if these differ from personal or communal moral convictions.

An important problem with public agreement that must be addressed is the recognition “that the diversity of reasonable comprehensive religious, philosophical, and moral doctrines found in modern democratic societies” will persist as long as this diversity is “secured by the basic rights and liberties of free institutions” (Rawls, 1996, p. 36). The liberal solution to moral disagreement as it was worked out in Western Europe is an affirmation of on-going conflict on matters of justice, with stability to “be found only in institutional loyalties and in deep-seated habits of living together and arguing together” (Hampshire, 2000, p. 94). Matters of justice cannot be settled once and for ever, because conditions and populations change, new information arises, and new communities or leaders become involved. Good order in the public arena must be established according to objective evidence and impersonal ethical principles that transcend communal morals and perspectives (Sievers, 2010, Rawls, 1996), without the expectation that these can ever be settled permanently. Social unity can be preserved through conflict, within a tradition of addressing conflict respectfully, and as long as evils are reduced and human conditions gradually improve (Hampshire, 2000, pp. 88-89). Indeed, conflict must be seen as a positive feature of public life, through which social expectations are clarified, problems are made visible, and citizens can exercise shared responsibility for public order (Christie, 1977).

The modern belief that all traditional societies would in time see the wisdom of the liberal democratic ideology must be given up. Indeed, it sometimes appears that exposure to liberal ideals provokes reaction against them and renewed efforts to reinstate a singular, faith-based ground for all matters of public order. However, these attempts to establish a singular moral order must fail, unless they are imposed by “the oppressive use

of state power” (Rawls, 1996, p. 37). Stuart Hampshire has called this “the outstanding political problem of our time...[with] on the one hand, self-consciously traditional societies and governments...[which] maintain a single conception of the good that determines the way of life of society as a whole; and on the other hand, the liberal democratic societies that permit, or encourage, a plurality of conceptions of the good (Hampshire, 2000, pp. 23-24).

The liberal solution to pluralism is to insist on public reason for order in the public arena and to refrain from imposing liberal principles on all aspects of communal life (Rawls, 1997). This distinction of levels requires subsidiarity in functions, so that communal norms and impersonal liberal norms complement each other (Schweigert, 2002), and where conflicts arise participants have the right to appeal to public institutions governed by impersonal liberal norms (Schweigert, 1999).

This same arrangement applies to businesses, which operate in the public arena of the marketplace in accord with their own business (moral) practices but are accountable to the public for their marketplace operations. Certainly this entails compliance with the rule of law, but law covers only a portion of market interactions. Markets require certain moral conditions in order to function (Schultz, 2001), which must be carried out in the practices of individual managers and businesses. It is not enough for an individual or a business to claim moral righteousness in accord with personal or organizational norms or a particular understanding of ethical demands in the public arena. To have legitimacy in the public arena, moral claims “must be able to pass the test of critical reflection and public deliberation; they must be based on intersubjectively justifiable standards of justice” (Wettstein, 2009, p. 29). Justice is therefore a necessary part of business ethics, because justice as established in the public arena is needed to ensure that the moral conditions of market interaction are met.

Business Responsibility for the Social Good

Businesses resist accountability to the social good not only because it can subtract from profits but because it entails liabilities that may have no clear boundaries. There is much less risk involved in generous contributions to social causes or in compliance with the law. Contributions in any amount can provide evidence of public concern and earn public appreciation, all the while remaining entirely voluntary. Legal obligations are much more restrictive but still have advantages over accountability to justice: law obligates all players, including competing firms; laws and their enforcement rules set clear boundaries within clear timeframes; and the risk of noncompliance is mitigated by appeal to legal processes.

Law, unlike contributions, is also expected to have a basis in justice, so there is some sense in the claim that legal compliance fulfills the demands of justice. As Scott Shapiro has argued, because the institutions that have authorized the law have moral legitimacy, the laws themselves also “are morally legitimate and obligating.” However, the law “is not a complete account of morality.” The law “always purports to represent the moral point of view” but sometimes does not (2011, pp. 186-187). One could hope that all laws are just and that all demands of justice are incorporated in law, but this can never be the case. “Justice is a matter of the correct or best theory of moral and political rights.... Law is a matter of which supposed rights supply a justification for using or withholding the collective force of the state because they are included in or implied by actual political decisions of the past (Dworkin, 1986, p. 97). The demands of justice are not fully met by legal compliance, for several reasons.

First, some public problems or moral evils cannot be effectively dealt with through law (Kalscheur, 2004, p. 17; Kaveny, 2000, p. 9). Indeed, “it is almost impossible to write a rule to address every situation that will not also be too broad or wildly complex, and it would be best to avoid creating rules and procedures today that will lack legitimacy tomorrow” (Lager, 2009, p. 3).

Second, in some cases, “the concrete steps that a state would need to take in order to enforce a particular law are themselves morally repugnant” (Kaveny, 2000, p. 9). For example, intrusive surveillance such as DNA or drug testing, GPS tracking, examination of phone records, or phone tapping pose problems regarding privacy and business security. Excessive reporting and monitoring can also create a burden that is unsustainable for those reporting and overwhelming for those receiving the reports.

Third, it costs money to pass laws and enforce them, money which can sometimes be spent on better things (Kaveny, 2000, p. 9). Law enforcement requires regulatory oversight, which has resulted in a “compliance infrastructure...consisting of auditors, inspectors, lawyers, and a burgeoning industry of ‘compliance professionals’ who will design internal controls, training and education programs” to reduce exposure to liability and meet ethics reporting requirements (Lager, 2009, p. 3).

Fourth, the law aims only to enforce a minimal compliance, which is often not adequate to achieve justice (Kalscheur, 2004, p. 17). Compliance is “a dreadfully low bar to meet” and it nurtures an attitude that compliance is enough, replacing a need to exercise moral responsibility beyond obeying the law and

contributing to a sense that competitive advantage lies in getting as close to the minimum as possible without actually breaking the law (Lager, 2009, p. 3). This attitude also leads businesses to engage in harmful or unjust practices right up to the moment that enforcement begins, thus reducing self-restraint as a drain on business resources and sacrifice of competitive advantage.

Fifth, “compliance is not always better than noncompliance,” since sometimes employees are able to find ways to achieve the public good and the law’s intent by going around the rules (Lager, 2009, p. 3)—what Gregory called “official corruption” as opposed to personal corruption that serves individual self-interest (Gregory, p. 65).

Sufficient participation of businesses in meeting the demands of justice and serving social ends cannot depend on legal compliance alone, just as it cannot depend upon the personal moral convictions and generosity of managers. Rather, as a participant in the public arena, businesses must consider it part of their business to meet the demands of justice. The standard value proposition of maximum profits at minimum cost must be expanded to include an ethical responsibility to deliver social good as well as profits, as a matter of justice.

Public Deliberation on the Justice of Social Claims

It is not enough to leave public deliberation on justice to government alone in its legislative debates and regulatory hearings. Along with other institutions operating in the public arena, businesses share responsibility for understanding, prioritizing, and achieving the social goods needed to address pressing social issues: use and preservation of resources, environmental sustainability, avoidance of systemic risk in capital markets, and fair allocation of goods and services. This public responsibility can only be legitimately established through public deliberation under the standards of public reason. It is therefore clear that more robust public deliberation on matters of justice is needed and that institutional leaders must be prepared to participate in and facilitate these deliberations. Meeting this need requires more active and effective deliberative structures, plus a framework for justice that is easily understood and adaptable to varied circumstances.

A range of deliberative structures is needed to gather and share information, set agendas, manage participation, develop solutions, and follow through on implementation—while upholding the standards of equal opportunity, free participation, true information, and fair decision-making. The iconic structure for public deliberation in America is the town hall, with its standards (at its best) of open participation, verifiable information, reasoned debate, and fair decision-making—paralleling, in fact, the structure of a free marketplace (Schultz, 2001). This ideal is useful, but it is essential that deliberative structures reflect the scope of the business enterprises, communities, and markets involved. To be viable, deliberations in the public arena must be capable of addressing the complexity, range, and scope of current conditions and conflicts.

Local, privately owned businesses can work through ad hoc or occasional processes to address matters of justice as claims arise, but it will be necessary to institute regular hearings, forums, and caucuses to address issues and priorities on municipal, statewide, regional, or national scales. Citizen juries and Deliberative Polling® (Fishkin and Luskin, 2005) provide additional possible structures. Given the ubiquity of social media and personal communication tools, it is also possible to foresee distributed networks of deliberation extending across time and space. Global public corporations—which operate at the scale of quasi-governments (Wettstein, 2009, p. 187)—would require formal structures based on universally recognized human rights and international law and courts.

Agreements resulting from public deliberation need enough definition and stability to support business decisions and investments, as well as to merit community support and mechanisms to monitor implementation. Community benefits agreements and civil compacts provide possible models, as do collective impact collaboratives (Kania and Kramer, 2011). These are points to begin, but more is needed. Businesses cannot exercise their public responsibility without dependable structures for weighing claims of injustice, developing just solutions, and establishing public accountability for follow-through.

A simple framework for justice is needed equip business and civic leaders with a set of questions to determine the primary nature of the claims before them, thus pointing toward possible ways to resolve the claims. Proposed here is three-part framework of procedural justice, distributive justice, and public justice (Schweigert, 2007), distinguishing three kinds of moral claims that arise most frequently in the demand for justice.

Procedural justice addresses concerns about respect for human dignity and fairness in processes and procedures, including individual or group rights to free and equal participation. Where social cooperation fails and members of the society lose confidence in one another, they can at least put trust in the fairness of public processes as an avenue for reestablishing fair terms of cooperation.

Distributive justice involves questions regarding the allocation of resources, goods, and services. The justice of allocations depends upon an understanding of human nature, human needs, and the meaning and destiny of human community. However, as Florian Wettstein has rightly pointed out, in order for needs to be treated as rights, “they must stand the test of intersubjective justification” (2009, p. 71). Avenues for justification include assessment of human capabilities (Sen, 2009; Nussbaum, 2011), consulting levels of primary goods (Rawls, 1971, 1996), analysis of the material conditions for existence (Dussel, 1997, 1999), analysis of equality of condition and responsibility (Roemer, 1996), or appeal to the common good (Lohmann, 1992; Maritain, 1946/1966). The most fitting terms of analysis must be determined through public deliberation.

Public justice refers to duties of office that are delegated to the office-holder as a public trust, and duties of profession that commit the person to uphold publicly declared and honored standards and ideals such as those in law, medicine, teaching, or research. Public justice is limited to obligations established and recognized by a commercial, communal, or political entity such as a business, neighborhood, or government.

The working assumption behind public deliberation is that citizens have a sense of justice and an ability to plan for the good, individually and collectively (Rawls, 1996). Peter Corning has recently shown that this assumption in political philosophy is supported by studies in cross-cultural anthropology, neuroscience, evolutionary psychology, laboratory experiments, and primate behavior, all of which indicate that human communities operate with a “biosocial contract” of justice in terms of meeting basic needs, distribution according to merit, and reciprocity as a basis for cooperation (Corning, 2011). Even so, participants in public deliberation face the same hazards of uncertainty, liability, ambition, and loyalty that inhibit moral behavior in the workplace. This vulnerability to corruption requires that participants in civil deliberations have a right to appeal to legislative bodies and judicial proceedings when deliberations fail. At the same time, subsidiarity will require that legislative bodies affirm the authority of civil processes to act on behalf of the public good (Schweigert, 2002).

Conclusion

The expansion of business ethics education proposed here is limited and specific and can be delivered without great expense. Yet the stakes are high, and the public can legitimately demand that schools of business prepare leaders to meet the requirements of justice in the public arena.

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TEACHING ETHICS

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Summary

According to A. Etzioni¹, "almost the entire life of the contemporary man goes by inside organizations: we are born, grow, receive education, practice religion, work, have fun, marry and even die within organizations. And in the supreme moment of death, the organization *par excellence*, the State, gives us permission to be decently buried."

Such magnitude of functions carried out by organizations makes it vital for the professionals -who develop most of their job within organizations-, to be not only qualified on their area of expertise, but also to possess moral judgment. This moral judgment must always be exercised, even in hard, conflictive and uncertain situations.

¹ Etzioni, Amitai. *Modern Societies*. UTEHA Manuals, N°. 271/a-b-c-

A business implies administration, especially of people who essentially cooperate with each other in the achieving of an objective. If we add to this the globalization and change issues, we arrive to the conclusion that managers and professionals must be able to make fast and convenient decisions for the technological and economical world, but said decisions must take into consideration the application of ethical values.

Education has to focus on the individuals and not on the knowledge transmission. Learning through education must be integral and holistic and must include a moral dimension.

Keywords: ethics; business ethics; teaching ethics

"We need an open attitude to study in the search for wisdom, to contemplate the truth and let ourselves guide by God's Word-Wisdom, which is provided to us by the testimony and words of the professor, the colleague or the classmate..."²

The continuous advances made in science and technology in one hand, and the current organizational contexts – characterized by change and uncertainty - in the other, force the professionals to possess certain fundamental skills related to scientific and technological field:

- *Ability to identify and incorporate new scientific and technological methods;*
- *Ability to create new theoretical framework and technologies from the existing ones;*
- *Ability to apply the scientific and technological advances to complex situations and contexts;*
- *Ability to accept the ethical and social responsibility in the solution of the problems that affect the human race³.*

The constant and accelerated changes in the organizations and the growing internationalization that accentuates the interdependence, make these organizations – and specially its managers – to consider factors beyond their control scope and, therefore, they are forced to add more complexity to their systems of thought.

The technology in particular, with its unquestionable human potencial, can be tackled from three different aspects: its formal dynamics, its substantial content (products and services) and its ethical implications (which help shaping the mankind future). Ethics in this field should help the professionals to solve the relationship between the technical achievements and their eventual impact on the physical, social, political and cultural environments.

The changes and fluctuations we witness, almost as mere observers, have a characteristic that make them barely governable: its unpredictability. In consequence, the complexity of the change on the systems does not allow dealing with them with the classic idea of single outcomes, but as stories with multiple open endings.

We are therefore forced to manage complexity, with the new challenge of incorporating knowledge to govern the facts concurrently with their development.

These new abilities must necessarily be:

- *Ability to formulate strategies;*
- *Ability to create and integrate work teams;*
- *Ability to negotiate and solve conflicts;*
- *Ability to reflect on practice and during practice;*
- **Professional's ability to act as a *moral agent* to evaluate the human and social sense of the technology.**

Objectives of Current Work:

- *Justification of Ethics teaching, in general and in particular, for the professional practice.*

² "From love to wisdom and from wisdom to love. The Catholic University in search for a new Humanism", Carlos María Galli Universitas No. 4 – August, 2007.

³ "Just as nothing gleams if it has no light blended with it, and nothing is black unless it contains darkness or draws to itself something of dimness, and as nothing is hot without the aid of fire, and nothing cold without air; so it is the association of virtue and vice that makes things honorable or base. What then is good? The knowledge of things. What is evil? The lack of knowledge of things." Lucius Annaeus Seneca. Epistulae morales ad Lucilium – collection of 124 letters dealing with moral issues written to Lucilius Junior.

- *Analyze the ethical competences of the professional work both in its individual exercise and within the companies framework*

1. Development

Teaching Ethics is not a new attempt. Although it may seem to have exacerbated during the last part of the 20th Century, the concern about Ethics comes from old times and, in addition, *is part of the human culture*.

The Ethics' radical and basic question is *what should I do?* Beyond this question, we can always ask, as Wittgenstein did, "what happens if I do what I should?" Or maybe, "what happens if I don't do what I should?"

Since it necessarily has to be well founded, Duty is not the ultimate ethical word. The assumption of the existence of a Higher Law etched on human hearts and the respect of it would take the moral to its extreme, constituting the basis for many religious morals.

1.1. Ethics: its teaching

Although it is part of the human structure, the moral conscience is built and, at the same time, it allows to be built. The Ancients believed that God itself dictated the moral law through the voice of one's conscience. Nowadays, it is attributed to our own psychic structures, to the inner moral law.

"Trying to qualify the human actions from outside following pre-established virtue codes is a vain task, the same as trying to discredit the virtuous one by analyzing the isolated peculiarities of each of his gestures. It is the moral entirety of the hero – of the excellent one, the Aristotelian *spoudaios* -, owner of virtues, not each one of his individual actions; virtue is not achieved by acting according to moral rules but, on the contrary, because a person is virtuous will perform acts that will serve as virtue examples. This is the reason why virtues only count as compounding elements of a moral entirety, not isolated and in themselves".⁴

Ethics does not mean:

- ✓ an arbitrary collection of rules imposing restrictions on individuals to pursue their own development
- ✓ a collection of rules and behaviors that have been adopted to live with each other in a society
- ✓ a collection of rules to calculate the larger amount of good for the larger amount of people
- ✓ a method that simply allows to articulate the values that guided one's elections on the past
- ✓ a mechanical formula to discover the right answer for specific moral problems.

Ethics is:

- ✓ a systematic research on the nature of the real good, the human life satisfaction and the kind of values and commitments that make life possible;
- ✓ in other words, ethics looks for, but does not invent, the norms, principles and rules that structure the moral life;
- ✓ in a certain way it is like medicine, which does not invent the health definition⁵ but identifies the practices and behaviors that preserve the good health as well as the medicines that help recovering it;
- ✓ the ethical traditions are not like the laws approved by legislators (their violation is punished), they are more like reasonable medical advices : if you do not follow them it may result in your health being compromised;

⁴ Fernando Savater. *Invitation to Ethics*. Compactos Anagrama, 1995

⁵ In 1978, the World Health Organization at Alma-Ata (URSS), defined health "as state of complete physical, mental and social well being and not merely the absence of disease or infirmity".

Everybody has values, the lack of it is impossible for being a human person; values are preferences or reasons for choosing one thing or another. Some of them may just be a matter of taste (in music, Mozart or Beethoven; in beverages, wine or soda...), but others dramatically shape our lives.

It can be said that Ethics is the discipline that critically examines these values or preferences, those that constitute the essence of our lives. When speaking of preferences, very few can be said: each one will defend his own. However, it is not the same situation when we talk about saying the truth⁶, betraying, keeping a promise, stealing, etc.

Ethics assumes that a person makes free decisions and that these elections are related to the quality of people we are⁷.

The right decisions make us better persons and our lives worth to be lived. On the contrary, the wrong decisions reduce the chances for a genuine human development.

"The essence in every moral is considering human life as a part that can be won or lost, and teaching the man the means to win it"... "Freedom is the source from where all the significances and values come from"⁸.

A person is ethical up to the point where the values that guide his elections arrive, that is, up to the extension of the principles for which the elections are made can be considered good or bad.

Practically we all have a set of values, most of which are good, but probably some of them are not. We can affirm that elections made following principles recognized and accepted as good are ethical, while those based on bad principles are unethical.

Nowadays, the existence of all kind of encapsulated forms - more or less extensive- is in fashion, and the norms (or manuals) to follow for achieving an ethical behavior can be found there. It is very common the existence of Codes of Professional Ethics for Entrepreneurs, or of Public Service⁹, etc., so we tend to consider them as modern conceptions. As a matter of fact, this is not real: Hippocrates, 2500 years ago created what can be considered the first Ethics code for the medical profession, based on the precept "*Primum non nocere*", Latin words for "First, do not harm" (the patient).

Nevertheless, the last 20 or 30 years undoubtedly seem to be particularly important in the development of this discipline.

The new globalization phenomenon we witness adds a more complex element to the Ethics study. This new globalization (or *mundialization*, according to many European authors) has such important characteristics that invaded and influenced all levels of human behavior.

In order to understand this phenomenon, we can affirm that:

The distinctive characteristics of the current globalization (unlike the previous ones, and constituting the last stage of the internationalization process) have allowed:

- ✓ the generalization of worldwide relationships
- ✓ the intensification of the interaction and interdependence amongst States and societies

The essence of the new scenario is provided in particular by the technological globalization for its contents and dynamics¹⁰. The information, telecommunications, transportation, management and process control technology provide the "nervous system" of the new global systems, generating a substantial increase of productivity. At the same time, knowledge, in a wide sense, becomes the main resource for wealth and power creation.

The culture is also experiencing this globalization process, first thanks to the electronic means and the increased population, and secondly for the impact of new knowledge representation means, basically the multimedia. In this way, universal communication means are spread out based on symbolic

⁶ "The truth is a moral virtue itself, independently from any utilitarianism. Only charity, the real love for the others, can interrupt its obligation in appropriate cases". Lepp, Ignace. *La morale nouvelle*. Ed. Carlos Lohle, 1967

⁷ "The individual only gets released together with other individuals, thus is not enough fighting for our own release; the fight for the collective, social liberation is an imperative moral duty". Ibidem

⁸ Pour una morale de l'ambiguité, Simone de Beauvoir, 2003

⁹ In Argentina, the Law n° 25188 on Ethics on Public Service, contemplates a set of duties, prohibitions and incompatibilities that apply all persons performing Public Service, at all levels and hierarchies. The Decree n° 41/99 created the Code of Ethics for the Public Service. At international level, The Pact of San José de Costa Rica, signed on 11- 22-69, approves the Convention on Human Rights.

¹⁰ "There exist today 'a higher sense of international solidarity' that offer the system of United Nations a 'unique chance to contribute to the solidarity globalization, constituting meeting point for the States and the civilian society, a convergence point of the different interests and needs (...). Pope John Paul II, Pontifical Council for Social Communications. Ethics in Internet

languages (even so, it is important to point out that this cultural globalization has its limitations, because the cultural exchanges usually are asymmetric and unidirectional, tending more to an uniformity rather than to an universality).

2. Brief overview of Ethics teaching

Ethics does not represent an external description of the human behavior, it implies an ideal. And this ideal is much more than an idea or an articulation of ideas: Hermann Nohl, in its "Introduction to Ethics" book, says that "the ideal is the joyful strength". It belongs to the symbolic imagination field, which is not opposite, contrary to or excludes the rationality, but on the contrary, it embraces, precedes and goes beyond it¹¹.

Throughout human History, Ethics teaching experienced different processes, which, as sea waves, do not completely go away: they leave behind a trace influencing the following phases.

We can characterize three different kinds of teaching, from vaguely determined chronological stages:

Proverbs	Articulate experience wisdom with behavior
Examples	Basic premise: people is able to choose Good over Evil, and to orientate their behavior in that direction
Law and Regulations	Laws and regulations are channels that allow the development of people's activities (and organizations) within trails that preserve the common good.

Chart 1: Ethics teaching evolution

On the other hand, we must not forget that every culture has its particular way of educating young people, to pass on the accumulated experience and knowledge, by the means and in the way that culture considers more convenient¹². The skeptic will face an overwhelming variety of precepts and the ethnographic disparity of recommended behaviors. Nevertheless, finding common points, and especially its foundations, is not an impossible challenge. "We can rarely find any culture that disapproves courage, loyalty, intelligence and unselfishness. Some cultures recommend being tough and even cruel, or ambitious to voracity, or shrewd, even perfidious. However, I have never heard of any culture advising vanity, baseness, greed or timidity. The reason why appears clear to me: these are many other ways of servitude"¹³.

One of the most ancient methods is the Proverbs.

2.1. Proverbs

They are an attempt to articulate the experience wisdom with behavior. The continuous evolution of men behavior and its observation create a consensus about which behaviors have been satisfactory and which ones not, and those conducts are coined in phrases, which sound as set phrases and are named Proverbs:

"The early bird catches the worm".

Sometimes these proverbs collide with others, because they are the result of different behaviors, in different circumstances and different moments:"

"Time must take its course" or "The early bird DOES NOT catch the worm".

Nevertheless, the truth is that a wise or a thinking person reflects on it before making a decision and before using any of the proverbs that may generate a contraposition.

The moral education taught through proverbs is very old, and is probably related to the oral transmission of the culture, but due to its generality, it cannot stand by itself. Something else needs to be implemented.

Another method very well known and that has widely reached our days are the Examples.

11. Fernando Savater. Invitation to Ethics. Compactos Anagrama, 1995.

12 According to José Antonio Marina in his "Ethics for Castaways" passes on the obligations through socializing institutions. The structure of these obligations is not a mental model to be used but a model to make it real."

13The game designe reader, Roger Caillois, 2006

2.2. The Examples

They might be as old as the proverbs. Their basic premise is that people has the ability of choosing Good over Evil, and to orientate their behavior in that sense.

Both elements seek to shape individual's character or habits in order to influence them to choose what the society as a community considers as the Good (not necessarily all the societies share the same values about the Good or Evil).

This concept of community is **crucial**: what is good for a culture or in a certain moment of the human history may not be in another. It is well known that in the ancient city of Sparta the children born with any visible defect were thrown down a hill. No one would have thought about the violation of the rights of the newly born, nor in the punishment of those crime executors. The behavior is nowadays completely opposite: in order to prevent any health problem, there are prenatal diagnosis, intrauterine surgery, etc., always with the objective of saving a human life.

A similar reasoning can be made with slavery, which operated for so many centuries as a fundamental element for the economy development, especially in Occident. In consequence, it is understandable the huge effort for finding consensual ethical values at a universal level.

A key moment on the moral education was the systematic research on the subject made by Greeks. For them, choosing the Good and rejecting Evil could only be made by a man of character and good-natured who was fully aware of what was being done.

The Pythagoreans, as convinced dual moralists, used two columns under the titles "Good things" and "Bad things". On the "Good things" column, along with light, unity and the masculine, they registered the limit; on the contrary, the "Bad things" column was completed with concepts such as darkness, plurality, the feminine, as well as the unlimited¹⁴.

Pythagoras' religion included some kind of pantheism. The world is divine, therefore is good and a unique whole. According to Pythagoras, if it is good, a living being and a whole, it is because it is limited and obeys to an order in the relationships of its different parts. A full and efficient life depends on the organization¹⁵.

The most important objection against these considerations rose directly from Socrates teachings. In his effort for making men better and persuade them to "be careful with their souls", he tried to teach them that they should not be satisfied only with individual virtue acts – with fair, brave or good actions, for example. They should do their best to understand and define the nature of the justice, value and goodness inherent to those acts¹⁶.

The Greek word *areté*, generally translated as virtue, it is used both in singular and plural and, as Aristotle pointed out, it is a relative term that is never used in absolute sense, as we use the word virtue. *Areté* means that something is good for something else, and it was very common that a Greek on hearing this word would ask: "the *areté* of what or of whom"? There is a political *areté*, another of the athletes, of the riders, and even a domestic one. In fact, it is close to the concept of efficiency. During the V Century B.C., a group of itinerant teachers attempted to teach the *areté*, especially that of the politician or the public man, although this does not mean that their teaching was particularly ethical. They intended to accentuate the *areté*'s practical and immediately helpful character. The *areté* was professional and, "if in ancient Greek there had existed a correspondence course on business efficiency, they would undoubtedly have highlighted the word *areté* in the ads"¹⁷.

"Virtue advocates precisely for the opposite to what Nature recommends: since it does not want to destroy the man but to preserve it, it will ask me not to do others what I do not want to be done to me, and also to safeguard the symbolic ties precisely because they are not natural and confirm the human independence from the natural destructivity."¹⁸

The possibility of finding foundations for making objectively valid ethical judgments should not be discarded, no matter how hard it may seem. Some specifications may help: since Kant, it has been widely accepted that the objectively valid judgments can only be established on facts and not on values, and that a proof of being a scientist is the exclusion of value statements.

¹⁴The Greek philosophers. William K. C. Guthrie. Fondo de Cultura Económica, 1994.

¹⁵ Ibidem

¹⁶ Ibidem

¹⁷ Ibidem

¹⁸ Invitation to Ethics. Fernando Savater. Compactos Anagrama. 1995

In every art, there is a normative system objectively valid that constitute the theory of the practice, an applied science, based on the theoretical science. Even when there are many different ways of reaching excellent results in any of the arts, its norms are in no way arbitraries: the violation is punished with a poor result or even with a complete failure in achieving the intended purpose.

On the other hand, Mill explicitly refutes Kant's point of view and states that the consequences of an act make it morally good.

But not only the medicine, engineering or painting are arts: living by itself is an art; as a matter of fact, it is the most important, complex and difficult art practiced by men. In practicing the art of living, the man is at the same time the artist and the object of his art, the sculptor and the marble, the doctor and his patient. In addition, every applied science has an axiom, which is the result of an election: the objective of the activity is desirable, i.e., the real election of a man lies in choosing between a good and a bad life¹⁹.

2.3. Laws and regulations

While philosophers doubt and contradictorily debate each other, or listen the skeptics, poets do not resign themselves – especially the dramatic ones – because they are forced to talk about actions, and therefore to defend the free possibility of the man. As the Spanish poet wrote:

"For although his inclination

Well might find its precipices,

He might possibly escape them:

For the fate the most fastidious,

For the impulse the most powerful,

Even the planets most malicious

Only make free will incline

*But can force not human wishes"*²⁰

The societies have established that laws and the regulations are tools to channel men activities and organizations.

Laws and regulations are supposed to be the means to allow the development of people's (and organizations) activities, within certain limits that preserve the Common Good.

The different ways they enter into force also differ from one culture to another and from moment to moment. Although there are written and unwritten constitutions, it does not mean a different degree of acceptance by citizens. Despite the existence of rights and obligations registered in extensive bodies of legislation, many people remain unaltered in front of it. The mere existence of jails does not imply a substantial modification of human behavior. There must exist – and probably it does – something different that move men to embrace the Good and reject the Evil.

Yet these three Ethics teaching methods - Proverbs, Examples and Laws and regulations – still lack the strength of what we call "moral education".

The Greeks (Plato and Aristotle) have already warned us about how dangerous those elements in the wrong hands were. The three of them provide what is necessary for modeling the human behavior, but do not offer an objective evaluation of what they are generating. Thus, following the path traced by the Greeks, we currently try to educate in the moral, with the objective of thoroughly investigate what really makes good a human life and how this can be achieved.

The Ethics tries to find qualified principles (beyond the Proverbs, Examples and Laws and regulations) to guide the human actions. But these tools are efficient only if they are in the hands of honorable people. If not, they loose their function .

This process must be carried out with freedom and as a result of a rational process of reflection, along with the consequent deal of responsibility.

¹⁹ Ethics and Psychoanalysis, Erich Fromm.. Fondo de Cultura Económica, 1976

²⁰"Life is a Dream". Calderón de la Barca, The Project Gutenberg E. Book2006

In the Greek world, Aristotle was the responsible for introducing the denomination of Ethics to designate all the things related to the principles of Good and Evil, and the designation of Practical Philosophy for the norms that must rule the human behavior. According to him, the virtue is the Ethics' object, while the morality constitutes the object of Practical Philosophy.

Aristotle, in his *Nichomachean Ethics*, made the first systematic exposure of this discipline, considering as an essential topic the one of the "supreme good, that is, a good desirable in itself and for which, at the same time, all the other goods are desired; everyone agree that this supreme good is happiness".

According to Aristotle, the virtue is a way of thinking and feeling that strikes the right balance between excess and defect; this right balance can be apprehended by the reason, and the one to gets to know it, such as the wise man, acts consequently to it, and fulfills in reaching the happiness, because happiness is nothing but the activity of life in accordance to the reason.

The Christians introduced a new ethical conception based on the following principles:

- ✓ God is the Supreme Good
- ✓ Since they are sons of God, all men are equal. God created them in an act of pure love, in consequence, "Love God and love your neighbor as you would yourself" is the cornerstone for the salvation.
- ✓ The man is free to take or not the path of virtue.

The news about the Christian conception consists on the basic importance of love, which was not present on the ancient Greek conceptions, which were eminently rational.

Thus, the approach of the ethical problem is not arbitrary, the exercise of the professional activity entails the manifestation of the values present on the people who develop that activity (or any other activity), and given that everybody has values: since we are human persons, their absence is impossible.

3. Professional Responsibility

Ultimately, the reason for educating on Professional Ethics is that: *professionals assume huge responsibilities towards community, and this must be framed within ethical principles.*

During centuries, it was very common for the confessional universities to include in their curricula the teaching of Moral or Ethics, in contrast to the secular universities.

According to A. Etzione²¹, "almost the entire life of the contemporary man goes by inside organizations: we are born, grow, receive education, practice religion, work, have fun, marry and even die within organizations. And in the supreme moment of death, the organization *par excellence*, the State, gives us permission to be decently buried."

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Education has to focus on the individuals and not on the knowledge transmission. Learning through education must be integral and holistic and must include a moral dimension²².

In the case of professions, Proverbs, Examples and Laws and regulations are also valid instruments for the ethical teaching, because they are a part of the life structure of those men constituting the technological world. Consciously or subconsciously, they have internalized certain values that will arise at the time of facing the resolution of working situations.

²¹ Etzione, Amitai. Modern Societies. UTEHA Manuals, N°. 271, 2000

²² "Aristotle says that "... a good upbringing and good habits are necessary to become a good man, who would live honestly without voluntarily or involuntarily doing the evil..." Op. Cit.

However, in recent times teaching was strongly focused on the “case analysis”, generally following the model of the Harvard Business School. The cases are normally introduced in detail and implying that business develop in a neutral frame, but at some point they come across a situation that demands an ethical evaluation. Generally, there are no details on the way the company develops its activities, which are its commercial practices, etc., and, in most cases, the student is facing decisions that have been already taken, which he can barely modify or can not modify at all.

On the other hand - and probably this is the most important thing -, teaching through cases assumes, for those performing the analysis, the existence of certain ethical values that must be applied to “solve” such case. That means that the necessary tools were incorporated in the previous stages (and probably outside the university) and that they may differ from one to another participant. Moreover, their ethical values may be diametrically opposed to each other. In consequence, how the case is solved? The answer is not easy, especially if we consider the globalization in which the professions develop and the consequent culture differentiation.

The culture generated by the market economy can be described as a culture that is modernist, scientific and sometimes destructive of human values, because it mainly focuses on commercial aspects (spirit of competition, materialistic attitude, individualism). In this context, it is necessary to articulate a paradigm of administration that contemplates an integral vision of the man. Pedagogy must be oriented towards the change of attitude, to establish a universal vision of the science and technology, with its polychromy of cultures and a set of values with the final objective of achieving the Good for humankind.

The society as a whole wants those with a professional responsibility to have a thorough knowledge of the obligations they have with the community in general, and this not only applies to commercial businesses but also to nonprofit organizations.

4. The professional as a moral agent

The human being achieves fulfillment in work and through work; in consequence, the primary value of work cannot be measured in simple economical terms but taking into consideration that the one who does that is a person.

“What kind of person do I want to see when I look at myself at the mirror in the morning? What we call ethical behavior in a certain kind of organization or situation is still ethical in another?” (Peter Drucker, 1999).

Persons are able to positively develop or, on the contrary, to deteriorate through moral habits that are a consequence of voluntary elections or decisions related to the human activity. For that reason, the level of freedom for decisions making –voluntary elections– is one of the goals for the positive science to achieve in order to integrate the personal points of view with the administration theory.

There is a close connection between the objective and the subjective aspects of the work²³:

Objective aspect	1) Shows the importance of the modern division of labor as a social mechanism for the satisfaction of needs (food, reproduction, health and development). If the man wants to stay alive, he has to meet them one way or another.
Subjective aspect	2) 3) Involves the personal fulfillment at work, the development of the individual's creativity.

Chart 2: Work aspects

These two aspects that can be observed at the world of work, have already been pointed out by Aristotle²⁴: the first one was supposed to be developed within the family and was useful for satisfying needs, and the second, related to the wealth generation, which tries to maximize profits, was made throughout exchange and commerce. We can appreciate here some tension: the satisfaction of needs is simple and clear, but the other generates a distortion on the reference framework of the human existence.

²³ Javier Aranzadi del Cerro, The Social Division of Labor and Personal Realization Madrid, Spain

²⁴ Politics, Aristotle

Another important element for taking into consideration is that as a consequence of the proliferation of many companies – a phenomenon of recent times – professionally trained men develop their skills in said companies and, consequently, their behavior has to adapt to what we know as the business culture or the company culture, that constitute their context for acting. Sometimes there is a schizoid effort for separating the private and the professional lives: what is good for one is not necessarily good for the other. Hence, understanding the commercial ethics would help those who are involved to have a more definite line.

Work, as the means through which a person becomes more human, provides the opportunity to grow in the virtues, too. For that reason, it can be inferred that the subjective dimension of work is more important than its objective side.

It is necessary to develop some principles²⁵ to support the teaching of Ethics, independently from its formal aspect:

1 – The human beings are called to work and achieve a human expression through their work.

Working does not only allow men to express their talents, it also puts them – through the application of their knowledge and experience – in contact with other men, constituting a community that goes beyond the work in common. The dignity of the work has to be guaranteed in order to avoid dehumanization (decent work, human conditions of the context, fair pay) and to prevent from prioritizing productivity over men's welfare.

2 - The center of the professional activity must be the man, and not the opposite.

The human work must ultimately contribute to the development and welfare of the man, it should not be reduced to the production of goods and services that may degrade the man nor to the constitution of any kind of net that may result humiliating for him.

3 – In work communities, where a man can completely express himself, supportive and participative groups are to be built.

In general, the modern man performs his work through an institution (mostly for commercial purposes), i.e., he works for any organization or in contact with it. Therefore, these constituted communities must allow that man to be contained, to participate and eventually to exercise some kind of leadership in which superiors and subordinates are respected for their fundamental condition of human beings.

4 – Solidarity must underlie in every human activity. In the case of professional work, this is an imperative due to the great amount of time and effort the man dedicates to it.

Professional activities must preserve the welfare of the working people. The interdependence that rises on the modern world of work must maximize each member's welfare by providing, in first place, the life protection of the people involved and of those goods and services that are essential for the development of a decent and fulfilling life.

5 – The professional is called to be a leader in his team. If at the same time he is a member of a professional's society, he can have higher influence on the technology development.

Conflicts between technology and society that arise as a consequence of the questionable social validity of many technical projects and from its side results (sometimes negative results) can find in the professional with a moral education a singular agent of change. Government departments, as well as large corporations, influence on the direction the technology should take. The professional associations can drive discussion fields (with the general public participation), in which the social-humanistic implications of the technological activity are explained²⁶.

Public Service and Ethics

Raising an ethical problem consists on asking oneself how an activity –whichever it is- influences on all the people involved in it. Taking into account the possible repercussions on people of the activity that is being carried out, implies the excellence of the task entrusted.

In a wide sense, the Public Service involves the State activity, and the different ways the State performs this activity. In addition, the different ways of State's power manifestation from a teleological or finalist point of

²⁵ Following Elena Lugo and Eva Marie Armhein's thinking. (Ética profesional para la ingeniería). 1985

²⁶ "...but when community shows not interest on it, it can be admitted each one to assist his descendants and friends in the exercise of virtue, with the necessary faculties to carry it on, or at least to attempt it..." Aristotle, Nichomachean Ethics.

view. Or, even more, we can say that the State seeks the achievement of its objectives through a series of activities that constitutes its functions, in which the triple dimension is reflected²⁷.

The constitutional jurisprudence affirms that the modern concept of Social Rule of Law entails an unavoidable increase of the State intervention as a necessary mechanism for the effective realization of rights. This circumstance implies that a different one in better agreement replaces the classic concept of the administrative function with the new legal reality and that the organization of the modern State accordingly meets the new criteria. The exercise of the Public Service requires the disposal of means for its realization, which normally are goods that belong to the public property.

The principle of morality seeks honesty on the public servants performance. Following there are "contrary" examples of such moral: a) disrespect towards the legitimately constituted hierarchical authorities, b) offensive conduct against people's honor or privacy, c) discriminatory or humiliating treatment against someone, d) betrayal of national interest for the benefit of foreign interests, e) affronts to the human dignity, f) to carry out administrative acts or celebrate contracts with ignorance of ineligibility restrictions, g) existence of incompatibilities or lack of requirements or skills necessary for the exercise of Public Service, etc.,

Since we are not analyzing static cases but, on the contrary, we face complex processes, highly interrelated and with different variables, the explanation of said cases does not come from its own internal logic but from the logic of other events²⁸.

Promoting Ethics amongst Public Servants and the transparency in Public Service are nowadays intimately related in Latin America, at least at a discursive level. Furthermore, both elements are considered indispensable to fight - or at least to inhibit – corruption, and to legitimate not only the ruling class but also the State itself.

It is interesting to appreciate that, when talking about the Public Servant performance in Latin America, the lack of Ethics is a phenomenon that is neither current nor endemic in certain countries or regions: it is globally disseminated.

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TEACHING BUSINESS ETHICS DURING AN ECONOMIC CRISIS

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²⁷ On crimes against Public Administration, this one is considered an interest serving the community and the people being governed, in order to protect, on the contrary, the mere law disobedience would be punished (violation of prohibitions or mandates) and not the real transgression of legal rights. Recent works tend to apply a conception of the legal right considering the parameters of legality, efficiency and honesty.

²⁸ "Nobility does not lie in one's being but in other's gaze". Francisco Andujar Castillo. Op.cit.

In 2003 a conference took place at Adam Mickiewicz University, organised by the Polish chapter of EBEN and the Institute of Cultural Studies of AMU and dedicated to the “post-Enron trauma” in business ethics teaching and research. We still discussed the issue even after the conference and finally the proceedings were published in 2005 under the title “Post-Enron business ethics”.²⁹ All authors were convinced that business ethicists witnessed a kind of a turning point: such a shock should have a healing long term effect. Once we had witnessed the consequences of an unethical and, in most cases, simply criminal behaviour – nothing of that would be allowed in the future. Managers would learn the lesson as well as governments, public opinion and the whole range of other stakeholders. For business ethicists it was an opportunity to analyse corporate governance problems, to ask whether similar breach of all basic rules would be possible in Europe and to use this case as a basis of class discussions at universities and elsewhere.³⁰

At that time (and today) “Enron” of course was a symbol of the whole series of bankruptcies caused by questionable business behaviour that shook the American economy. Many prominent figures of American business and politics deplored about the erosion ethical standards and about greed as a driving force of many American companies. Among them are Henry Paulson, Paul Volcker and Alan Greenspan who are not – as noted by Laczniak and Murphy – “left-wing crackpots, socialist university professors, or third-world antiglobalists seeking to derail capitalism. They are among the most respected captains of the American economic system, and they are shocked, saddened, and growingly disturbed about the practices and veracity of the business and financial system.”³¹

What did Paulson, Volcker and Greenspan said or might have said about present crisis (or rather continuation – some people tend think – of that crisis signaled by the bankruptcy of Enron) we know or we can guess. How, then, can we teach business ethics today when all post-Enron hopes for improvement have failed? How to teach during the crisis which was caused in the opinion of many observers (an participants) by excessive greed and risk-taking. Even “The Economist” used the word “greed” in its report.³² Since our students study management, and not sociology or psychology, the question should be generalized: how should we teach management, on the basis on which curricula, in order not to jam the message sent by business ethics class. I am convinced that success or failure of this endeavor depends on both: teaching strategy of business ethicists as well as on the content of other classes.

The late Sumantra Ghoshal advised business schools that in order to prevent future Enrons they “do not need to create new courses; they need to simply stop teaching some old ones.”³³ Some topics from strategic courses should disappear as well as agency theory as a part of corporate governance courses. Of course outside GB and USA prevail other traditions and other types of higher education institutions. In Poland and Germany there had been five years management programs which did not require professional experience and were more concentrated on theoretical analyses and were based on a wider range of courses including sociology, psychology and philosophy. The so-called Bologna reforms have introduced in all EU countries three or four years of undergraduate studies plus 2 year of master studies which – in the field of management – become similar to the American MBA program. (Although no professional experience is needed.) There is a fear however that within two years studies there would be no time for a larger perspective in teaching about social or cultural issues, although not directly related to business but still relevant to today’s management (e.g. patterns of consumption or ecological issues). One course of business ethics might not be sufficient.

Today we face a financial crisis and many students join our classes with a conviction, fuelled by this almost global financial meltdown, that business has nothing to do with ethics. By “business” they mean what they have learned from documentaries, fiction movies or just news. When Enron collapsed the battle cry was “this can never happen again”. Today we all know what Milton Friedman said in 2003; that we would see in the future similar events (since “market” had to eliminate bad companies), so “never again” would sound less convincing. So the challenge posed by the present economic situation can be summarized by the question what kind of argumentation could convince students that there is an “ethics” in business and that business ethics teaching has a practical significance, i.e. to help students become simply better managers. Management teachers, including business ethicists, will be more convincing if they first reflect on themselves

²⁹ J. Sójka (ed.), *Etyka biznesu „po Enronie”*. Humaniora – EBEN Polska, Poznań 2005

³⁰ See e.g. A. Tonge, L. Greer, A. Lawton, *The Enron story: you can fool some of the people some of the time...* “Business Ethics. A European Review” 2003, nr 1, p. 17

³¹ G.R. Laczniak, P.E. Murphy, *Ethical Leadership for Improved Corporate Governance and Better Business Education*. In: R. A. Peterson, O.C. Ferrell (eds.), *Business Ethics. New Challenges for Business Schools and Corporate Leaders*. M.E. Sharpe, Armonk, New York 2005, p. 181

³² Greed – and fear. A special report on the future of finance. “The Economist” January 24th 2009

³³ S. Ghoshal, *Bad Management Theories Are Destroying Good Management Practices*. “Academy of Management. Learning & Education” 2005, vol. 4, nr 1, p.75

and their field. One of the questions which can open such a self-analysis might be the one posed by Sumantra Ghoshal: are bad theories really destroying management practices, are they destroying capitalism?

Ghoshal suggested that “by propagating ideologically inspired amoral theories, business schools have actively freed their students from any sense of moral responsibility”.³⁴ By ideology he understood liberalism, mentioned many times by Milton Friedman, along with its pessimistic assumptions about egoistic individuals and the necessity to design organizations in such a way as to make possible neutralisation of this tendency of individuals to act on the basis of selfish motivation. Ghoshal also rejected a long tradition of social theory which deals with the negative problem “of restricting the social costs arising from human imperfections.”³⁵ This pessimism has been visible all too often in the social sciences which underlined the need to build institutions which would help to overcome the imperfect human nature. What is more, this pessimism of our theories tend to be self-fulfilling: expectations based on them can influence practice and generate opportunistic behaviour. As an example of such a theory Ghoshal mentioned the agency theory which has dominated the field of management since the 1970s.

In their classical paper Michael Jensen and William Meckling defined an agency relationship “as a contract under which one or more persons (the principal/s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal.”³⁶ One can easily gather that Ghoshal did not agree with the second sentence of this passage and saw it as an evidence of ideologically inspired, pessimistic view concerning human nature. Although common sense – he said – and empirical evidence proved that human behavior can be influenced by altruistic motives, economists and managers prefer to embrace “ideology-based gloomy vision” of human imperfections, design institutions which are expected to overcome the consequences of this basic egoism of individuals, and support the beliefs of managers that this is a real picture of their personalities. “Combine agency theory with transaction costs economics, add in standard versions of game theory and negotiation analysis, and the picture of the manager that emerges is one that is now very familiar in practice: the ruthlessly hard-driving, strictly top-down, command-and-control focused, shareholder-value-obsessed, win-at-any-cost business leader of which Scott Paper’s ‘Chainsaw’ Al Dunlap and Tyco’s Dennis Kozlowski are only the most extreme examples.”³⁷

What is really wrong with the agency theory, one might be tempted to ask. Is it fundamentally false and “bad” by assuming that principals cannot fully trust their agents? Or perhaps all these critics witnessed a misapplication of this theory and made their judgments on that basis? That it was misapplied was acknowledged by Jensen himself.³⁸ But was it wrong from the start?

Agency theory was an answer to management practices of the 1950s and 1960s. Shortly, executives were building large diversified conglomerates in expectation that the size and diversification would shield them from the risk: a slowdown in one industry could be compensated by profits in other industries. Generally however size mattered more than profitability; top executives interests prevailed over the interests of shareholders. Agency theory was going to change this anomaly by introducing several well known recommendations: stock options as a part of executives’ remuneration which should make them more focused on increasing the value of their firms, de-diversification (let investors compose a diversified portfolio), the use of debt as an instrument of financing acquisitions and risk monitoring by making boards more independent of top management teams.³⁹

The implementation of those prescriptions followed but rather in a very selective way. For instance, stock options were warmly welcomed but the new regulations did not guarantee that executives would hold equity for a longer period of time. As a result a short-termism became all too popular among top managers and the interests of executives and the interests of stockholders diverged once more.⁴⁰ Similar misapplication took place in regard to all other recommendations of the agency theory proponents. All these developments

³⁴ *Ib.*, p. 76

³⁵ *Ib.*, p. 77

³⁶ M.C. Jensen, W.H. Meckling, Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. “Journal of Financial Economics”, 1976, vol. 3, nr 4 (an electronic version at: <http://papers.ssrn.com/abstract=94043>) p. 5

³⁷ S. Ghoshal, *op. cit.*, p. 85. These ideas have many supporters, among them should be mentioned R. Edward Freeman who treats Ghoshal’s view as parallel to his own thesis about dangerous “separation fallacy” or “separation thesis” which means “the exclusion of ethics from business judgments, but generalizable to a duality between the worlds of management and the humanities.” R.E. Freeman, D. Newkirk, BusinessSchool Research: Some Preliminary Suggestions. A paper prepared for 1st IESE Conference on “Humanizing the firm and the management profession”, Barcelona, IESEBusinessSchool, June 30 –July 2, 2008

³⁸ M.C. Jensen, K.J. Murphy, Performance pay and top management incentives. “Journal of Political Economy” 1990, v. 98, nr 2

³⁹ F. Dobbin, J. Jung, The misapplication of Mr. Michael Jensen: How agency theory brought down the economy and why it might again.

In: M. Lounsbury, P.M. Hirsch (eds.), Markets of Trial. The Economic Sociology of the US Financial Crisis. Emerald, Bingley 2010, p. 332

⁴⁰ *Ib.*, p. 341

encourage greater risk taking which, additionally, was hidden from the shareholders and led to spectacular failures at Enron and other companies in 2001. "These changes then encouraged banks, insurance companies, and industries to assume speculative risk at the end of that decade, contributing to the Great Recession."⁴¹

Let us return to the phenomenon of the so-called short-termism. Dobbin and Jung pointed at "the wider misapplication" of the compensation formula which went beyond the industrial world. "Investment banks had been organized as partnerships, but now they listed themselves on the stock market, making their partners wealthy through initial public offerings and ensuring that executives no longer faced the downside risk they had faced as partners."⁴² The same applied to hedge funds and private equity funds managers who were paid on the increase of the market value of their corporations and soon fall prey of that appeal of short-termism.

The logic behind remuneration based on stock options, according to agency theory, is that the closer is the status of managers to the status of shareholders – the better for the company. In this sense a partnership would be the best solution: partners participate both in gains and in losses so their motivation seems to be more complete and mature. Also – closer to the original entrepreneurial spirit. In fact however, as Dobbin and Jung describe it, the whole system of remuneration functioned more like a casino and the logic of gambling prevailed.⁴³

This is not the end of this story. Regardless of any misapplications of agency theory, Jensen was right in choosing the title of his article from 1989: "Eclipse of the public corporation".⁴⁴ Since 1997 the number of these firms dropped by 38% in America and by 48% in Great Britain. "Going public no longer has the glamour it once had. (...) The result has been a revolution: one third of America's tax-reporting businesses now classify themselves as partnerships."⁴⁵ So definitely legal forms of economic activities are still changing along with the developments in economic, political and social environments. Corporate governance is still the issue.

Agency theory was misapplied and misused. Probably such a process occurred not for the first time. Perhaps one should speak not about a misapplication of a theory but of the misapplication of the recommendations ensuing from this theory. Application of recommendations is always contingent on many non-theoretical factors such business culture, political configurations or global trends. In any case the mechanism of promoting this concept in business and in academia seems to be fascinating topic for economic history, sociology of knowledge, as well as business ethics (and perhaps academic ethics).

The story of agency theory as embedded in the social, economic and political environment can help us deal with the question how to teach business ethics during the crisis caused in the first instance by "bad management practices". Business ethics class should be based on economic history, on the history of management ideas (and management fads) and on an extensive knowledge on the market of concepts and theories and of consulting services. All this can create a background against which managerial failures and successes could be understood more fully. A descriptive part of ethical reflection seems to be crucial. Students are very eager to learn about insider trading scandals of the 1980s, about Enron and other companies which were ruined by their managers, about the more recent crisis and corporate downfalls.

This interest may seem somewhat suspicious. But it is not a new phenomenon; in today's culture dominated by media – evil sells better. Their interest perhaps is fuelled by the conviction which they brought from outside the university that business has nothing to do with ethics. Here the role of business ethicist and other management teachers becomes crucial. They have to create curricula which would make a larger context visible. Even if it is a history of managerial failures or economic crises, such teaching strategy would not deserve the blame of spreading a gloomy vision, of being ideologically inspired (meaning, actually, blinded) and of formulating ideas which contradicts our common sense knowledge. The problem is that common sense can tell us many different stories.

One can cite more examples of fraud, corruption, negligence or simple shortsightedness in all areas of life than the examples of altruism or even simple honesty. Perhaps they are less visible, do not receive such a media exposure. But media create an image which our students bring to the class. The response should not consist in pretending that human imperfection do not exist. Probably this is one of few items on liberal agenda that stood the test. And ethical reflection cannot neglect this fact (if it would be possible at all in view of great liberal tradition in philosophy).

⁴¹ *Ib.*, p. 357

⁴² *Ib.*, p. 359

⁴³ *Ib.*, p. 360

⁴⁴ "Harvard Business Review" September – October 1989

⁴⁵ Briefing: The endangered public company. "The Economist" 2012, May 19th – 25th, p. 25-26

Ethics (not only business ethics but ethics in general) should be realistic in this respect: complete eradication of evil will never be possible. Of course there is a demand for angelical vision of the world. But on the supply side one can find mostly ideological, utopian offers.

I do not want to defend agency theory. It can defend itself. What has become the target of Ghoshal's and other thinkers' criticism was rather a theory in practice – the example of misapplication of theoretical ideas in the realm economic organisations. But agency theory cannot be reduced to its economic version; it is still an important area of research in political science and sociology. I think that interdisciplinary approach can offer a very interesting theoretical perspective. When a sociologist takes a closer look at the economic and managerial dilemmas she can tell us many interesting things, not only in defense of agency theory but first of all about phenomena that have caused the present crisis. A longer quotation seems necessary at this juncture.

“Although classic agency theorists seemed surprised when the world learned that their perfect incentives to align the interests of corporate executives and shareholders (giving the former stock options and equity ownership) might result in these executives contriving illicit schemes to inflate stock prices, sociologists, with our eyes on the bigger picture, surely were not. Nor are we convinced that these extraordinarily costly agency failures constitute a refutation of agency theory, as some suggest (...); rather, we argue that one needs a more nuanced understanding of principles, agents, and organizations when fashioning complex incentives. (Besides, we have been trained to be mindful of the unanticipated consequences of purposive social action.)”⁴⁶

To notice the imperfections of human beings is not an ideological bias. Of course, this statement (that human nature is not perfect) cannot be a conclusion. Rather an encouragement to start to build a new type of institutions. Within ethics the lesson of the past is important, also for the understanding of human nature. Surprisingly this does not hold in the field of finance where trust serves as a crucial prerequisite. “The paradox is that financial markets can function again only if this lesson is partly forgotten.”⁴⁷ Fortunately enough my interest in agency theory is a part of research in the field of business ethics.

TECHNÉ OR PHRONESIS? THE TEACHING OF ETHICS IN BUSINESS SCHOOLS

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ABSTRACT

This work is inserted into the Ethical Entrepreneurship theme of the Fifth ISBEE World Congress. It revolves around the question: Is it necessary (and possible) to teach Ethics in business schools?

According to research in which a sample of professors of Economic Sciences in Argentina and in Brazil was interviewed, this paper sustains that the teaching of the theoretical aspects of Ethics in business schools is empty of meaning and content if it is not put into practise. Other requirements, such as a previous training of the professors on Ethical questions, theories and approaches, are necessary in order to be successful in the teaching and learning of Ethics in business schools.

KEYWORDS: ethical entrepreneurship – ethics in business schools - practise of ethical conduct

INTRODUCTION

This paper is about the role of Ethics in business schools as a pedagogical contribution with the attempt to promote a better moral environment in business. It is inserted into the Ethical Entrepreneurship topic of the Fifth ISBEE World Congress.

⁴⁶ S.P. Shapiro, Agency Theory. „Annual Review of Sociology” 2005, vol. 31, p. 279-280

⁴⁷ E. Carr, Greed – and fear. “The Economist” 2009, January 24th, A special report on the future of finance, p. 3

Why should Ethics be taught only in schools of Philosophy? Is it necessary to know ethical concepts for doing better and more responsible business? Is it possible to teach Ethics without practicing an ethical conduct? These are some questions that this paper intends to highlight in order to contribute with the initiative of promoting responsible behaviour of business leaders, which is among others, the main objective of the Congress.

Entrepreneurship is a fundamental activity mainly in the less developed societies in which it is possible to find several opportunities to generate wealth and welfare. Normally this scenario occurs in some countries in South America and in the CEE.

Much research shows that the entrepreneurship index is directly connected with economic development. In the countries in which the GDP per capita is low, the entrepreneurship is high; as the GDP increases the entrepreneurship tends to go downward⁴⁸.

In 1997, The London Business School and Babson College created the Global Entrepreneurship Monitor (GEM) with the main objective of sustaining a global network for research on the creations of new entrepreneurship. In order to have a better approach about not just the quantity but also the quality of the entrepreneurships, in 2008 a new index was created: the Global Entrepreneurship Index (GEI) as a support of the GEM. It contemplates 32 variables in order to create 14 indicators that measure the entrepreneurship activity in the 64 countries that have participated in the period 2003 – 2008. The last report published in Argentina shows that, in the group of economies based on efficiency, the Latin-American countries have kept their perception about the opportunities for new entrepreneurship stable, in the average of the 48%.⁴⁹

The entrepreneur often assumes risks. He/she faces adversity and creates and re-creates new realities by way of innovations. He/she punches the economy and generates labour opportunities.

In the *Theory of Human Action*, Perez López presents the properties that, as a minimum, are required by the decision-maker (in this case by the entrepreneur) in order to take decisions and learn during the process. Nevertheless, there exists the possibility that the learning process could be negative.⁵⁰ Assuming this perspective, we can inquire: what does the new entrepreneur need to learn to be successful?

Business schools all around the world have the answer to this question. They design executive and postgraduate programs (which are constantly improving) regarding enhancing the entrepreneur and those who manage other entrepreneurs' businesses.

Education in general, and economic business schools in particular, tend to provide the tools to make good (or sometimes appropriate) decisions. These concepts are incorporated by the students –who are usually also entrepreneurs– like any technical knowledge does.

When we make reference to technical knowledge, we follow the Aristotelian concept of *techné*, a type of knowledge which is logically built up, and teachable, and which integrates the theoretical wisdom or *sophia*. Aristotle distinguishes *sophia* from *phronesis*, which is not simply a skill. It is also the ability to reflect upon and determine good ends consistent with the aim of living a good life in a political and ethical way because for Aristotle, Ethics and Politics are part of same discipline.

We can consider that marketing, finance, production and operation management, among others, are technical knowledge that is relatively easy to teach, to learn and to practise because they involve objective concepts. This kind of processes are supported, as Alvira pointed out, by a sort of “engineering mentality” that analyzes what exists in order to innovate and evaluate the results measurably in an objective way.⁵¹ But, is Ethics a *techné*? So, in the business schools is it possible to teach Ethics with the same pedagogical strategy as those used in the teaching of other disciplines?⁵²

This paper sustains that the teaching of the theoretical aspects of Ethics in business school is empty of meaning and content if it is not put into practise. The thesis of Cortina in her book *Ética de la Empresa* (The Ethics of Entrepreneurship) is the duty of living entrepreneurship as a moral guideline, in which the main objectives should not only be the production of benefits, but also human development and moral well-being.⁵³

However this moral practice seems to have other simultaneous problems in its application, especially when the person that is studying how to do good business or how to govern his/her business lives in an

⁴⁸ For more details see: Centro de Entrepreneurship, IAE- Escuela de Dirección de Negocios – Universidad Austral. Available in Internet: http://www.iae.edu.ar/iaehoy/IAEtv/videos/Paginas/CNN_STC.aspx.

⁴⁹ Document elaborated by Silvia de Torres Carbonell in collaboration with Maria de Aránzazu.

⁵⁰ Pérez López, Juan Antonio, *Teoría de la acción humana en las organizaciones. La acción personal*, Rialp, Madrid, 1991.

⁵¹ Alvira, Rafael, “Figuras del tiempo en la vida humana”, *Revista Empresa y Humanismo*, Vol. XIV/1, 2011, pp. 7-18.

⁵² Solomon, Robert C. & Clancy, Martin W., *Morality and the Good Life*, McGraw Hill, New York, 2003.

⁵³ Cortina, Adela, *Ética de la empresa. Claves para una nueva cultura empresarial*, Trotta, Madrid, 2000, p.-123.

environment where the ethical aspects are not applied. One can ask: Why should I be ethical in my business if my competitors are not? Why should one not simply follow one's own interest without regard for others? In these cases, it would be considered that Ethics and business are divorced.

In order to obtain some possible answers for the main questions that this paper approaches –whether Ethics should be taught in business schools, whether it is necessary to know ethical concepts for doing better and more responsible business and whether it is possible to teach Ethics without practicing an ethical conduct– we carried out two different researches. As we discovered that there were strong divergences about the concept of Ethics connected with business, in this work the first part presents a brief review of ethical concepts connected with the learning and teaching process. It also describes the different theoretical visions about businesses and the role of their leaders or directors, as well as the recent connections between Ethics and business that present some theories like the *Stakeholder* approach, *Corporate Social Responsibility* and *Corporate Citizenship*, among others.

The second part describes the results of the two different research projects that were carried out during 2010 and 2011. One applied to a group of 54 professors who teach at different business schools in the State of São Paulo in Brazil, and a group of 20 professors of the University of Buenos Aires in Argentina (that was used for a contrast analysis). The query requested the interviewee to identify what they understand by “ethical teaching”. They were also asked to recognise possible ethical problems that appear in the professional and teaching environments. The other research had as its main objective to identify the factors associated with the success of the entrepreneur whether they are related with extrinsic factors, such as economic and financial issues, or with intrinsic factors like moral practices and ethical conduct. It was applied to a group of 51 entrepreneurs in Buenos Aires.

Finally the results of this work may conclude that: 1) It is necessary to teach the professors in the business schools theoretical Ethics concepts involved in all the aspects of the business (financial, marketing, productions, etc.) in order to have a more homogeneous idea about the relevance of the connection between Ethics and business⁵⁴; 2) It is desirable to practise an ethical behaviour in the ambient in which ethical theoretical concepts are taught; business schools sometimes are also private entrepreneurship, as the addressees are, and 3) It is necessary to extend the ethical practices as a collective action in the business world. MacIntyre reminds us of this when he says that talking about Ethics of virtues means resigning universal Ethics and mobilising the individuals of our atomized society into a common project.⁵⁵ Probably this task seems to be difficult to achieve because, as Spinoza said “All things excellent are as difficult as they are rare”.⁵⁶

ETHICS AND BUSINESS: a possible long- term marriage

Some theoretical approaches about Ethics and the learning and teaching process

In recent decades in the academic area related to administration and business schools, a question takes place: Is the inclusion of Ethics within the business world possible?

The concept of Ethics interferes because organizational values are observed in the practice of human action, and Ethics is exactly the branch of philosophy that takes human conduct as an object of study, from a moral perspective. How does the concept of Ethics emerge? It has its roots in ancient Greece. Socrates and Plato had the concern of the way of living a “good” and “virtuous” life. They sustain that wisdom resides in the attitude, but neither of them defined what goodness and virtuousness is.

The main difference between Socrates and Plato is about whether a human being can be happy. Socrates considered that it is possible to find happiness in an individualistic way while Plato considered that it is not possible to be happy outside of the community. For ancient Greece, Philosophy Ethics and Politics were the same subject. In particular for Aristotle, Ethics and Politics are part of the same discipline, and the good of the individual is connected with the good of the society.

Maquiavelo in the XV century was the first to separate Ethics from Politics and, in the XXI century, we find ourselves inquiring whether it will be necessary to put it together again.

Aristotle was the first philosopher that presented a systematised version of Ethics; his view on Ethics still provides the touchstone to which moral researches return. At that time science was *monistic* and supposed that the object determined the methodology of its study.

⁵⁴ Frederick, Robert (ed.), *A Companion to Business Ethics*, Blackwell, Oxford, 1991.

⁵⁵ MacIntyre, Alasdair, *After Virtue*, Polity Press, Oxford, 1994.

⁵⁶ Spinoza, Benedictus de, *Ética: demostrada según el orden geométrico*, Terramar, La Plata, 2005.

Aristotle went out of pre-Socratic individualism towards collectivism. The main question was: How should I live in order to be happy?, and it later became: How should society be in order for me to be happy?

In the *Nicomachean Ethics*, Aristotle⁵⁷ distinguished two kinds of virtues: the intellectual and the moral. The first one is acquired by the teaching-learning process. It supposed to know the rule or the technique to do something in a virtuous way. For example: for a pianist, the rules of music to play the piano, for a carpenter the physic-chemical characteristics of the wood for making furniture, and for a financial manager the financial mathematics techniques for determining the IRR (Internal Rate of Return) of a project.

The acquisition of the second one, that means the moral virtues, occurs simply by way of habits. The etymology of the word has similarities: *mores*, *customs*, *manners*, *morals*. The virtues are not born with us, in accordance with Aristotle, so we have to cultivate them. We have, as humans beings, the “potential” to be virtuous. However we cannot truly become virtuous until we put virtue into practice. That is to say, we do not become just until we practice justice.

Following this way of thinking, should earning money or maximizing profits, not be the final objective of the leaders in business? It is supposed that an end in itself for the leaders and those they lead should be happiness. What is happiness for Aristotle? Happiness is an activity of the soul, in accordance with virtue or excellence.

Like Plato, Aristotle divided the soul according to function, and the main division is the “irrational” and the “rational” parts. The latter one is also divided into two faculties as well, those that are responsible for intellectual development and those responsible for moral excellence.

Phronesis is the wisdom in practice; it means “those who know how to act morally”, in other words the knowledge of the proper ends of life.

It is supposed that the leaders should have a moral demand in the practice of leadership mostly because they have the responsibility of leading persons.

Visions about the business context

The worry about *governance* in the organizations is not a new matter in business schools and in the business administration discipline, in general. Nevertheless, the approaches have been changing throughout history, going on from a vision of the company as an instrument to the service of the interests of the shareholders, towards a paradigm that contemplates the organization as an entity, different from the sum of its parts.

Following the concept that Chester I. Barnard in 1938⁵⁸ introduced on the distinction between the formal organization and the set of interactions that take place among the persons who compose it – named informal organization or spontaneous system– Juan Antonio Perez Lopez⁵⁹ thinks that the theories and models that explain the functioning of the organizations can be grouped in three big paradigms: a) The mechanical models (which consider the organization as a technical system), b) The organic models (which consider the organization as an organism) and the anthropologic models (which view the organization as an institution).

Inside the first group we might include the economic theories of the organization. From its perspective, the executive (agent) would be to the (principal) service of the legal owners with the aim of achieving competitive advantages that add value for the owners. The organization is seen as an endless core of contracts that govern the relations among the individuals inside a pre-established hierarchy of power.

A broader approach of the organizations, which might be included in the second group of Perez's Lopez classification, is the theory of the stakeholders, which understands that organizations produce goods and services to satisfy the needs, not only of the shareholders, but also of the different groups that integrate it, and on which they depend for their survival.

For Kim and Nofsinger⁶⁰ the theory of the stakeholders expands the area of analysis of the theory of the agency, which focuses on the problems of the separation of property and control in the organizations, but it is still insufficient to assure good corporate governance. An evolution of the theory of the stakeholders adds the argument that the companies have the social obligation to operate with ethical, social and environmental responsibility. This conceptual approximation is known as Corporate Social Responsibility or Corporate Citizenship. The authors wonder whether this new vision of corporate citizenship is good for society, since a company may fail in the compliance of its social goals, yet still be successful in its business. However, it is not possible to fail in the business and comply with the social goals.

⁵⁷ Aristotle, *The Nicomachean Ethics of Aristotle*, translated by F.H. Peters. Copyright 1901 by K. Paul Trench, Trubner & Co.

⁵⁸ **Barnard, Chester, *The functions of the Executive*, Harvard University Press, Cambridge, 1968.**

⁵⁹ Pérez López, Juan Antonio, *Fundamentos de la dirección de empresas*, Rialp, Madrid, 2002, p.195.

⁶⁰ Kim, Kenneth A. and Nofsinger, John R, *Corporate Governance*, Prentice-Hall, New Jersey, 2007.

For Donaldson⁶¹ neither general Ethics nor business Ethics orientated from the point of view of the stakeholder, manage to solve adequately the normative problem. The authors propose the Theory of the Social Contract that presents an alternative based on a community conception of economic morality.

Summarizing in the thought of business administration about the best governance of organizations, it is criticized that the managerial Ethics proposed from the academic world are, in many occasions too general, too theoretical and, especially, too impracticable⁶². This is a great challenge for business schools.

Some connections between Ethics and business

It is an accepted view that the executive, to take decisions, needs to combine varied knowledge: economic, sociological and ethical, among others. So, one may say that the management, since it is practical knowledge, rests on diverse theoretical knowledge.

Andrews is the first author who incorporates, in an explicit way, the moral dimension of the executive inside the own logic of the model of strategic formulation, among the components of the decision and in the criteria that allows one to value them.

The challenge of the business schools is to achieve a wide stage of learning. As Polo says: "...teaching only how to produce, or how to manage production, is morally myopic regarding society, since it gives place to a very dubious system of assignment of benefits which breaks the relation between those who contribute capital and those who contribute labour".⁶³

One can criticize this position because the supreme leader of the organization is not the manager of production. Others have to be able to do it (and they need to learn how to). He has to be able to govern the whole organization (and also it is necessary to learn to do it). Although it is necessary to agree that the lack is in adding the moral dimension in the practice of producing, managing and, principally, of governing organizations. In this case Aristotle's contribution is important.

Felip⁶⁴ selected, from the list of virtues that Aristotle described, some that are highly desirable in the managing of business.

1. Prudence: it helps to take better decisions.
2. Justice: the equity in the distribution of resources and tasks provides the harmony between the members of the organization.
3. Strength: it infuses courage to the executive to face the adverse situations and to take decisions assuming the consequences in conditions of uncertainty.
4. Temperance: it allows to think and to decide with a long-term view, despite a vision focused in obtaining short term results.

For other authors who focused their research on ethical aspects of business, it is necessary a sort of institutionalization of Ethics. According to Cortina⁶⁵, "The ethics of the company are, in this sense, a part of applied ethics, since it is all ethics of the organizations and of the professions, which have to decide how to apply the mentioned [ethical] principles to the managerial activity".

Cortina proposes a kind of Ethical Advising, "...a possible and necessary *institutionalization of ethics* in the company: if the business culture and the ethics of the directors are two indispensable elements of such institutionalization, so is the possibility of having access to an advisor in ethics of global character in the organization of the company. With this we will be in conditions to show that this adviser is as modest as he/she is indispensable".

The thinking about the existence of an ethical adviser in the companies is not in accordance with an Aristotelian concept of virtue. As it was referred in the paragraph above, the moral virtues are acquired by practicing them.

A virtuosic pianist has teachers that introduce him/her to the art of playing piano, in the fundamental techniques of the instrument and the music, and certainly he/she will need ample practice to become a virtuosic player. In this case it is not necessary to have an "adviser" while he/she performs a concert.

In the same way the role of ethical adviser presumes some arrogance on having guarded the condition to be able "to advise" someone in Ethics. One can ask: who is the adviser of this adviser? In considering the

⁶¹ Donaldson, Thomas, *Corporations and morality*, Prentice-Hall, New Jersey, 1982.

⁶² Stark, Andrew, "What is the matter with Business Ethics?" *Harvard Business Review*, May-June 1993, pp. 38-48.

⁶³ Polo, Leonardo, *Ética. Hacia una versión moderna de los temas clásicos* Unión, Madrid, 1997.

⁶⁴ Fontrodona Felip, Joan, Guillén Parra, Manuel y Rodríguez Sedano, Alfredo, *La ética que necesita la empresa*, Unión, Madrid, 1998.

⁶⁵ Cortina, Adela, *Ética de la empresa*, Trotta, Madrid, 2001.

professors of the business schools as ethical advisers or contributors to the development of moral virtues, in both cases, must find a pedagogical connection between Ethics and business.

ETHICS AND BUSINESS SCHOOLS: a pedagogical connection

What do the professors of business schools think about Ethics?

In order to find some answers to this question a preliminary research was made with a sample of 54 professors from different universities in Brazil. The results were compared with the answers that were obtained, to the same questions, from another group of professors of the University of Buenos Aires. The latter group of 20 professors is considered to be, to the effects of the conclusions, an indicator of contrast.⁶⁶ A questionnaire was designed with the aim of identifying the principal variables concerning the problem of Ethics and education. The questionnaire was divided into five parts, in which questions were included by open answers and by closed answers.

The objective of the first part was to complete the personal information of the professors, for example: name, studies of degree and post-graduation, as well as the specialty that he/she teaches. The second part was focused on the question of what is, in agreement with the interviewed one, an ethical formation. The third part related to the identification of the possible ethical problems that they present in the performance of the teaching. The purpose of this part of the research was to find the opinion of the professors about the frequency with which he/she and his/her colleagues, in general, approach ethical problems. It was requested of them, also that they identify which are the three principal ethical problems that they present in the professional exercise of the specialty that they teach. The fourth part of the research was on the professor transmits to his/her students the ethical problems that they identify. The objective of the fifth part, finally, was to investigate whether the professors consider that the students have sufficient conceptual elements to analyze the ethical problems that they can present in the exercise of the profession. In case of negative answers the interviewees were asked to specify what elements would contribute to complement the lack of ethical formation of the students.

All the answers to the closed questions were compiled and expressed in a quantitative way in graphs by percentage participation. To analyze the answers of the open questions the method of speech analysis was used. The first quantitative analysis consisted of placing in a counterfoil the words that were in use in the answers - grouped by family with similar meanings - then to count the frequency with which the words appear. Another qualitative analysis was carried out, grouping the answers in different categories such as, for example, those which refer to the professional aspect and those which refer to the practice of the profession. The results were grouped in two parts: 1) the convergent aspects and 2) divergent aspects.

Convergent aspects

- There was unanimity, in both groups, in thinking that top education must contribute with the ethical formation of the citizens. This opinion emphasizes that beyond the major, or of the type of institution of education (private or public), in the view of the interviewed professors the universities are also spaces for the ethical formation.
- The majority of the professors of both groups (56 % and 55 % respectively), thinks that the students are rarely capable of identifying ethical problems derived from the practice of the profession.
- The majority of the professors of both groups (87 % and 72 % respectively), admits that, in his/her particular case, they approach ethical problems in class.
- The methodology that the Brazilian professors use more is case study and examples of professional life.
- Another coincidence in both groups was given in the response to the question whether the professors transmit to his/her students the problems that they identify in his/her professional practice; 94%, in both groups, answered affirmatively. When it was asked of the professors to identify the principal ethical problems in the professional practice, most of them pointed to problems related to the behaviour of the professional. They related the reprehensible conduct to the lack of values and virtues, as honesty and humility, among others.

Divergent aspects

⁶⁶This research was extended to another group of professors and students at the University of Buenos Aires and La Plata. For more details see: Fassio, Adriana y Gilli, Juan José, "La formación ética de los administradores en la percepción de docentes y alumnos". Documento de trabajo, 2012.

- The answers of the sample of Argentine professors, used as an indicator of contrast, diverge from those of the Brazilian professors, for the perception that they have in reference with whether their colleagues approach ethical problems in class. In the Brazilian professors group, 67% stated that they frequently or always approach ethical problems in class, whereas 77 % of the Argentine professors answered that rarely is the subject approached. Nevertheless this response of the Argentine professors on the perception of their colleagues is opposed to what they declared that they do. When they were asked if they approach ethical problems in their own class, in 72% of the cases the answer was that they frequently or always they do so.
- When it was inquired whether the professors think that the students have conceptual elements to analyze the ethical aspects connected with the professional practice, the majority (57 %) of the Brazilian professors answered affirmatively. This response guards a coherent relation with the response to the question whether they were approaching ethical aspects in classes, to which they answered mainly affirmatively also. It is supposed that the conceptual elements that the students arrange are those that the polled professors admitted to approach in their classes.
- On this same question the group of Argentine teachers had an opposite opinion; 81 % of them demonstrated that the students lack conceptual elements to approach ethical dilemmas. They justified their response saying that, in general lines, "it is a topic little developed by the different centres of higher learning", and that "inside a formation that pursues maximum efficiency, it is difficult to analyse ethical aspects".
- The major difference among all the polled professors took place when they were asked what they understood for Ethics. The answers tend to define Ethics within a wide range from those directly relating it to legality, to those that consider it to be tantamount to virtue. The sample of Argentine teachers, whose answers were used for confirming the results, were inclined to understand Ethics as closer to moral values and principles.

Summarizing, this preliminary study demonstrated that unanimity exists in reference to the question that Ethics must form a part of the space of university education. At the same time it clarifies that it would be necessary to extend the research on the meaning and the scope that the professors grant to the concept of Ethics. Once these aspects are clarified, new research might approach the conceptual elements that must join the education of Ethics. In accordance with the result of this preliminary research it seems to be that this task has to be done in a more "personalized" way, that is to say, contemplating the culture of the society, of the educational institution and especially the discipline that is being taught.

The polled professors admitted that "abundant bibliography does not exist in Economic Sciences that the topic of Ethics approaches in economic decisions" and that, "in general lines it is a topic little developed by the different centres of higher learning".

What do entrepreneurs think about Ethics?

In this section it is described the results of a research in which a sample of 51 persons between 18 and 64 years, who express their motivation to carry out their own business, were polled. This sample was shaped by individuals belonging to the Faculty of Economic Sciences of the University of Buenos Aires, and in the same proportion, persons who do not belong to the above mentioned faculty.

The study strives to determine whether, in the imagination of the potential entrepreneurs, they consider ethical conduct to be more important than material resources, such as capital, in order to be successful in business. Their answers were compared with a sample of successful businessmen. The methodology used consists, in the first step by personal individual interviews, and the most relevant variables were extracted, applying the Actancial Model⁶⁷ from their narratives. Then, a poll was applied with a group of questions with "closed-answer" choices and "semi-open answer" choices, to both groups.

The main conclusion of this research was that, regardless of the moment of receiving the results of the diverse surveys, Ethics (and any other concepts connected with it) is the aspect that are less born in mind for the success of the business. Issues more inherent in the characteristics of the product or service being offered, or features of the personality of the entrepreneur, such as creativity and persistence held much

⁶⁷ The actancial model or actancial narrative scheme was developed by Algirdas Greimas and it is used to analyze the action that takes place in a story or narrative. See: Czarniawska, Barbara & Gagliardi, Pasquale (eds.), *Narratives we organize by*, John Benjamin B.V., Amsterdam, 2003.

greater weight. It might be said that nowadays the entrepreneurs do not find a direct relation between Ethics and business.

The results

- In the social imagination of the potential entrepreneurs the countable variables such as resources and capital are more important for being successful in detriment of personal virtues.
- When it was asked of the successful entrepreneurs to enunciate aspects that they identify in themselves as entrepreneurs, almost 50 % expressed concepts related to innovation, dynamism, challenge and confidence.
- More than 80 % of the potential entrepreneurs are motivated by the idea of seeing their identity reflected in the business.
- 52 % of the potential entrepreneurs expressed their motivation in order to obtain autonomy and personal development.
- The potential entrepreneurs attribute the success in 71 % to factors associated with intrinsic aspect of the persons, leaving 29 % as resultant of the environment. Among the intrinsic factors, 60 % relates to the virtues of the intellect, both theoretical and practical. The virtues of the theoretical intellect include concepts related to competitiveness, creativity, the innovation and intelligence. The practical intellect recounts to confidence, dynamism, effort, intuition, patience and technical skills.
- On the contrary, the majority of the non-successful entrepreneurs (71%) attribute the failure to the extrinsic factors.
- 74 % of the polled included the factor of "time" in their answers: In some cases as a "helper" (help for doing business): the "free time ", and sometimes as an "opponent" (disturbance for doing business): the "lack of time ".

Nevertheless, to the moment of receiving the results of the diverse surveys, we find that the Ethics, and any other related concept, are one of the aspects that are least born in mind for the success of the entrepreneurship.

CONCLUSIONS

The purpose of this work revolves around the topic of whether it is necessary (and possible) to teach Ethics in business schools. One can sustain that the teaching of the theoretical aspects of Ethics in business schools is empty of meaning and content if it is not put into practise. In order to highlight this subject two different research projects were carried out. One was applied to a group of 54 professors who teach at different business schools in the State of São Paulo in Brazil, and to a group of 20 professors of the University of Buenos Aires (that was used for a contrast analysis). The other was applied to a group of 51 entrepreneurs in Buenos Aires with the main objective of identifying the factors associated with the success of the entrepreneur whether they are related with extrinsic factors, such as economic and financial issues, or with intrinsic factors like moral practices and ethical conduct.

As a result of the first research the professors unanimously concluded that top education must contribute to ethical formation. One can say that the professors understand that Ethics must be taught in business schools. However, the major differences among all the polled professors took place when they were asked what they understand by Ethics.

A majority of professors in both polled groups consider that the students are rarely capable of identifying ethical problems derived from the practice of professions. One can ask: if they arrive at that part of their lives in that condition, why should we expect to teach Ethics solely through the use of books? Certainly the learning of a concept as abstract as Ethics requires applying it through force of habit.

An overwhelming majority (94%) of both groups consider that the principal ethical problems in professional practices are directly related with that "reprehensible conduct of the professional". This being the case, why has nothing been done about this thus far? It indicates that perhaps the professors in business schools need not only to have a homogeneous concept of Ethics, but they also need to realize that they have a strong responsibility about this problem.

The main divergence observed in professors of both countries emerged when they were inquired about what they understand Ethics to be, (one group understanding something near the law and another as virtue). The

digression may occur because of cultural differences, among other aspects. In this case a path is opened for new research comparing the understanding of the concept of Ethics, in different business schools around the world, mainly knowing that those who attend to their classes (usually business leaders) are multicultural groups coming from different countries.

Also the main divergence emphasizes the conclusion that it is necessary to explore the theories in order to define a minimum consensus of the term "Ethics."

Once this definition has been agreed upon, it should be very simple for potential entrepreneurs to put it into practice, given the fact that, in accordance with the second research 80% of them expressed the desire that their own identities be reflected in their business. In so doing, the identities which will have been formed in the business schools will be applied in their own business, thus creating a virtuous circle.

In the discipline of management or business administration there is a unanimous opinion among the professors that it is possible to observe a slow process of change in education. This change started, probably, when we ask ourselves what it means to be a good executive: Is it that one obtains the best profitability for his/her company? If the response is affirmative, at the same time another question emerges: at any cost? In the responses to the second question is where the Ethics infiltrates into the education at the business schools. It is open to the challenge of tending to a minimum of cohesion concerning the meaning of Ethics in relation with the conduct of the professional and, in addition, it is necessary to bear in mind that the education of ethical conduct needs its practice.

ETHICS AS BASIS FOR MANAGEMENT SCIENCE

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Summary

The book Ethics for Organisation is planned for 1H2012. It includes social responsibility and governance, and calls the result ethics. This is not without problems; even Human Rights are controversial in some countries. Governance is relatively new in this context, but is increasingly important, many European countries have national governance codes, and EU initiatives are in progress. This means that governance is partly in place, partly under development.

Ethics is normally targeted at individuals, assuming that the organisation consists of individuals, which indeed is true. A further assumption is that they continue to act as individuals, even in the organisation. Systems theory is opposed to this view, arguing that elements in a system changes when part of a system. Various measurements of organisations, especially programming teams, find that teams are very different, with productivity varying by a factor of 10 or more (example DeMarco 1999). It is difficult to explain these variations by only individual differences. Even technology or facilities may be part of the system, more space and less noise result in more productivity.

One assumption in the book is that ethics is likewise influenced by systemic factors. This is indicated by both the Enron case and the financial crisis. In the latter, individuals behaved almost "logically" within the system. Bank employees were told to be productive, and ignore risk to avoid efficiency losses. This was part of a larger system, partly national, partly international providing a framework that led to the crisis. This does not say that individuals were faultless, but the major reasons appear to be systemic.

The book is targeted at organisations, especially international ones, with different cultures, religions and nationalities. A major challenge is to create a culture, or an ethics, that is both valid and accepted internationally, but it has been done. Notable examples are Red Cross and other NGOs, but even businesses have established impressive guidelines. Some examples in the book are even successful economically, Novo Nordisk and Kone have both seen their shares go up by 250% after 2009.

The reason for the success is probably active management, setting smart and stakeholder oriented goals, following up and cooperating to reach major goals. Kone has for instance reduced energy needs for its new lifts by 50% since 2008. This reduction will benefit its customers.

Organisation

There has been a divide between business and other organisations, one milestone was Milton Friedman's article in 1970, causing the slogan "the business of business is business". "Business" in this context is probably large corporations. Small businesses are much more a part of society, notice for instance the successful German *Mittelstand*.

The *Mittelstand* distinguish themselves by high level training, quality and participation in society. Even if consisting of independent units, *Mittelstand* can be said to be "an organisation", sharing some culture.

In some countries government owns part of business (China, Brazil and Norway), and these countries are doing quite well. Further confusing to the Friedman view is that some governments are actively privatizing parts of their work; the organisations may keep some government responsibilities (telecom, post, utilities...). At what stage do these organisations reclassify as "business"?

Other kinds of organisations range from sports clubs, to religious and environmental. Some have business elements, are they then "business"?

The generalized view of organisations allows them to be seen more as a concept, not only instruments to earn money. Organisation visions, goals and strategies then take on important roles. GE is still targeting profits, its competitor Huawei will "*bridge the digital divide and promote harmonious and sustainable development of the economy, society, and environment.*" (www.huawei.com September 2011) There is a shortage of skilled people in the world today, ambitious companies should attempt to present themselves as good places to work.

With emphasis on "business" (in the sense of making profits), other issues are sidelined. In GE you suspect money matters will dominate, even in engineering. Would you as an ambitious young PhD want to work for them, i.e. trust them with years of your life?

An important organisation task is communication. In the business view, that communication is concentrated on profit and sales, common in economic journals. But consequently creativity, risk, security and perhaps even achievement become less important. An example is the BP disaster in the Mexican Gulf 2010. Apparently several shortcuts were taken to save time and money. Unfortunately, that represented a tradition, earlier BP had quality problems both in Alaska and Texas. Problems even continued after the Mexican Gulf explosion, creating a BP near-disaster in the North Sea 2011.

The problem is not only BP, but the Oil industry in general, where maintenance and security has low priority according to the Petroleum Safety Authority Norway 2012. So, is this attitude systemic?

And to what extent is this attitude valid outside Oil? Probably often, according to many feedbacks. Risk has taken on new significance lately, but was apparently not high profile in academia before the finance crisis. This means that other matters had higher research priority.

Even the watchdogs themselves are subject to economic forces, McPhail 2009 accuses accounting of becoming "commercialized". Who will then enforce sound business principles?

Creativity is addressed in Hamel 2007 that also laments the slowness of management science development. The book is laudable, but has problems contributing to creativity, because it keeps the "business" view. Creativity can be part of business, and has been for millennia. But a profit focus can destroy any attempt at creativity.

Stakeholders

Stakeholder is a relatively new concept, it is spreading, but not quickly. It is the opposite of a view also connected to Milton Friedman, the Shareholder Value Theory (SVT). Like "business is business" it is poorly defined, apparently assuming large and bureaucratic organisations. Crane 2008 is acidly critical of this view.

Major stakeholders for an organisation are typically employees/members and customers. Small businesses know their importance, large corporations can apparently afford to ignore even customers. Other typical stakeholders are the society (including the environment) and owners.

This returns to SVT where only one stakeholder is addressed, the "shareholder", as a proxy for the owner (perhaps). But "shares" is not the only source of finance for a company, more used is bank loans. Besides,

“shareholding” is different for day traders and pension funds; they have conceptually different views of the share market (which is really many markets).

The customer is arguably the most important stakeholder, customers are ignored in some literature (e.g. Nohria 2010), and quickly abandoned in other books. Service management has become a standard in ICT (ISO 20000), but is ignored in other areas. Quality is a strong movement, but almost forgotten in mainline management.

The “business is business” view has become a dogma. A protest movement was created at Sorbonne in year 2000 against dogmatic views in economics and has developed into a force that may renew economics (www.paecon.net).

The service view is well described in Grønroos 2000. It is markedly different from a mass production orientation often assumed by economists. Efficiency and cost cutting is less important, knowledge and help more so. Relationships are essential, different from the transaction view popular in some business schools. Consumer satisfaction in USA has improved little its start in year 1994, in Europe some customers were found to be “furious”. Common complaints are incompetence, bad planning, queues, bureaucracy, slow response, user unfriendliness and poor quality, including security.

Software contracts on Internet are examples of the attitude. They are long, legalese and favour the supplier exclusively. Furthermore, they must be signed, otherwise you are not allowed to proceed. A negotiated agreement is clearly outside the mindset. This is indeed service as mass production, see paradigms later.

The finance crisis was an extreme version of a “customer beware” attitude, where “toxic loans” were passed on to customers, not as a mistake, but as a business model. Perhaps it was not fully known that the loans were toxic, but could professional bankers fail to notice?

A tragedy bordering on the comical was Dell’s answer to the University of Texas when they reported computer errors around 2003. Dell suggested that they had overtaxed the machines with difficult computations! Later, a failing motherboard was diagnosed, but the customers were not informed, not even Dell technicians. Dell deservedly lost its number one position in PC sales.

The error was caused by a Dell supplier. Dell apparently did not check quality, and is not alone. Outsourcing is often done with little quality check, and sometimes not even a service level agreement. Here ethics and management science meet. How many management students can implement a quality system and write a service level agreement? Or is there a “customer beware” attitude even in management teaching?

The employee is another stakeholder, but this unfortunate character is today called “Human Resources”, and is regarded as a “commodity”, similar to electricity and lorries. This view is especially widespread in USA, and it is therefore not unexpected that motivation in USA is low (Gebauer 2007). Motivation not only affects productivity, but even creativity. Many corporations in USA are accused of being “undemocratic workplaces”, this has alerted investors that have pressed corporations to improve conditions.

An opposite view of employees is common in Europe, where employees are acknowledged as stakeholders. In Norway they are given a place in the corporate assembly, and the board. Norway is now looking for an extra 16000 engineers, because the country is doing well. A Norwegian success is oil service, starting at zero in 1970. It is now international class, and helped BP to clean up in the Mexican Gulf (it could have helped more if BP had planned for disasters). One source of employees is Anglo-American companies with the “you are fired” attitude. BP once fired an engineer for pointing out pipe corrosion in Alaska. If BP management had listened instead, BP and the world would have avoided a major disaster, and BP investors would have been happier.

Norway is not alone in looking for skilled people, apparently even high unemployment countries do. A main reason is that higher job skills are needed. When a BSc could be enough 25 years ago, today perhaps an MSc or a PhD is required. Partly jobs themselves are more difficult, but they are also more integrated and complex, perhaps as a rule. In addition to job skills, computer literacy is in many cases essential, not only wanted. Because most jobs in advanced countries are in service (roughly 70%), customer handling skills may be required, perhaps even helpfulness. As pointed out by Grønroos 2000, service often involves not only production, but installation, maintenance and follow up, all are part of the relationship already mentioned. In advanced societies, services can even be integrated and then need extensive cooperation.

On top of service delivery the ambitious organisation may have to be creative, in order to solve customer problems or design new gadgets or services. Creative people are not abundant, and some academics don’t even know that some professions, like engineering, learn to be creative. This creativity needs a culture

recognizing creativity as a goal, if not, creativity is slowed. Alternatively, the creative people find other companies to work for, perhaps leaving behind those whose main skill is operating within the budget.

An important employee group is managers, but not necessarily the most important. A popular service worker, a top designer and the famous surgeon can be more important. In service management that is institutionalized in the turned pyramid, depicted with “first line” on top, the service providers. This view still has an important role for the top manager (now the bottom manager), making certain that service is well designed and that first line is empowered to do their best to help customers. Thus the top (or bottom) manager delivers service to important employees, appropriate in a service organisation.

This management role is very demanding, needing a good understanding of all aspects of service delivery. There is no time for tax heavens, accounting fraud or corruption, all too frequent in some corporations. There is also little time for evaluating employees, the time for this may be better spent listening to employees and implementing their suggestions. Honeywell has had success doing just this (Economist 2012).

Society is a customer for many businesses, and government is an organisation. This is ignored in the “business is business” view. Society infrastructure is an important fundament, many growing emergent countries, including the BRICs, are now experiencing strains because their infrastructure cannot match their ambitions. One recurrent complaint is pollution, more problematic is corruption. A well-functioning law and regulation system is useful, bureaucracy can be a creativity killer. Perhaps most important is a good schooling system, addressed in many countries, but seldom competently. One first realization is that schooling is a service, perhaps service principles should be used?

Competence is a key element in infrastructure, but is also needed to create a good infrastructure. Training is normally the best investment a company can make (NUTEK 2000), but is easily ignored in a rush for short term profits. Besides, training is seldom effective if mass production principles are used. The “Sage on the stage” may be replaced with the “Guide on the side”, perhaps with good effects. More important than answering set exam questions could be independent thinking and reflection presented in a project. Indeed, the Guide role is often more challenging than the Sage’s, the latter sets the stage, and needs less knowledge of the context. The Guide also needs to help students as a group, or individually, and needs people skills.

“Shareholders” is the central stakeholder in an SVT organisation, reality is different. Many investors strive for more influence in “their” companies, and are ignored or sidelined. Managers apparently prefer to work for themselves and their bonuses, especially in banking. But Lucier 2007 finds that managers that attempt to act “imperial” are replaced by “inclusive” managers. A suggestion 2012 is that a “**Shareholder Spring**” is coming, that will be a radical change.

Governance

Governance is a relatively new concept, spreading rapidly in some circles, being rejected in other. Many European countries have governance codes. There are even governance codes for investors, often based on the UK Stewardship Code 2010. Perhaps ownership will become a profession in the future.

Governance is basic in ISO 26000, but is introduced, which is better than many management texts, perhaps most. Part of governance, or closely linked, is ethics, including social responsibility.

The purpose of governance can be said to assure that all parts of an organisation are working well, and according to established principles, and that **stakeholder needs** are met or at least addressed. Often there are not enough resources or time to meet all needs, then **balancing** is needed. An important role for the new manager is to be “inclusive” (Lucier 2007).

In a paradigm system, governance may be the current paradigm, not yet fully accepted by academia. An outline of major management paradigms can be (Høie 2012):

1. Rigorous mass production, US type
2. Flexible mass production, Japanese type
3. Service management – including quality
4. Sustainability – including ethics

Apparently, Nohria 2010 is at paradigm 1 level, perhaps typical of many business schools. They have a profitable concept, so why change it?

Some corporations operate at the mass production paradigm level, even if partly in service. Characteristics are top down management, Human Resources, competition, short term planning, no quality management, little risk evaluation, poor use of technology etc.

Conversely, other businesses are at paradigm 4 with impressive visions and plans. They apparently do well, but a major study is needed to prove that statistically.

A government project is rivaling the pioneers in business, Finnish schooling; best in PISA measurements three times, among the best in the fourth. The system was designed in 1968 (= long term planning), without planning to compete worldwide. Not even school districts in Finland compete, they compare measurements and try to improve in cooperation.

An important concept, **empowerment**, is central for Finnish teachers. All get 5 year university education, and very little instruction from above. This means they can use their professional skills and discretion when teaching. A side-effect is that teaching is the most popular study in Finland, resulting in even better teachers.

A large, international study concludes that all North American corporations that did not have separate boards, were underperformers (Lucier 2007). This seems to have been ignored by corporations, but some investors have noticed, pressuring corporations to adopt the independent board principle. Still, resistance is strong, for instance in Goldman Sachs, clinging to a structure that led to disaster.

Finance is an interesting governance area today, with a struggle between countries wanting more regulation, and the finance industry wanting less. However, finance has proved to the world that it cannot regulate itself. Banks were saved with taxpayer money, but soon after awarded themselves bonuses. This view has been called "tone deaf", reflecting manager views even outside banking.

A governance system is indirectly suggested in EU 2011, it seems to be a minimum. At the same time a global model of finance is needed, to forecast developments and risks, instead of using a wet thumb. However, current models are not strong, and not even well understood (Fabozzi 2008). Possibly a new theory of finance is needed, it should incorporate risk as a basic assumption, and the social role of finance.

Some of the best world experts are working on a climate model. They have proved the existence of **extreme weather** now seen in many parts of the world. In Copenhagen drainage pipe diameters will be increased by 50% to cope, the cost is 0.5 billion Euros, and that is only one city.

Another consequence is higher sea levels, and some countries are already planning for 0.9-1.5 meters increase in sea levels this century. For some it may be catastrophic.

It is tempting to compare this to the proposed finance model. Climate is chaotic, a component is weather, where chaos effects were first identified by Edward Norton Lorenz (1917-2008). So, will a world finance model have chaotic properties?

The biggest challenge in climate governance is cooperation. EU is doing fine, but some of the big polluters have not committed themselves. In 2011 Australia joined the climate movement, very important, but Canada chose to leave the Kyoto protocol December 2011. A BBC series on polar life has been sold to several countries, but the last episode was initially not sold outside the UK to avoid disturbing climate skeptics. This suggests that (some) media repress information that is important for world democracy, so what is the social role of media?

Methodology

Especially the extension of ethics to organisations represents a methodological challenge, there are few guideline. Only one ethical glossary was found (Mizzoni 2010, not defining ethics and morals), meaning that definitions vary. It is not certain that all writers appreciate the difference between deduction and induction, perhaps regarding some inductions as absolute truths. Furthermore, many texts seem to promote an ethics uncomfortably close to existing business morals. This implies that quality, service, professionalism, risk, ecology and governance are low priority if included at all.

The method used in the book is **synthesis**, or **design** as described by Simon 1996. This implies making a construct within agreed limits (design restrictions), emphasizing **coherence** (Dancy 1989). Dancy accepts that parts of this construct may be unproven or tentative, the first approach is a design that encompasses all components, with an acceptable structure. The goal is not truth, or certainty, but usefulness.

The above sounds easy, but an experienced designer knows the challenges. Design restrictions like money or time can invalidate a design, technology limitations may lead to compromises. The overall design may become incoherent and useless, when details dominate (example the world financial system). Design is partly creative freedom, but perhaps more professional balancing, professionalism is a chapter in the book. Design is also a learning exercise, as was experienced when writing the book. Some organisations have principles and guidelines better than anything found in academic papers, and have influenced even the initial assumptions of the book.

The organisation view is partly based on **systems theory** (Peters 1987) that is valid not only for human organisations but also for biology, technology etc. In this view organisations are not only the sum of their «atoms», but something more because they are part of an organisation. A kidney is not only the sum of its cells, a football crowd changes its members temporarily. Our immune system includes bacteria. Human and technological systems may merge, and it is not always easy to forecast outcome.

Ethical issues are often **ill-structured** (Simon 1986). They involve complex issues, probabilities, evaluations and stakeholders. As shall be seen, analysis also needs **foresight**, perhaps of consequences far ahead in time. A way to sum this up is **sustainability**.

Furthermore ethical issues are not always “problems”, even if problem solving is fashionable. The visible part of an ethical issue is often a **symptom**. Finding what problem(s) caused the symptom needs deeper analysis. Is Somalian Piracy **the** problem, or are there influences that are relevant to sustainable initiatives?

Thus the one and only solution is difficult for complex ethical issues. The final decision may be a balance, considering stakeholders, implementation and planning. Planning may be short term or long term, and an excellent long term strategy may need short term successes to survive. I.e. there may be deviations from the ideal, to make implementation practical.

This book will as said consider **stakeholders**, those organisations and concepts that help your organisation operate. A central book for **stakeholder theory** is Freeman 1984. To succeed an organisation needs positive relationships with stakeholders. This means that management must balance different needs, an **inclusive leader** (Lucier 2007) should replace the “emperor” assumed by some management books.

Books on **organisational ethics** are for instance Boyle 2001 and McDaniel 2004. Both are aimed at health organisations, but general enough to be valid outside health, and recommended.

According to Boyle 2001:

«Moral norms can be glimpsed throughout the organisation. Norms are manifest in an organization's formal structure, in its mission statement; policies and procedures; codes of professional conduct; strategic objectives; business plan; and contracts with employees, vendors and purchases. Organisational moral norms are less clearly seen, but no less palpable...»

Seeing norms as physical expressions of ethics, their influence can thus be observed in several documents. Boyle missed the important website, not much used at the time.

Integrating ethics, social responsibility and governance is therefore challenging. None are well defined, and ethics is seldom extended to organisation level. There is little research available, especially sampling a large number of organisations, internationally. Besides, accurate measurement is a challenge, perhaps most disturbing for investors. Problems relate to selecting socially responsible investments, and measuring their performance, and that is only the beginning.

Conclusion

This short article hopefully shows the need for incorporating social responsibility and governance in ethics. This creates a needed framework for all organisations, including business, government, clubs, sports clubs, NGOs etc. ISO 26000 has established the feasibility of such integration, its legitimacy is helped by the nearly 100 countries participating in the project.

Another legitimacy is provided by successful organisations operating according to ethical principles. Some companies combine excellent ethics and fine results, see above. A reason is strategic and sustainable thinking, combined with good motivation. This should interest investors.

An important issue for investors is risk. Risks can relate to cheating, corruption, bad quality and incompetence. The book suggests that some such risk is systemic, it is typical of certain industries, or even countries. Investors have already been alerted, and many work to improve cultures. Fortunately, there have been more positive initiatives lately.

Management should become a science, with guidelines similar to ISO 26000. This will take time, perhaps 10-50 years, but afterwards we will know good management and be able to evaluate it. Some –often small – organisations come close even today, and seem to grow and create well. This is important for investors, and government planners.

Business school education needs renewal, by including creativity, quality, risk, service, professionalism, ethics and governance. In Norway ethics and social responsibility will be mandatory for all bachelor level studies in economics from Autumn 2012. Can other countries afford not to do the same?

The upside of good ethics is apparently strong, but not proven. The financial crisis cost the world 4 trillion dollars according to the International Monetary Fund in 2009. This amount only covers the financial institutions involved. That money was wasted due to inferior methods and attitudes, suggesting that there are better ways.

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TOWARDS SIECLE DE LUMIERE FOR ETHICALLY ENLIGHTENED MANAGEMENT

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Prelude

"Light..! More Light..!"

These were the last words of the great German philosopher and poet Goethe in his death bed.

The Age of Enlightenment in the 17th – 18th century Europe came with the promise of Reason, Freedom and Happiness. The power of the Mind as in rational view of the world was the instrument in understanding Reality as it unfolds to us. But where is its influence in the management scenario today?

Sumantra Ghoshal had rendered critical observations on the current mainstream management education in terms of 'Bad Management Theories'. Warren Bennis was worried about why and How Business Schools lost the Way? On a positive note, Howard Gardner at Harvard was illustrating on eight facets of Human Intelligence a Danah Zohar was working on Spiritual Intelligence while Laszlo Zsolnai among others at the European SPES forum was creating spaces for responsibility and ethics in Business education.

The present paper is an effort to address these issues from a perspective that is Indian with an appeal that is Eastern but seeking its relevance that is global in its reach and impact.

Those who can see deepest into the past can also see the farthest into the future. Let us begin this journey in small steps. All the world over the 150th birth anniversary of Rabindranath Tagore, the Nobel Laureate philosopher-poet from India is being celebrated. In his award winning creation, *Gitanjali* (The Garland of Songs) the great master raised the question – "Prisoner, tell me, who was it that wrought this unbreakable chain?"

"It was I," said the prisoner, "who forged this chain very carefully. I thought my invincible power would hold the world captive leaving me in a freedom undisturbed. Thus, night and day, I worked at the chain with huge fires and cruel hard strokes. When at last the work was done and the links were complete and unbreakable, I found that it held me in its grip."

The predicament of Management education worldwide can be succinctly described in these golden words of wisdom as above. The Iron Cage of Max Weber and the Scientific Management of F W Taylor have led us to a level of quantitative perfection to a fault without a halt. But the competence to deal with uncertainty, unpredictability and paradoxes is far from our access as leaders of tomorrow. Strangely enough, almost five centuries back, Leonardo da Vinci, upheld the principle of '*sfumato*'- the ability to handle complexity and paradoxes as a cardinal principle of learning and creativity. But the leaders of business are still comfortable in their zone of their obsession with numbers and calculations! Linear thinking and binary logic still dominate their minds creating formidable roadblock to expansion and enlightenment!

The current scenario in business worldwide can be captured in **three T's**. These are the times of **Turbulence** as evident from the economic meltdown and its multifarious repercussions including the work – life imbalance in the personal quarter. When the waves of the ocean of life go turbulent as this, time is ripe to be open and willing for a phase of **Transition**. It will entail questioning of our existing models of man, our models of development, our notions of progress beyond homo-o-economicus man and techno-economic development. Classical wisdom of India as enshrined in the Upanishads extolled a vision of man far beyond the technical and economic identities. The sages of India had envisioned the human being as '*amritasya putrah*' – children of immortality, beyond the clutches of sorrows and even death. Internalization of this wisdom may lead to the final **Transformation** of thoughts and ideas, of beliefs and values, models and structures that we need to cope with the challenges of the current reality. As Socrates said – "An unexamined life is not worth living." But any engagement in re-examination starts with questions that are fundamental and often uneasy. Are we ready to welcome such experiences of discomfort for our own good in future?

The archetypal model of leadership thus stands subject to scrutiny. The charismatic, autocratic leader is rapidly losing its relevance today. The Child-like leader is here to emerge. Rabindranath Tagore in his poetic masterpiece 'The Awakening of the Waterfall' was overflowing with the exuberance and abundance of a child:

"I shall run from one hill top to another/

Roll in dust from one ground to the other/

Laughing aloud, singing aflow/

Clapping with every rhythm of life." (Translation mine)

No wonder Tagore could not survive his short stints in schools of formal education and pioneered a movement in world education by creating a university in the lap of nature far away from the 'madding crowd'. The institution was christened '*Viswa Bharati*' (Global India).

Swami Vivekananda, another great Indian leader and a contemporary of Tagore, was the founder of the first Indian international organization, Ramakrishna Mission, dedicated to the service of humanity with a spiritual foundation. 'For the salvation of the self and the welfare of the world' – was his chosen motto in this mission to resolve the age-old conflict of prioritizing between individual emancipation and social service. This was the

original spirit of ancient India – not an either-or choice but a complimentary synthesis of simultaneous pursuit of material flourish and spiritual development.

The new and emerging paradigm in management must look into the past both in the east and the west to come to solutions of problems that are global and all pervasive – from the highest echelons of power in organizations to the micro level of the individual and the family. Such a paradigm shift would require not only the courage to challenge the existing structures, systems and beliefs but a penchant to experiment with new and non-conventional sources and alternative methods of learning.

The present paper is more of an odyssey amidst the turbulent waves of the ocean of management thinking and practice. The agony and the ecstasy of a two decade long of journey with human values, business ethics and corporate social responsibility will be touched upon briefly in the right context. Alternative learning sources and methods like lessons from Nature, Silence, Meditation, Conversations and Dialogues, Storytelling, Arts and Literature, Poetry and Music etc will be highlighted as pathways to new frontiers of knowledge and meaningful action. All this has been born out of zeal to venture into unknown and uncovered vistas of knowledge beyond the corridors of structured and mainstream management education that is important but sadly not enough to deal with life.

Nietzsche, the great German philosopher had remarked: “If one is to live, one is to live dangerously.”

I chose to live a little off track, and somewhat dangerously to make life worth living for the students in the MBA curriculum. Otherwise inputs on Values, Ethics and Responsibility are disseminated in a manner that is so dull and dreary to the 21st century minds.

My only humble pledge was to make this transmission sound interesting and relevant to the leaders of tomorrow in business or otherwise.

Ethical enlightenment is not a flash of lightning or a peal of thunder. It is looking at the same reality but with radically changed perceptions. As the old saying goes:

“Before enlightenment, mountains are mountains and rivers are rivers/

During enlightenment, mountains are no longer mountains, rivers are no more rivers/

After enlightenment, mountains are once again mountains, rivers are again rivers.”

The golden words on ethical enlightenment have been voiced by those two great Indians – Vivekananda and Tagore. Vivekananda had asserted that we never progress from falsehood to truth but from lower truth to higher truth.

Tagore expressed it elegantly in his immortal song:

“The scales of darkness will fall off the eyes/

Wherever you look, you can only see the Light!” (Translation mine)

May this herald a New Age of Enlightenment in this new millennium!

Objectives of Future Management Education

The future initiative will aim at achieving **holistic effectiveness** in our personal and professional spheres by way of striking a **dynamic balance** between such apparent polarities as:

Skills and values

Intellect and Emotion

Knowledge and Wisdom

Work and Life

Quantity and Quality

Growth and Sustainability

Business goals and Societal Well Being

Profits and Planet

Areas of Concern and Activity

The key areas of concern for tomorrow and activities will revolve around the following:

- a) Human Values in Business and Management for flowering of inner world of leaders
- b) Business Ethics that deals with principles and practices at a functional level in management that business leaders must need to institutionalize on a top priority basis
- c) Corporate Social Responsibility that expands the concerns of corporate leadership beyond the boundary of the organization to include the proximate as well as the distant stakeholders as an integral part of business strategy and policy
- d) Sustainability of organizations, communities and the planet at large for creating a global vision and inspired action by business leaders
- e) Integration of inputs from frontiers of knowledge and action (like Arts, Literature, Music, Poetry, Performing Arts, Films etc.) beyond the corridors of traditional management thinking for breakthrough ideas and innovative practices on Creativity, Leadership, Teamwork, Motivation, Stress Management etc.
- f) Responsible Corporate Governance that will aim at disseminating inputs to organizations and implementation of best practices
- g) Mainstreaming U N Global Compact Principles in the field of learning and education, management or otherwise
- h) Evolution of an Alternative, Sustainable and Holistic Indian model of management with perspectives, principles and processes that are in consonance with Indian cultural roots but having significant global relevance and universal appeal
- e) Integration of Spirituality and Management at a non-denominational level

Uniqueness of the New Pedagogy

The uniqueness of the new pedagogy will be in its conceptual diversity, multi disciplinary character, pedagogical innovations and state of the art delivery mechanisms that expose the participants to a whole repertoire of alternative sources and methods of learning (Eastern and Western, ancient and modern) beyond the conventional modes of classroom lectures and case studies and discussions. These include:

Learning from Nature

Immersion in Silence and Contemplative as well as Meditative practices

Sharpening the Art of Seeing and Listening as a means to enliven experience and role effectiveness

Lessons from Illuminating Conversations

Integrating inputs from Arts, Literature, Music, Theatre and films for Leadership Excellence

Insights from Wisdom Literature of Oriental as well as western traditions, cultures and philosophy

Storytelling and Experience Sharing

Guidelines from Lives and Works of Thought as well as Action Leaders from different fields, both Eastern and Western

Participation in Dialogues rather than debates for Collaborative Learning

Beyond the cliché of changing the mindset, the Centre, with its thrust on alternative learning barriers to holistic perception and widened perspectives methods will actually help the participants to **expand the mind space** and thereby overcome the barriers to holistic perception and widened perspectives created by our dominant limitations of linear thinking and trap of binary and judgmental functioning of our mental faculties

The Learning Journey

The need of the hour is to chart out a multi tier learning path for management students and corporate executives to graduate from **information** through **knowledge** to **wisdom** as outlined below.

*Creating a platform of shared understanding through awareness creation and sensitization for ethical revitalization (**Business Ethics**)

*Opening up the leadership mind to broader issues beyond the limits of the self or the organization through creative stakeholder engagement and dialogues involving diverse constituencies (**Corporate**

Social Responsibility, Sustainable Development)

* Igniting the fire or spirit within the deeper self prior to harnessing and unleashing our unlimited potential (**Human Values in Management, Indian Insights into Management, Spirituality and Management**)

* Raising our consciousness to an adventurous flight to scale the height of leadership wisdom for effective and elegant management of turbulence, uncertainty and crisis in future (**Enlightened Citizenship and Responsible Corporate Governance**)

Scenario Overview

In the wake of globalization when market economy has become the ruling ideology and fierce competition determines the nature and contours of relationships between people, organizations and even societies, the question naturally arises – what is the relevance of human values in this present scenario? When progress or growth is determined largely by technical and economic indicators, where is the space for ethics in our discourses on management? Where is the time to stand and stare, look back and think again at a time when, to use a Shakespearean phrase, ‘times are out of joint’?

While it is indeed true that the world of business and industry is surging ahead towards the single most objective of attaining economic and material progress via the profiteering route, the search for excellence in the respective fields of human endeavour nonetheless continues. This drive for excellence implies that the human being is also gearing up to enhance one's own effectiveness. The vital question today is, what is the notion of this effectiveness that we are trying to achieve? Is effectiveness limited only to the notion of efficiency that is understood in technical and quantitative terms? Is there a need to look at effectiveness from a deeper, wider and a more holistic perspective which includes, and accords importance to the subtler and qualitative aspects of human development?

On the other hand, as the entire ‘global village’ is passing through its euphoric experience of the phenomenon of globalization, some of the biggest scams and scandals in the western industrial world have come to public knowledge. Yesterday's corporate behemoths like Enron, Worldcom and Arthur Andersen are facing ignominy and disrepute of alarming proportions. Surely enough, the masterminds of manipulation, compelled to achieve financial success at any cost, were not lacking in competence from technical and economic considerations.

However, absence of competence from humanistic considerations starkly revealed their failure to achieve effectiveness in a holistic sense. Irreparable loss of corporate reputation', that vital yet intangible asset, was the inevitable outcome.

If we now turn our attention to the individual, one finds a dominant trend of celebrating material progress at the dire expense of finer aspects of life and work. While there is no intrinsic problem with attaining material goals per se, but skewed emphasis on success and career oversets the balance of life. Standard of living becomes equated with standard of consumption as the pursuit of improving the quality of life loses its significance. Psychological energy hemorrhage and unmanageable stress in life and work become inevitable. What is more alarming is that these also produce a tremendous negative impact on the family, especially the children.

Thus, it is for the wellbeing of the individual and the benefit of the organization that there is an urgent need to arrive at a notion of all-encompassing, holistic effectiveness. The current literature on leadership places a lot of emphasis on the ability to have a ‘big picture awareness’ on the part of the leader. But prior to this, every individual must be equipped with the requisite competence to develop a holistic perception of life and work. Then only will it be possible to redefine effectiveness in an integral manner beyond the tunnel vision of efficiency with its technical and quantitative connotations. Such a notion of effectiveness accords due importance to skills development at a functional and operational level but places it on a strong foundation of human values. While the field of application of skills is the outer world of human action and endeavour, the space for culturing of human values is the inner world of the individual, through the process of ‘Becoming’.

Where do we then begin our search for human values? They say, ‘Those who can see deepest into the past, can also see farthest into the future.’ So, let us go back 2500 years to Athens in Greece. In the crowded street of Athens, one can distinctly identify an old man, with long hair and unkempt beard and in tattered clothes, moving around with a lantern in broad daylight. When any passer-by would come his way, he would hold the lantern up close to the face of the stranger – looking for something! Then he would move on to the next person and do the same. A young man came near him and asked, “Signor! What is it that you are looking for, that you cannot see in broad daylight?” The old man stopped, dangled the lantern in front of the face of this youth and said, “Among these crowds of people, I am trying to find a human being”. He then moved on to the next passer-by.

The above episode carries a symbolic message to us. As the process of 'becoming a human being' is going on within us, it is not quite visible to the outsider even in broad daylight. One would need a different kind of searchlight, like the lantern in the story, to have a glimpse of this inner world. Thus the search for effectiveness, managerial or otherwise, by culturing of human values is a journey within the individual, within the Self. This is the qualitative aspect of human development that is subtle, invisible, intangible and not amenable to measurements. No wonder the great management thinker Peter Drucker titled one of his recent articles in Harvard Business Review – 'Manage The Self'. Peter Senge, another leading management expert, places great emphasis on cultivating the art of 'Personal Mastery' in his famous book 'The Fifth Discipline'. Self-management thus holds the key to effective management of organizations in the outside world.

Whither Values?

What do we mean or understand by human values? Without trying to offer one single definition, we think it is more important to come to a shared understanding of human values. Often discussions on human values tend to get diverted to arguments stemming from differences in opinions on the questions of universality and relativity of values. Hence we would like to examine the whole issue of values from a psychological perspective in terms of the experience of the individual. There exists a nearly common agreement across cultures, religions and systems of thought on the perception of values like kindness, charity, compassion, humility and the like, which are registered as 'positive vibrations' within the psychological space of the individual. Similarly the experience of greed, jealousy, suspiciousness, hatred and the like are registered as 'negative vibrations' within our psychological space. Instead of branding them as 'good' or 'bad', let us try to assess the impact of both these kinds of vibrations on human relationships in life and work.

In the phenomenal world of our existence, every individual needs to interact with other human beings. Simply speaking, the 'I' is constantly engaged in relating to the 'Others'. When the positive vibrations are at play within us, the 'I' naturally reaches out to the others and including the others within its domain of concern. Whereas under the spell of such psychological vibrations like greed, jealousy or hatred, the 'I' finds itself getting separated and isolated from the others. It is in this sense that the positive vibrations can be called desirable human values, whereas the negative vibrations are undesirable because these block the expansion of the 'I' into the others. It is this separateness from the others from where stem most of our problems relating to unethically in our thoughts, decisions and actions. The pathway to effectiveness through human values thus requires conscious cultivation of our positive vibrations and vigilant awareness of our negative vibrations.

How then should one begin this journey? At the outset it is important to realize that the developmental process for culturing of human values begins with the individual and not the organization and the society, nor the systems and the structures. Each individual has within oneself one's own unique constitution of these vibrations – positive and negative. The first step is to identify one's own strengths (positive vibrations) and weaknesses (negative vibrations) through an honest and rigorous self-analysis or rather our own SWOT analysis, in the psychological sense. Then conscious effort is needed to strengthen and further develop one's own positive vibrations that are ever expanding in nature. Human consciousness has to be directed towards allowing for the expansion in our daily transactions with other human beings. Simultaneously one needs to be vigilant of the presence and activation of the negative vibrations so that one does not fall into the easy trap of that degenerative tendency of rationalizing one's own weaknesses. This holds the key to developing a positive approach to life, work and other human beings. This will practically translate into conscious effort to identify the strengths of the others and help them develop their positive qualities.

We have already mentioned that the interplay and development or decline of values occurs within the inner psychological space of the individual. Now the question naturally comes – which of the human faculties are involved in this process of development? Broadly speaking, the human being has two sets of faculties – rational (reason/intellect/logic) and emotional (emotions/feelings /impulses). Let us take a deep look at the entire spectrum of vibrations as we experience them psychologically. Honest introspection will tell us that we experience these vibrations in our domain of emotions and not the intellect. Charity or compassion, greed or jealousy are essentially feelings and not intellectual constructs. However our education system, right from the formative days in school up to the highest level, places primary emphasis on the development and sharpening of our rational faculties. Ironically enough, emotional enrichment of the individuals, which is critical to the values-development process, hardly finds a space in the modern curriculum. The situation becomes worse when one finds experts coming up with such smart yet ill-founded advice: "Don't be emotional! Be rational".

There is little appreciation of the simple truth that most of the values related problems primarily spring from the world of emotions and these cannot be overcome by sharpening of the intellect alone. It may be worthwhile to spend some time pondering over the following insights from two of the greatest personalities in the last century on this issue.

Albert Einstein: "And certainly we should take care not to make our intellect our God...The intellect has a sharp eye for methods and tools; but it is blind to ends and values".

Mahatma Gandhi: "And I know that ultimately one is guided not by the intellect, but by the heart... Man often finds reason in support of what he does or wants to do".

If we now look back at the sacred literature in all religious traditions, we find a unanimous emphasis on culturing of noble emotions for integral human development. The Bhagavadgita highlights the importance of '*chittashuddhi*' or emotional purification as an essential step towards one's progress to the ultimate goal of Self-Realization, the *summum bonum* or purpose of life. "Blessed are they that are pure in heart," says the Bible. And the Holy Koran spells the warning: "Greed robs a learned man of his wisdom".

The last quotation from the Koran is indeed a revelation! And isn't it so painfully true? Mastery in any discipline of knowledge is not sufficient to open up the doors of perception that lead to a comprehensive understanding of our life-world, which is what wisdom is all about. Nor does it equip us with the necessary competence that provides the momentum to our journey of human values through emotional enrichment. This is not to demean the importance of intellect in our developmental process. But the evolution of human consciousness to the level of wisdom from knowledge is not a function of intellectual learning from the available 'Book of Knowledge'. One can understand why Bertrand Russell also had raised the alarm: "Unless men increase wisdom as much as knowledge, increase of knowledge will lead to increase of sorrow". One only needs to take a deep look at the problems of modernity to appreciate the validity of this statement. No wonder why the great poet T.S. Eliot lamented in his famous poem, The Rock,

" Where is life, we have lost in living;

Where is wisdom, we have lost in knowledge;

Where is knowledge, we have lost in information."

Wherein then lies the key to wisdom? What are the sources of learning beyond learning from the Book of Knowledge through the exercise of reason and intellect? Modern education has perfected the learning process from the Book of Knowledge to a fault. But it has missed out badly on opening our minds to two other important sources of learning. – the Book of Nature and the Book of Life. Learning from Nature was an essential feature of education in many ancient traditions, especially the Indian tradition and culture. Unlike many other modern civilizations, the Indian civilization grew in the lap of Nature. Observation of Nature and learning from the workings of Nature was integral to our classical system of education. Nature can actually offer us profound messages relevant to us even today if we care to keep open our eyes and ears – our doors of perception. Let us take an example.

In the early hours of dawn, Nature is quiet and serene. Throughout the day there is a grand ceremony of incessant activity going on in Nature. And again, when the evening falls, the Nature recoils into silence. This cycle of conservation – application – renewal of energy takes care of energy replenishment in a natural way. The human being is also engaged in application of energy throughout the day in all kinds of activities. Nature gives us the key to achieving effectiveness in our energy application. If we care to spend some time and effort in conservation and renewal of energy before and after application, the chances of our energies getting dissipated become minimal. The Nature does not feel the necessity of going out on holidays or weekends like us for rejuvenation! Do we care to ask why?

But what are we supposed to do for conservation and renewal? This is the time for reflection and contemplation, self-analysis and introspection. The human energy or consciousness is always flowing out from within during the phase of application – the centrifugal movement. During conservation and renewal, this energy is drawn within us from the outside world. Unless this centripetal movement is introduced in our daily life cycle, the balance of life gets disturbed leading to disorder and disharmony in our psychological space leading to dissipation and stress. This 'going within' or interiorization of awareness is another important aspect of values-development through introspection.

If we take our time to look at the wonderful play of activities in Nature, we immediately sense a rhythm that brings joy to us. Nature transmits to us this rhythm and joy through her dance and movement. Effectiveness in our action also consists in transmitting this rhythm and joy through our actions. The journey through human values has to be made adventurous and enjoyable at the same time. Otherwise it may not achieve the real transformation, which is the transformation of human consciousness. That is why the great savant J. Krishnamurti had observed: "The problem is not in the world, it is in our consciousness".

Another important source of learning is the Book of life. Learning from the Book of Life consists in keeping ourselves open and receptive to learn something from anyone and everyone we meet in our daily life – from

the CEO to the doorman. Such learning is possible only when we have mastered the art of 'seeing' and 'listening'. Most often we see things not 'as they are' but as we want to see them. We are more interested in talking than listening. And in the process we become ineffective in our decisions and actions. Proper seeing and listening demand a high quality of our attention to objects and persons and that is possible by improving upon the quality and intensity of our consciousness. Journey through human values is indeed an adventure of consciousness.

There is another source of learning that we often ignore and neglect. Throughout our life we learn from our teachers, parents, adults, experts and so many others. They mostly develop and perfect two dimensions of our personality - the parent and the adult. But the child in us fails to find expression and suffers in anguish. The child which stands for novelty, freshness, curiosity, spirit of enquiry and sense of wonder has been smothered in our present system of education. To bring back joy and vitality in our pursuit of values and search for excellence, there is an urgent need to resurrect the child in us. The best way to do so is to spend some time with children – not to teach them but to learn from them. The child also sends the message to us – transformation by values cannot ultimately become a reality without the magic touch of Love. 'Love thy neighbour as thyself' was the cardinal message on values from Jesus. This is not just the message of Christ, the Messiah but the eternal Divine child within the Lord.

We began our journey 2500 years ago with the old man with a lantern in the streets of Athens. Let us conclude by keeping alive the search for this light – this time within ourselves – in the heartland of India around the same time - way back 2500 years. In the twilight hour, Lord Buddha is sitting with his benign smile in front of his chosen disciple Ananda. Ananda is beaming with confidence as he says,

"Lord, I am convinced that you are the greatest of all prophets and seers that have come on this earth. Of all their messages, yours are the most relevant to humanity at large. I have been fortunate to learn your messages, sitting at your feet. Now I seek your blessings and permission to spread your message to the world".

Buddha keeps silent. Then he smiles and says, "Are you familiar with all the prophets and sages that have come on earth?"

Ananda is silent.

"Have you understood the full import of all their messages?"

Silence.

"Have you understood the full import of all my messages?"

Silence.

"Then wherefrom do you get this confidence?"

Ananda breaks down and asks,

"What then should I do, my Lord?"

The smiling Buddha gave a look radiating compassion. Then, from the depth of silence arose his eternal message:

"Atmo Deepo Bhavo".

"Be a Light unto yourself".

We are neither prophets nor seers. But let us all pray and hope that in the darkest hours of the night, in our moments of silence and solitude, may we keep this Lamp burning. This will be our homage to the great Lord and his message

"Atmo Deepo Bhavo".

The Spirit of Dialogue

The spirit of the dialogue, is ever a must for dawning of wisdom in our academia and business leadership. The present mood is dominantly of a debate which is often a win-lose situation whereas dialogue is for both individual and collective enrichment.

Romain Rolland, the Nobel Laureate literary figure from France, had offered to the world illuminating biographies of three great Indians – Swami Vivekananda, Sri Ramakrishna (the Spiritual Master of Swami Vivekananda) and Mahatma Gandhi. In fact Rolland concludes his biography of Vivekananda with a clarion call (Rolland 1975:315) to his fellow brethren in Europe:

"My European companions, I have made you listen through the wall, to the blows of the coming one, Asia ... Go to meet her. She is working for us. We are working for her. Europe and Asia are the two halves of soul. Man *is not* yet. He *will be*. God is resting and has left to us His most beautiful creation – that of the Seventh Day: to free the sleeping forces of the enslaving spirit; to reawaken God in man; to re-create the Being itself."

The Europe-Asia dialogue had already begun.

.The great poet Rainer Maria Rilke thus appeals to our patience:

"I want to beg you as much as I can, to be patient

Toward all that's unsolved in your heart,

And to learn to love the questions themselves..." (Zohar and Marshal 2000:296)

And the great Indian poet Rabindranath Tagore composed the following masterpiece just ten days before his death (translation by Amiya Chakravarty):

The first day's sun

asked

at the new manifestation of being –

Who are you?

No answer came.

Year after year went by,

the last Sun of the day

the last question utters

on the western seashore,

in the silent evening -

Who are you?

He gets no answer. (Robinson 1989:42)

Who is it that asks questions out of sense of wonder? It is the Child within all of us.

Quest for the Child Within

But where is the mind that chooses willingly to face turbulence, navigate through transition and embrace the quantum transformation? It cannot be a mind merely confined to limits of calculations around worldly affairs. "Let not earthly prudence whisper too closely into thy ears for this is the hour of the unexpected..." remarked Sri Aurobindo while heralding 'The Hour of God'. But how would the notion of God appeal to a rational, technical and skeptical 21st century mind? So where do we find God? The best answer comes from Sri Aurobindo himself:

"What is God after all - an eternal child playing an eternal game in an eternal garden?"

The child within us may have the magic mantra of this transformation but it has hardly been tendered for long years. Even great masters like Mozart or the volcanic Indian monk Swami Vivekananda were childlike in disposition. But we have sacrificed her beyond redemption at the altar of education. Tagore was sensitive enough to quit schooling in childhood so that the child in him with a vibrant and beautiful mind could ever flow in abundance like "Awakening of the Waterfall" (*Nirjhorer Swapnobhongo*):

"I shall run from one mountain peak to the other,

And roll from a bed of earth to the other,

Laughing aloud, singing amuse,

Clapping with every rhythm of life!" (translation mine)

Postscript

Let me conclude on a personal note. It was 25 years back when I was a student of management at the Indian Institute of Management Calcutta. One Sunday morning while I was giving lectures on newly acquired

Theories of Learning when I found a tall, fair and bearded man with imposing appearance came in front of me smiling. I was engrossed in my lecturing on Cognitive Learning, Action Learning, Experiential Learning and so on. He stopped me and asked, Do you know what is learning? The word Learn has five letters the last four letters being 'Earn'. So you earn something while you learn. But it is the first letter 'L' that makes the real difference. If you earn something with LOVE then only it becomes Learning otherwise not. I was stunned to silence.

I never met the person ever after in life. But as I write this paper I offer my tribute to that unknown wise man from the streets of Kolkata in India who offered me a precious pearl of wisdom that will remain with me for life.

ECONOMY'S RESPONSIBILITY FOR EDUCATION

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Abstract: The right to education is a civil right, which means that the government is the primary responsible actor in guaranteeing an education to every citizen. But in times of European debt crisis it is even more relevant to analyse if also companies should be (partially) responsible for education. First, some philosophical and theoretical aspects regarding social, political and economic concepts (such as Corporate Social Responsibility) will be pointed out. Then, this article will analyse Switzerland's dual track education system and its vocational training as a concrete example of economy's involvement. Finally, the advantages and challenges of the Swiss economy's engagement in education will be elaborated.

Keyword list: Economy, Education, Corporate Social Responsibility, CSR

1 Introduction

Education is a key element of a society and its economy: „Schools and universities do play a central role as purveyors of the culture, but they are also conduits to jobs and to opportunity” (Lewis 1998: 305). Transfer of knowledge does not only mean to pass on know-how; knowledge about traditions, culture and language forms society's collective identity. Thus, education is not just a matter of individual learning but rather an issue where many actors and factors are involved: different fields of politics, economy, law, historical background of a country or international agreements.

Article 26 of the Universal Declaration of Human Rights (UDHR)⁶⁸ asserts: “Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages.” Though, this right is not necessarily enforceable in all places, there is certainly a consensus towards both its validity and value. Ralf Dahrendorf, a liberal philosopher and sociologist, firmly declared the right to an education to be a civil right, meaning the government is the primary responsible actor in guaranteeing education to every citizen (1968). Today, education is one of the main tasks of western states. OECD countries spend on average 13 per cent of GDP for education (2007)⁶⁹. A broad consensus can also be observed that public authorities should be principally responsible for guaranteeing education – at least on primary school level. In most Western countries this responsibility does not consist only of financing: governments are also in charge of regulating and organising education on all levels (primary, secondary and tertiary).

Economy is one of the most important profiteers of well-trained people. That raises the question as to in what way political and economic authorities should be involved in ensuring education and to what degree and level: on a financial or organisational level or both? What factors are relevant and in what fields is economy's responsibility towards education discussed? Empiric studies, legal conditions and philosophical inquiries well

⁶⁸The Universal Declaration of Human Rights: <http://www.un.org/en/documents/udhr/index.shtml>. [5.5.2012]

⁶⁹OECD Key indicators on education: http://www.oecd.org/document/55/0,3746,en_2649_37455_46349815_1_1_1_37455,00.html [5.5.2012]

demonstrate the scope of this issue on very different levels, which alternately highlight aspects ranging from microeconomic to macroeconomic aspects. It therefore has to be decided to what degree and in which form of government the state or economy is responsible for guaranteeing education: for example the state receives taxes from firms and enterprises – is this contribution enough? Is it necessary that the state should legally define how and to what degree enterprises and other economic agents must contribute to education?

These factors will be treated in the following order: First some general social, political and economic concepts related to public and private responsibilities in education will be pointed out. The definition of public tasks depends on the conception of the state and its history that is why it is important to put this issue into the right context. These introductory philosophical aspects lead to legal conditions and concepts of Corporate Social Responsibility (CSR) as a binding and voluntary tool to induce enterprises to engage more in these fields. Nonetheless, CSR is just one possibility. There are more examples for the involvement of economy in matters regarding education. A concrete example for the cooperation of different actors in the field of education is Switzerland. In Switzerland, the private sector is jointly responsible alongside with the state for vocational and technical training (VET). This makes Switzerland one of the countries with a so called “dual track education”. This means that young people take up an apprenticeship in a host company and at the same time attend a professional school (one or two days per week) to complement the practical training. This system requires a serious commitment on the part of the economy since the private sector is the biggest provider of VET. We have chosen the Swiss VET case both because we have detailed knowledge about this system and because it is a good example of a functioning contribution of economy to education. With reference to literature in political sciences, the focus is on the emergence of dual track systems and the necessity of some preconditions. In the following chapter we will elaborate the advantages and challenges of the Swiss case. Finally, we draw a conclusion based on all the discussed aspects.

1.1 Introducing political philosophic aspects

Following Dahrendorf’s liberal concept of education as a civic right, what specific role should the government play in ensuring education for the people? And what impact does this role have on a liberal market where educated citizens strive to find a job, with which in turn they can contribute to the welfare state? Are individuals – following liberal theories – completely free in their decisions and choices or do they – following communitaristic theories – always act as part of a community?

The answer to these questions cannot be given easily but the questions above outline the main issue as well: the liberties and opportunities for individuals, institutions and enterprises significantly depend on the form of government. The liberal and the communitaristic approach are each the political-philosophical background for a different concept of state. The Greco-Roman concept of polity, the socialistic approaches of communism, arguments which aim at legitimizing an authoritarian state, the philosophic ideas of a modern democracy in Western European social welfare states: every concept presumes different philosophical axioms about the individual and society (often described as their “primitive state”), and thus has different ideas about how an ideal state should be organised. Plato described a social class system with three classes (Philosophers, Warriors and Workers), other models depend completely on a religious authority or an authoritarian regime. Other approaches focus more on the dynamics of society and convey therefrom an ideal form of government. All types of approaches have always been embedded in a historical background: In European countries quite a long period of dominance through religious authorities was replaced by democracy, in which the state is separated from the church, after the French Revolution. But depending on the country’s history this idea was implemented differently – as can be seen today.

The scope of this article does not allow for an analysis of every type of state, its tasks in the field of education and the taking into consideration of broader historical contexts. We will therefore concentrate on Western Europe and particularly on Switzerland. Anyhow, as we see in the next chapter it is of great importance to be aware of the continually changing political history of every country as well as the philosophic approach which lies behind each form of government. This is also a main aspect with regard to Corporate Social Responsibility which is discussed further on in this paper.

1.2 Changing state tasks in Western European countries

Over the years, the concept of ‘state’ has changed in Western European countries. While in the initial phase of state-building, the principal state tasks were related to territorial security and enforcing a rule of law, the later effects of industrialization forced the state to create conditions for obtaining a larger work force and thus more social inclusion by way of division of labour, which implied a more diversified collaboration (Kaufmann 1991). The conception of a welfare state provided education emerged at that time – thereupon secondary and tertiary education has become the basis for the inclusion of young people in the economic system. In the past, education had mainly been in the hands of religious institutions. However, in the last couple of decades society has demanded of the state to provide welfare as well as prevention work and to set incentives to

regulate human actions for human behaviour. Kaufmann (ibid.) calls this conception of state 'Steuerungsstaat' (enabling state)⁷⁰: The context for this conception is the increasingly intertwining of political problems, limited financial resources, global crime and ecological threats. In the conception of the 'Steuerungsstaat', the definition of state tasks is the result of political processes between different political actors. This is also true for our question of corporate responsibility for different levels of education. This means that education is not a priori a state task, but that education depends on activities of old and new actors, their interests and their political relevance.

Regardless of political commitments, education seems to be the key to the social, economic and political participation of individuals and to the democratic organization of a society. In this sense, education has also been described as an enabling or an empowering right as it is an indispensable means to realising other rights.⁷¹ A well trained work force is also an essential factor for the establishment, development and success of modern economy – and therefore very much in the interest of the private sector. To enable individuals and to train a workforce may well be a case of colliding priorities – which is further exacerbated by the preferences of individuals in regard to their own education or that of their children. Therefore the question of obligations, influence and the role of both state and economy in regard to education has been much debated and is subject to a changing societal orientation and ideology.

2 Education – a human right

The existing international legal regulations define education as a human right and determine some aspects of education systems. "Everyone has the right to education" – states the 1948 Universal Declaration of Human Rights⁷². A range of international instruments protect the right to education, most explicitly the 1966 International Covenant on Economic, Social and Cultural Rights (Covenant⁷³). The right to education embodies both a quantitative aspect (access to education for all) and a qualitative aspect, regarding the purpose and therefore the content of education (see UNESCO 2000).⁷⁴

Most clearly and unequivocally stated is the right to free (and compulsory) primary education. Where this is not available, the Covenant obliges States Party to plan the progressive implementation within a reasonable time span (Covenant art. 14). Certain concessions are made regarding secondary and higher education. On all levels however, education must be provided free of discrimination and must be directed to the full development of human personality and to the strengthening of the respect of human rights and fundamental freedoms (Universal Declaration art. 26, Covenant art. 13).

The classification as a human and social right is significant for the importance given to the right to education, but also for the attribution of rights – to the individual - and obligations – to the state.

2.1 A right for individuals and an obligation for states

The system of Human Rights and its classical interpretation attributes rights to individuals and responsibilities to states (see e.g. Friedrich Ebert Stiftung). Carrying this thought further, every individual has a right to education and it is the obligation of the state to make this possible – or in other words to "respect, protect and fulfil" (see CESCR 1999)⁷⁵ this right. The application of international treaties and conventions in the national setting passes through national legislation, thus formally binding national actors such as private businesses and schools.

Obligations concerning education are generally regarded as an important task and an investment for all states. In 1945 the US Supreme Court stated concisely: "today, education is perhaps the most important function of state and local government."⁷⁶ And 60 years later, Beiter (2005) confirms in his book on the protection of the right to education that education remains an important public function. The state is seen as the chief provider of education through the allocation of substantial budgetary resources and through educational law and legislation. States therefore act in a triple role as educators, regulators – and as providers of funding.

⁷⁰ See also: Leisering, Lutz; Mabbett, Deborah: Introduction. Towards a New Regulatory State in Old-Age Security? Exploring the Issues. P. 1-25.

⁷¹ General Comment No. 13 of the United Nations Committee on Economic, Social and Cultural Rights, [http://www.unhchr.ch/tbs/doc.nsf/\(Symbol\)/ae1a0b126d068e868025683c003c8b3b](http://www.unhchr.ch/tbs/doc.nsf/(Symbol)/ae1a0b126d068e868025683c003c8b3b)

⁷² The Universal Declaration of Human Rights, 1948 <http://www.un.org/en/documents/udhr/index.shtml#a29> [5.5.2012]

⁷³ International Covenant on Economic, Social and Cultural Rights, 1966 <http://www2.ohchr.org/english/law/cescr.htm> [5.5.2012]

⁷⁴ UNESCO World Education report 2000, <http://www.unesco.org/education/information/wer/PDFeng/wholewer.PDF> [5.5.2012]

⁷⁵ Committee on Economic, Social and Cultural Rights (CESCR), General Comment No 13, 8.12.1999, E/C.12/1999/10, 46: <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/G99/462/16/PDF/G9946216.pdf?OpenElement> [5.5.2012]

⁷⁶ Supreme Court of the United States, *Brown vs. Board of Education of Topeca*, 347 U.S. 483 (1954): <http://caselaw.lp.findlaw.com/scripts/getcase.pl?court=us&vol=347&invol=483> [5.5.2012]

National legislation must include minimal educational standards valid for state and privately run schools. The Covenant explicitly refers to non-state schools and recognises the fundamental right of the state to lay down minimal quality standards for such private institutions (Covenant, article 13 para. 1, 3 and 4).

States are also obliged to have an overall developmental strategy for their school system, which must encompass schooling at all levels – thus the UN Committee on Economic, Social and Cultural Rights.⁷⁷ Combating child labour is equally an essential task of states: when compulsory primary education was introduced, it conflicted with children working and contributing to the family income. Child labour conflicting with schooling is still an important issue in many countries even if today 161 states have ratified the ILO Convention 138 setting the minimum age for employment at 15 and prohibiting employment which endangers children's school attendance.⁷⁸

While education is certainly a worthy goal and a good investment, it is also a rather costly one. The 1990 World Declaration on Education states clearly: "National, regional and local educational authorities have a unique obligation to provide basic education for all, but they cannot be expected to supply every human, financial or organisational requirement for this task". Partnerships are therefore necessary and called for, including government and non-governmental organizations and the private sector.⁷⁹

2.2 The private sector – laws and commitments

Private companies – as influential and interested as they may be - are not addressees of international public law. They therefore have no direct obligations derived from the above mentioned fundamental instruments. It is again a state obligation to implement international law by translating the obligations into national law and thus making them effective and binding for national actors including economy.

States do this with different degrees of commitment and success. Thus both voluntary commitments and attempts to formally obligate businesses became a broader issue towards the end of the 20th Century. Corporations started committing themselves voluntarily to ethical behaviour in their business dealings; such concepts of Corporate Social Responsibility (CSR) often include topics such as human rights and the protection of employees, environmental protection and measures against corruption. This aspect will be discussed in the next paragraph.

Major scandals involving large private corporations (such as the chemical disaster in Bhopal or the involvement of Shell in the killing of Ken Saro Wiwa in Nigeria) augmented the pressure for formal and binding responsibility in regard to the respect of human rights by private business in the early 1990ies (see Friedrich Ebert Stiftung 2010/11: 209).

The discussion on responsibilities in the private sector picked up with the emergence of global economy and transnational corporations. The UN Global Compact was launched in 2000 as a "strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption."⁸⁰ The 2003 UN Norms attempt to engage transnational corporations and other businesses to respect individual rights – including education - and to contribute to their realization.⁸¹ The preamble explicitly refers to the primary responsibility of states regarding human rights but also to the responsibility of business enterprises, as organs of society, for promoting and ensuring human rights set forth in the Universal Declaration of Human Rights.

Specifically regarding education, the above developments are complemented by several initiatives including different stakeholders who aim at improving and achieving meaningful education; we may here mention the UN Special Rapporteur on the right to education, the Education for All-movement led by UNESCO, the Right to Education Project, the Global Campaign for Education, the hands-on ILO Helpdesk for businesses on CSR etc.

These developments illustrate that the challenge of education lies not only in the existence of solid legal bases, but also in the implementation of obligations and the creation of circumstances where young people actually complete a meaningful education. This again requires the inclusion of different actors in society; here

⁷⁷ Committee on Economic, Social and Cultural Rights (CESCR), General Comment No 13, 8.12.1999, E/C.12/1999/10, 46: <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/G99/462/16/PDF/G9946216.pdf?OpenElement>

⁷⁸ International Labour Organisation (ILO) conventions No 10 (1921) and 138 (1973), with exceptions for work done by children and young persons in schools for general, vocational or technical education or in other training institutions; see <http://www.ilo.org/ipec/facts/ILOconventionsonchildlabour/lang--en/index.htm> [5.5.2012]

⁷⁹ World Conference on Education for All, Jomtien, Thailand 1990

⁸⁰ UN Global Compact: <http://www.unglobalcompact.org/AboutTheGC/index.html> [5.5.2012]

⁸¹ Norms on the responsibilities of transnational corporations and other business enterprises with regard to human rights, UN E/CN.4/Sub.2/2003/12/Rev.2, 26, 2003: [http://www.unhchr.ch/huridocda/huridoca.nsf/\(Symbol\)/E.CN.4.Sub.2.2003.12.Rev.2.En\[5.5.2012\]](http://www.unhchr.ch/huridocda/huridoca.nsf/(Symbol)/E.CN.4.Sub.2.2003.12.Rev.2.En[5.5.2012])

businesses have a unique opportunity to act and have a unique role namely as employers, social partners, trainers and educators, wage- and tax payers all at the same time.

To summarize, education is a human right to which every person is entitled. As such it obliges states rather than the private sector. However, the latter can be formally engaged to participate, by implementation of international standards into national law. From the end of the 20th century onwards, voluntary commitments of businesses through codes of conduct and CSR can be observed; these are complemented by new forms of civil regulation including multi-stakeholder initiatives and different forms of Corporate Social Responsibility commitments.

Such developments as well as national legislation oblige businesses in different ways to respect and enhance the right to education of their young employees and to contribute to their training – both things in which economy holds a unique position.

3 Corporate Social Responsibility

Depending on whether social needs and requirements such as the right to education should be morally respected and fundamentally integrated into economic affairs or not, or whether economy should be treated as an independent actor that may or may not respect ethical conditions in order to align itself with a common public interest, is directly bound to the discourse about Corporate Social Responsibility (CSR). What is the role of the government in this matter? Is it the duty of the state to define the conditions or even to legally oblige the economy to assure, guarantee and promote CSR⁸² especially in the field of education systems. CSR might be a tool to regulate and define such tasks.

There are many different approaches depending on ethical, political or economic circumstances and conditions. This diversity of perceptions seems to be a typical cluster concept in scientific discourse (see Matten 2005: 335). Garriga and Melé attempt to “map the territory” and provide one of the few existing overviews and an abstract of different theoretical approaches by defining four categories: instrumental theories intending to create wealth and profit exclusively, political theories focusing on business power in the political context in order to treat enterprises as citizens fulfilling certain tasks within society, integrative theories defining factors and conditions to integrate and take account of social needs and requirements, and ethical theories focusing on moral conceptions, defining and willing to create what they perceive to be a ‘good’ society (Garriga/Melé 2004: 52). The wide range of theoretical approaches and the diversity of the issues indicate the relevance and complexity: CSR cannot be defined without taking the connection between the economy and policies within a national system into consideration – as already mentioned before in the introduction of political-philosophical aspects. This circumstance suggests that there cannot be a universal answer as to how the economy and the state ought to be linked to one another. The central question of whether economy is expected to play an important role and show moral responsibility especially towards the education system is of course not the only aspect of CSR but an essential part of it.

The idea of CSR seems to be in fact quite simple: It simply suggests that enterprises are expected to take responsibility formore than just the economic aspects of their business. The European Commission claims that enterprises should ideally constitute a voluntary contribution in the sense of social and moral responsibilities.⁸³ The aspect of voluntariness as well as the term of Corporate Social Responsibility (CSR) as a whole is highly controversial – the reason why has already been mentioned above: There are completely different perceptions on how CSR should be understood.

CSR as an issue is a part of a widely held discussion since the early Fifties (see Garriga/Melé 2004: 51). At first, CSR as an issue, as a theme for enterprises and for economy had been discussed on a theoretical level exclusively. In the nineteen fifties only economists discussed this issue on a scientific and ethical level. Enterprises that respected social, ecological and ethical aspects on an administrative business level might have been approved of for their effort. But there were no consequences at all when they did not respect the same. It was an option you might consider if it suited you. Ever since the nineties though, public pressure on enterprises has been growing and they are expected to show some effort in respecting above mentioned

⁸²Definition: “CSR is a model of extended corporate governance whereby those who run a firm (entrepreneurs, directors, managers) have responsibilities that range from fulfillment of fiduciary duties toward the owners to fulfillment of analogous – even if not identical – fiduciary duties toward all the firm’s stakeholders.” (Sacconi 2011: 42) This means that the responsibility does not affect any needs of the society.

⁸³ In October 2011 the European Commission published a new policy on corporate social responsibility: “It states that to fully meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders.” See: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm. The basic statement from 2001 that CSR is a concept “whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” still remains the same. See: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm

aspects. Today it is a disadvantage not to respect social, moral and ecological aspects in enterprise philosophy.

CSR can be motivated by social dependencies, such as ethical obligations or as a political act. The ethical discourse in particular does not treat the question, whether CSR is essential or not: because of the moral aspect it is implied that it is absolutely necessary. Social dependencies on the other hand assume that there is no free decision from an economic point of view because enterprises are both a result and a part of social dynamics at the same time ("Issues Management" (Lüdgers 2002)). Enterprises have to react, sometimes pro-actively and fulfill social needs. Otherwise they will lose their social status in society and with that their economic basis. Political power on the other hand is the mainly discussed factor in political theories (Mildenberger/Khare 2008: 5f). Enterprises as very powerful players have to be conscious of their influence and have to decide upon if and in what form they plan on acting responsibly within the economic market ("Corporate Constitutionalism" (Davis 1967:47f.) and "Corporate Citizenship" (Crane/Matten 2004: 61ff.)) since political power automatically generates social responsibility. If they do not respect this dependency, enterprises will lose their power on the long run.

According to the above mentioned 'instrumental theories' CSR is an instrument, a strategy for the management of public relations. Social responsibility, often associated with sustainability, seems to reflate the market (see Arnold 2011: 61). CSR is from this point of view not a criterion that goes beyond business administration anymore; it is an important aspect and part of essential strategies in broad, widespread concepts for customers, members of staff and partners. Enterprises do not assume responsibility because of altruistic reasons. Rather, the concept of CSR fits in with our Zeitgeist, led by socio-political debates held by several institutions such as the European Commission, the United Nations or the World Economic Forum which put these new demands and conditions closer to the center of observation. Financial-economic aims still remain dominant and emboss strategic considerations of management. In economics and specialist literature this approach - is called 'economization of sustainability'. Social engagement means a competitive advantage because the decisions which lead to the buying of a product in many cases depend on the engagement in sustainability. As we saw, CSR is one possible instrument to encourage the private sector to engage in the field of education. Now, we shift our focus to another example, the vocational education and training, in which we find a long and deep collaboration between public and private institutions for the purpose of educating young people.

4 Introducing vocational education and training systems

The OECD provides the following definition of vocational education and training (VET):

"VET programme - is a collection of educational and training activities which are organised to accomplish a pre-determined objective or the completion of a specific set of educational tasks, one of which is to equip people with skills and competencies required in particular occupations or trades. VET programmes, in addition to professional preparation, may also provide with general education and prepare for further education. For a programme to be considered as a VET programme it should comprise at least 25% of the vocational and technical content. In comprehensive systems when students choose among general and vocational courses, VET programmes would be these ones that enable students to choose vocational courses making at least 25% of the content of the programmes." (OECD 2004).

The OECD definition leaves quite a lot of room for interpretation. In this paper, the focus lies on dual systems – similar to the systems in Switzerland and Germany. In these countries, the private sector is strongly involved in the provision of education and skill acquirement. In the majority of countries with VET programs however, school based programs prevail.

The OECD states in its 'reviews of Vocational Education and Training' that VET "has been neglected" in the past (OECD 2010: 9). This subject has been marginalized both in the political discourse and the comparative policy analysis. However recently, the value of vocational programs has started to become widely recognized. In the field of comparative research, the subject is also "quickly gaining the attention of scholars" (Bussemeyer/Trampusch 2011: 413). Nowadays, the study of education systems is becoming a broadly discussed subject in political science.

There are various approaches trying to explain the emergence and the development of different vocational training systems. Bussemeyer and Trampusch (2011) give a useful overview of these education systems. Thelen (2004) describes the different arrangements of the vocational training systems in Germany, Britain, the United States and Japan referring to industrial relations. This means the relations between the employer and the unions. Thelen explains the origin of the differences with the behaviour of firms in skill-intensive industries and of traditional associations of skilled craftsmen (ibid: 278f). The former depended enormously on skilled

labour at the beginning of the 20th century. The state and its relation to the traditional artisans is the framework that structures the action of the key actors. In Germany and Japan, “the crucial detail is that the interests of organized labour and employers tended to run in the same direction” (Herrigel 2006:1) whereas in Britain and the United States, training became a focal point of class struggle (see ibd.). These two countries have never had an institutionalized system of training. Thelen (2004) convincingly demonstrates how the “balance of power between different groups of actors” (Busemeyer/Trampusch: 2011: 426) affects the emergence or the deterioration of a training system.

Culpepper and Thelen (2008: 23) state that “most political science literature does not treat training regimes isolated, but rather draws attention to how skill formation systems fit into broader political-economic models that support different types of employer strategies in the market”. A central example is the discussion focusing on the approach of “varieties of capitalism” (VoC) (Hall/Soskice 2003). The object of their seminal book “is to elaborate a new framework for understanding the institutional similarities and differences among developed economies, one that offers a new and intriguing set of answers [...]” (ibd: 1f). The approach is actor-centred and focuses primarily on the strategic interaction of firms. Skill formation is only one element of the whole approach. However, Hall and Soskice treated this question very prominently. The fundamental distinction is, whether education systems focus mainly on the transmission of general or specific skills. Following the VoC-approach, two different types of economies can be distinguished: liberal market economies (LMEs) – like the economies in the United States or the United Kingdom – and co-ordinated market economies (CMEs) – like Germany or Japan. In LMEs, the central institution is the market; “firms coordinate their activities primarily via hierarchies and competitive market arrangements” (ibd: 8). In CMEs “non-market modes of coordination” prevail (ibd). The coordination takes place via strong employers’ associations and corporatist institutions. Hall and Soskice focus on the link between institutional structures and individual-level incentives “[...], both for firms to train (or not) and for young people to acquire skills (and of what sort)” (Culpepper/Thelen 2008: 24). The more competitive environment of LMEs “prevents and punishes skill investments by firms, so that skill formation largely takes place in formal education on the one hand and on-the job training on the other” (Busemeyer/Trampusch: 426). Characteristic for CMEs are strong incentives to invest in specific skills whereas in LME the acquisition of general skills is better appreciated. For instance, employment protection is weaker in LMEs and it is easier to lay workers off; this causes highly fluid labour markets, which encourages workers to attain transferable skills. In CMEs, it is profitable for firms to invest in training. The different skill regimes are associated with produce strategies for firms in international product markets. Firms in CMEs produce highly specialized quality products, which require workers with specific skills. Firms in LMEs are successful when they operate in new economic sectors for example, where they need a high level of flexibility and adaptability. Thus, in CMEs such as Germany or Austria we find a dual vocational training system, which allows for the acquirement of very specific skills. In LMEs, vocational training “is normally provided by institutions offering formal education that focuses on general skills” (Hall/Soskice 2003: 30).

A very important assumption is that there is a link between skill formation and welfare state institutions. Strong vocational training needs a generous welfare state since the welfare state encourages investments in occupational skills. In other words: “Young people are less likely to invest in specific skills if the risk of loss of employment opportunities that requires those specific skills is high” (Estevez-Abe et al. 2003: 145). The same is true, when there is no unemployment protection. In countries with no such institutions, workers have strong incentives to invest in transferable skills. When it is seen as desirable that people should invest in very (firm-) specific skills, they need a high level of social protection.

4.1 Vocational education and training in Switzerland

In our concrete example of the vocational education and training system in Switzerland, the historical situation at the end of the 19th century and at the beginning of the 20th century had a boosting effect on the awareness of the importance of a solid education. The roots of the Swiss dual education system lie in the educational structure of the medieval guilds: Craftsmen introduced apprentices into a certain profession and its norms and customs. Even after the abolition of guilds, masters continued to instruct apprentices, however, without any superior control. The revision of the federal constitution in 1874 definitively introduced the freedom of trade which caused a total deregulation of the education ‘system’. As a result, the level of professional skills sunk. At the same time different aspects⁸⁴ led to a growing awareness of the importance of a solid education. Newly built associations defined the promotion of professional education as one of their main goals. At the end of the 19th century, the first ‘professional schools’ (*Gerwerbeschulen*), subsidized by the federal state, were introduced. The foundation of these schools is often perceived as a mark of the beginning of the development of today’s dual education system: Apprentices learn a profession partly by working in a craft enterprise, on a

⁸⁴ For instance, the quality of artisan products was worse than the industrially fabricated products or the introduction of a new law postulating the full responsibility of employer in case of an accident at work. Both reasons led to the conclusion that the education of young people has to be improved.

farm, in a hospital, in a bakery or in the public administration etc. and partly at a 'Gewerbeschule', which they attend one or two days per week. Today, this "dual-track approach to learning" is the "most popular form of basic education and training" (OPET: 3)⁸⁵ in Switzerland. It provides around 60 per cent of all young people with solid skills and knowledge for a specific occupation, it "forms the basis for lifelong learning and opens up a wealth of job prospects" (OPET: 3). Young people can choose from approximately 230 occupations and they have the option to continue their studies at tertiary level.

4.1.1 Vocational education and training today

Vocational education and training (VET) – as this dual-track approach is called – is part of the education system in Switzerland. The VET is provided at upper-secondary level and combines classroom-based instruction with paid apprenticeships in host companies.

After compulsory primary and secondary school (9 years), young people can either go to a grammar school⁸⁶, after which they can attend university or, as most of the young people in Switzerland do, pass a VET program at a host company. Normally, VET programs last three to four years. The apprenticeship at a host company is combined with a "part-time classroom instruction at a VET school" (OPET: 3). Students visit classes in vocational and general education subjects such as languages, mathematics, history etc. At the host company, they are taught the needed practical skills. Students finish their VET with a Federal VET Diploma. Furthermore, there is a possibility to obtain a Federal Vocational Baccalaureate (FVB)⁸⁷ which is the requirement for enrolling at any of Switzerland's universities of applied sciences (UAS). To reach the optional FVB, students have to attend additional courses covering general education subjects.

Three partners are jointly responsible for the provision of VET: The confederation, the cantons and the professional organizations. The Federal Act on Vocational and Professional Education and Training, article 1, states:

"Responsibility for upper-secondary level vocational education and training (VET) [...] shall be shared by the Confederation, the Cantons and professional organizations (social partners, trade associations as well as other organizations and VET [...] providers). They shall strive to ensure that there is an adequate number of VET [...] programs, particularly in promising occupational fields."⁸⁸

The responsibility for the strategic management and development lies with the confederation: it ensures quality, comparability and transparency, enacts VET ordinances etc. It pays for one fourth of all public sector expenditure. The Cantons are in charge of the implementation and supervision. This includes among other things, the provision of VET schools or the provision of occupational, educational and career guidance. As the above cited article states, "professional organizations" include trade associations, social partners, VET providers and companies that offer VET apprenticeships. Trade associations "determine training content and national qualification procedures, organize VET [...] courses" (OPET: 7). Social partners are also involved in the further development of VET. The key components of the whole system are the companies. In a dual track education system, companies willing and able to provide VET apprenticeships are needed. The host company requires qualified personnel to instruct students. Furthermore, companies should value this kind of education; for this, a long term view is needed. At the beginning, students cost more than the value they add to the company. But in the long run, the value added by students is greater than their initial costs.

4.1.2 Universities of Applied Sciences

Compared to traditional universities, universities of applied sciences (UAS) are a relatively recent institution. Founded in the 1990s, they rapidly became an important part of the Swiss education system. Today, there are seven public and two private UASs in Switzerland. The UASs offer practical university-level education and training, continuous education and research. They are in great demand with both students and employers. The foundation of the universities of applied sciences "increased the status of vocational training because they provided the opportunity for qualified people to continue their education at university level" (OPET)⁸⁹.

⁸⁵ Federal Office for Professional Education and Technology (OPET): "Facts and Figures, Vocational and Professional Education and Training in Switzerland": <http://www.bbt.admin.ch/themen/berufsbildung/index.html?lang=en> [23.3.2012]

⁸⁶ Grammar school, (cantonal school, lycée) give pupils a broad general education in seven basic subjects, a major subject and a minor. Grammar schools are the usual route taken by those who wish to go to university. http://www.sbf.admin.ch/htm/themen/bildung_en.html [23.3.2012]

⁸⁷ The Federal Vocational Baccalaureate (FVB) was introduced in 1994 to complement the Federal VET Diploma. It offers young people with academic skills additional courses during or after the apprenticeship.

⁸⁸ Federal Act on Vocational and Professional Education and Training: <http://www.admin.ch/ch/e/rs/4/412.10.en.pdf> [23.3.2012]

⁸⁹ OPET: <http://www.bbt.admin.ch/themen/hochschulen/index.html?lang=en> [23.3.2012]

Persons with a Federal VET Diploma combined with a Federal Vocational Baccalaureate (FVB) can enrol directly in any Swiss UAS. Students face the possibility of opting for a variety of different bachelor or master degrees in different fields: Fine arts, engineering, sports, nursing – are just a few of the many possibilities.

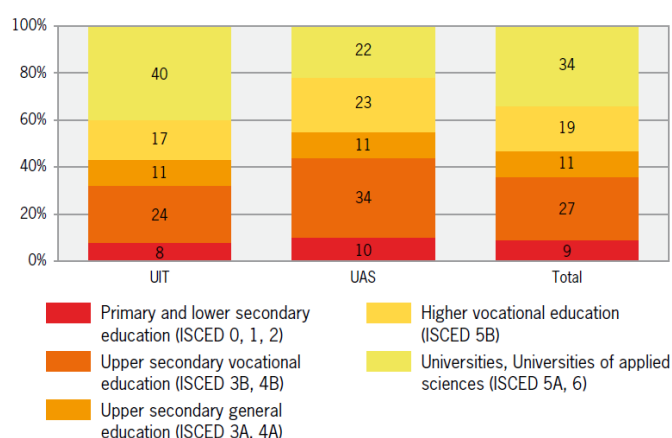
As mentioned above, UASs are very popular among students and employers. Due to the practical orientation of the UASs, students can usually find a job very quickly. The average salary after one year of work equals the salary of graduates from traditional universities (see Strahm: 104f).

While businesses readily employ UAS-graduates, they also actively cooperate with UASs in different ways. Research is a prime field of cooperation: private firms, often industries, cooperate in UAS research as partners regarding a particular question in their field of work. But businesses also require and pay for services and the training of staff, for development work and other specialised tasks which cannot be economically provided for inside a particular firm. They provide students with on the job training opportunities and their specialist staff can also contribute to courses within the UAS curriculum – thus bringing UAS training in step with actual practice.

4.2 Advantages and challenges of economic engagement in VET

We identify four major advantages of VET: First, in Switzerland we find a close correlation between the labour market and VET programs. The supply of apprenticeships by host companies corresponds more or less to the demand for workforce. This might be one explanation for the low youth unemployment rate in Switzerland. We find similar patterns in other countries: States with a comparable VET system (e.g. Germany, Austria, The Netherlands) have low youth unemployment rates as well⁹⁰. Second, the dual system in combination with the Universities of Applied Sciences (UAS) has an integrative effect. As mentioned above, graduates from UASs have similar job perspectives as graduates from traditional universities. In general, it is even easier for UAS graduates to find a job (see Strahm 2010: 104) and the wage level is more or less the same. However, when we look at the parents of the students, we find a difference concerning their educational degrees. As Table 1 shows, parents of students of UAS generally speaking have lower education attainments than students from traditional universities.

This effect is even stronger for the work-study programs of the UAS.⁹¹ The table shows that the work-study programs of the UASs are attractive for students with a lower socio-economic background. This means, the UASs might help to create more equal opportunities.



Note: the survey allows no differentiation between ISCED level 3 and 4

Source: FSO

© Federal Statistical Office (FSO)

Third, workplace training takes place in a “real-life environment”: As the OECD (2010: 108) states, “workplace training can offer a high-quality learning environment, allowing students to acquire practical skills on up-to-date equipment and under trainers familiar with the most recent working methods and technologies; it also allows

Table 2: Highest educational attainment of students' parents in Switzerland

them to develop key soft skills – such as dealing with customers – in a real-world environment”. Fourth, the Swiss system is very open. Learners or students have various possibilities, for attaining a higher degree. Fifth, Switzerland has a high graduate rate meaning that 90 per cent of young people hold upper-secondary level qualifications. The last advantage to be

mentioned at this point is the involvement of the economy. The latter assures that the acquired skills meet the needs of the companies and the private sector provides an important (plus) ‘service’ for the whole society.

Table 2: Parents with university or UAS degree

	Parents with university or UAS degree*
Students of universities	46%

⁹⁰OECD (2011), “Youth unemployment rate”, *Employment and Labour Markets: Key Tables from OECD*, No. 2, http://www.oecd-ilibrary.org/employment/youth-unemployment-rate_20752342-table2 [23.3.2012]

⁹¹ Figures from 2009 (Federal Statistical Office 2010: 22 (not available in English))

Students of UAS (total)	30%
Students of UAS (full time)	32%
Students of UAS (part time)	22%

* Percentage of at least one parent with university or UAS degree

Source: Federal Statistical Office (2010)

In general, the Swiss education system seems to work well. Yet, Switzerland faces three major challenges: First, due to the demographic development, it will become difficult for host companies, to find competent learners in the (near) future. Good graduates from compulsory school often go on to grammar schools⁹². Hence, host companies compete with grammar schools for good students. Consequently, instructors in host companies complain that graduates after nine years of compulsory schooling often do not have the competences needed for an apprenticeship. For instance, the director of the Swiss Association of small and medium-sized enterprises criticized in the newspaper *'Sonntag'* (24.1.2010) that from the point of view of host companies, there are less and less school-leavers who have sufficient skills for successfully completing a vocational education.⁹³ The second problem is connected to the first one: young people with social and academic deficits have difficulties in finding an apprenticeship. This group is especially vulnerable to unemployment and often depends on social security payments as adults. A third problem is that international companies are not familiar with the dual track system and so do not see the value and opportunities of VET programs.

5 Conclusion

Throughout history, businesses of different types and sizes have instructed and trained workers. As employers, producers of goods and providers of services, they continue to be uniquely placed in regard to contribute to education. Furthermore the activities of workers have changed much in the course of time; especially since industrialisation, fields of work have become increasingly specified.

Also, education goes far beyond enabling persons to hold a job; it should enable individuals to fulfil their potential and to play a positive role in society – or in the terminology of the Human Rights declaration: education “shall be directed to the full development of the human personality [...]. It shall promote understanding, tolerance and friendship among all nations [...].”

In this sense, education is part of a plan for “freedom, justice and peace in the world” (Preamble of the Universal Declaration of Human Rights) and consequently, the responsibility for education is put in the hands of states. Under international public law, every state has a definite, primary and necessary role in regulating, providing and promoting education. The economy and enterprises however have no direct obligations in this regard and under this body of law.

The fact that there is a broad consensus regarding state responsibility in regard to education is combined directly with questions of financing and organisation: education is a very costly thing while states' finances are limited; education, especially the training for specific professions, has to meet the requirements of businesses.

The answer to the question in what context and in what degree enterprises are forced to engage financially or socially in regard to social needs, especially in the education system, and which factors depend on what circumstances also shows the different theoretical approaches: depending on the theoretical approach you have completely different arguments. Every line of argumentation is based on different axioms, and so assumes different philosophical questions, answers and assumptions. These assumptions may also depend on cultural facts and circumstances and on the political and social system. The probability that there might be a universal, generally valid answer, is very small.

Concrete examples might supply indicators as to what factors influence which political background and how education systems function, what their frailties are and what social potential there is. The notion of summing up factors to present a recipe for success is illusory. Instead, evaluating factors in corresponding contexts may allow a certain comparability to similar historical, social, political and economic contexts. Thus, both, states and their economies play an important role for education but the type and size of the contribution of each depends on the historic, social, political and economic context. And the connection between education,

⁹² “Matura schools (cantonal school, grammar school, lycée) give pupils a broad general education in seven basic subjects, a major subject and a minor. Matura schools are the usual route taken by those who wish to go to university”. http://www.sbf.admin.ch/hm/themen/bildung_en.html [23.3.2012]

⁹³ Original citation: „Aus Sicht der Lehrbetriebe sind immer weniger Schulabgänger in der Lage, eine berufliche Grundbildung erfolgreich abzuschliessen“.

economy and state cannot be analysed without taking into consideration the prevailing form of government and its specific history.

In fact, economy definitely has the power, the opportunity and the clout to contribute to education in a range of different manners; the challenge for the state lies in encouraging, channelling, regulating and sustaining this contribution.

Different contexts have generated different means for regulating the quality and bias of economy's contribution, including influencing its size and scope. The example of the Swiss dual system of Vocational education and training (VET) shows the importance of social and political factors and a stable economy. The system has a long tradition and is set in a solid legal framework. From businesses it requires a substantial commitment to employing and training young people and a long term vision, which in turn is dependent on a stable economic and political situation. On the other hand, a precondition for the functioning of the system is good quality prior schooling and motivated trainees.

The growing power of economy and the fact that businesses shift their activities more rapidly and freely from one national context to another asks for different ways to engage economy in education. Corporate Social Responsibility (CSR) can in this context be regarded as an additional and useful civil society tool in securing greater and long term business commitment to quality education.

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WHERE TRUST, RESPONSIBILITY AND ETHICS DEVELOP THE ROLE OF FAMILY AS BUSINESS PRIMARY SCHOOL

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Abstract

This paper analyzes the role that a family plays in the context of business and society. Although it may seem obvious enough that this primary group is fundamental for social organization, certain aspects of this impact which in the end influences ethical development of social actors are described. The paper concentrates on such issues as gift, trust and responsibility as the elements which are naturally present in a family life. The problem is presented in an interdisciplinary way because the nature of the issue demands and deserves it.

Engaging the category of family is important for many reasons, because it seems that the awareness of the fundamental role of this institution as the sphere of mediation between a person and society in general and different spheres within it (including business and economy) is low, what supports the domination of

individualistic perspective in economic approach. Such paradigm is not only the symptom of short-term thinking but also is the proof of narrow and reduced anthropology of economic actor.

Firstly, it is important to understand that it is in the family where human beings learn the logic of gift which is as necessary in business as in other social spheres. If we take seriously the statement of George Gilder who wrote that “capitalism begins with giving. Not from greed, avarice, or even self-love can one expect the rewards of commerce, but from a spirit closely akin to altruism, a regard for the needs of others, a benevolent, outgoing, and courageous temper of mind” (Gilder 1993, p. 21), we should thoroughly examine the role that gift plays in the functioning of economy. Secondly, the unique role that a family plays in trust development is presented. According to analysis of Jennifer Roback Morse it is within the family where human beings learn to trust through everyday continuing interaction. Thirdly, the ability to trust is analyzed as the background for the development of responsibility which is the key to integral ethical attitude.

The findings of the paper should help to diagnose the causes of the responsibility crisis we experience and enrich business ethics reflection by presenting family life as fundamental element in understanding the nature of economic actor and offering family perspective as helpful in the process of ethical evaluation of business activity.

Key words: family, gift, trust, responsibility, ethics.

Introduction

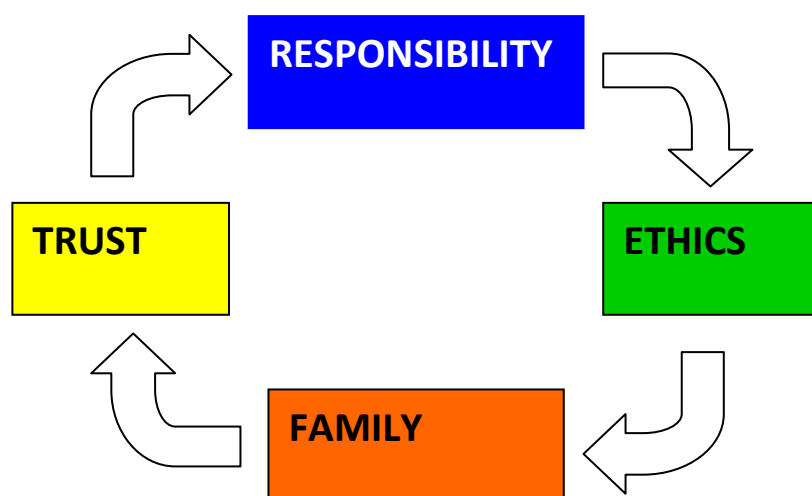
“We have assumed all too easily in economics that because something paid off it was therefore automatically legitimate. Unfortunately, the dynamics of legitimacy are more complex than this. Frequently it is negative payoffs, that is, sacrifices, rather than positive payoffs, which establish legitimacy. It has been the precise weakness of the institutions that we think primarily of as economic, that is, associated with exchange, such as the stock market, the banking system, organized commodity markets and so on, as Schumpeter pointed out, that they easily lose their legitimacy if they are not supported by other elements and institutions in the society which can sustain them as integral parts of a larger community. (...)

My personal view is that, especially at his present stage or development, man requires both heroic and economic elements in his institutions, in his learning processes and in his decision-making and the problem of maintaining them in proper balance and tension is one of the major problems of maturation, both of the individual person and of societies” (Boulding 1969, p. 10).

It is promising to analyze the role of family in business and economy in the perspective of trust and responsibility. In order to make it more comprehensive I am convinced that to start one has to pay attention to the category of gift as the foundation of various actions and relations, including entrepreneurial activity and exchange within business domain. It was lately presented and discussed in Benedict XVI encyclical letter *Caritas in veritate* (*Charity in truth*), whose title describes the philosophy according to which all that contributes to the well-being of society should function. It may sound surprising in the context of business, but this may sound adequately for the family as the basic community and ‘molecule’ of social structure then why should not it be considered as proper inspiration for culture, politics and economy which are nothing but different spheres of the same society.

Before the role of the logic of gift will be explored, I would like to present the graphic explanation of interdependence of the issues central to this paper (Figure 1).

Figure 1.



The relation between family (as the sphere dominated by logic of love and gift), trust, responsibility and ethics is shown in the Figure 1. which presents the ongoing process of ethics development of society members that starts within the family. It can be described as follows:

To learn to trust demands to be given what was promised first, and to be trusted while being given. When one looks at every day of family life one sees this ongoing process. To be trusted is the first step to practice responsibility, because it demands that the one who trusts me believes that I can responsibly administer and manage what I have. It also means that without ability to act responsibly one cannot put in practice the ethical system he or she believes in. Unless it happens no marriage and family formation is possible, because what is necessary in creating a stable community of parents and children is the ability to recognize, choose and implement values with readiness to suffer the consequences. It also relates to formation of social institutions and organizations. No business enterprise can last unless its members are able to discern between different priorities and means, decide and accomplish what has been planned and bear responsibility for their actions.

If it is true, that when we are born we are not able to keep the promises, then we have to develop this ability, because without it – no matter what walk of life one chooses – one cannot contribute to nothing but the erosion of social fabric. It is also evident that this fundamental process cannot be realized individually and postponed until the school or college education begins. It starts from the first moments in life within the family relation between parents and children.

In economic terms we can say that to large extent it is the family which creates supply for the 'primary market' of trust, responsibility and ethics while other social institutions and organizations - including business ones - create 'secondary market' where the value of the 'offer' can be increased but cannot be created from scratch.

To Understand Gift...

"(...) if a business society is to survive it must develop an integrative system and integrative institutions, but the peculiar institutions of a business society (such as markets, corporations, banks, and so on), because they are essentially instrumental in character, are not capable of developing a powerful integrative system in themselves. Of market institutions are to survive, therefore, they must be supplemented by a matrix of integrative institutions, such as the family, the church, the school, and the nation, which develop individual value systems based on love, self-sacrifice, identification with goals outside the person, and altruism" (Boulding 1968, p. 236).

Very often we are told and taught – especially in economics – that there is no such thing as a free lunch. In spite of this, I agree that this statement has to be challenged and tested. Although exchange is important, I do believe that it is difficult to understand anything without proper perception of the category of gift.

The natural situation of human existence points at our original insufficiency which demands something to be given in order to make life possible. Our state of nature shows pretty well that we are not self-sufficient, what's more – we are in the state of need that we can not satisfy on our own. We enter this world not through our

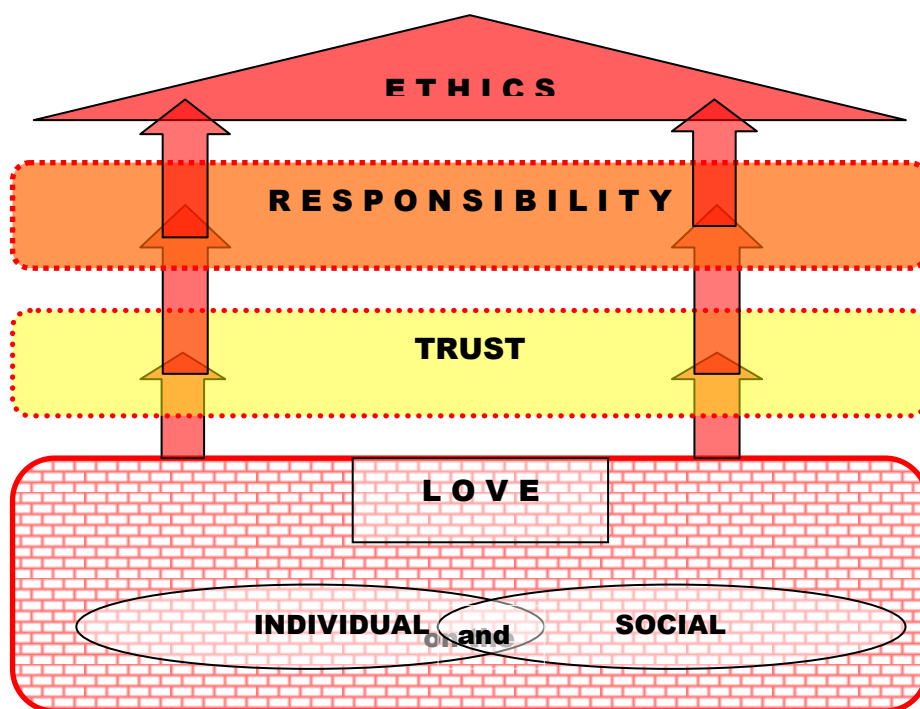
own efforts or intention – we are ‘invited’. We read in *Caritas in veritate*, that “sometimes modern man is wrongly convinced that he is the sole author of himself, his life and society. This is a presumption that follows from being selfishly closed in upon himself, and it is a consequence — to express it in faith terms — of *original sin* (Benedict XVI 2009, § 34).

Gift can be defined as the natural foundation of human life and first step in developing human relations. The family appears to be the first environment where every human being experiences gift - learns to receive and to give. This may entitle us to say that the logic of gift is the logic of family life, because it demands certain atmosphere to become real and that atmosphere is love as the natural catalyst and necessary condition of this process. One of the good descriptions of the role of love in society is Michael’s Novak article *The Love That Moves the Sun* where we read:

“One thing should perhaps be stressed about *caritas*. It is realistic. To love is to will the good of the other as other. To will, not what you wish for the other, nor what the other wishes, but the *real* good - which neither of you may yet recognize. Love is not sentimental, nor restful in illusions, but watchful, alert, and ready to follow evidence. It seeks the real as lungs crave air” (Novak 2000, p. 100).

This role of love understood as unselfish gift in development of human abilities that are the point of interest in this paper is shown in the following figure (Figure 2).

Figure 2.



Even though the perspective described above may be convincing, still the understanding of gift may seem difficult. One of the reasons of such situation is the existence and observable extension of market logics throughout society. Interesting insights into this problems with perception of gift can be found in Luigino Bruni’s works. He writes, that

“gifts break the balance between social relationships, as they create an asymmetry that the human being, and absolutely the modern one, is not capable of handling for a long period of time. The unreciprocated gift is means for unbalance, disorder. Rather, human societies – even archaic ones and even though differently from modern ones – love symmetry: and so the explanation of the market’s great power, based on symmetrical exchange of equivalent values (or perceived as such)” (Bruni 2009; see also Bruni 2008).

As we read here – a gift is a kind of challenge that demands answer. The analogy can be found here to what the philosophers of dialogue in the end of nineteenth and throughout twentieth century discussed: this fundamental – somehow original – situation of man that enters this world and is ‘asked’ to give response. This ‘question’ is an invitation to start a dialogue – a dialogue with ‘the other’ and ‘the world’ – and this is a man’s way of being in the world. This invitation – a call to give response - is the impulse for responsibility, and this leads us to development of philosophy of responsibility⁹⁴.

This context of being called to reply, to response draws our attention to gift again. It may seem that a man is forced to give response, to become responsible – to accept a gift. This - somehow dramatic - situation may become the impulse to react in a different way as we see in Nietzsche’s writings. His ‘death of God’ creates the context in which all the responsibility in the world is the man’s responsibility and he is left alone with this task. This seems impossible burden to carry by a man and may be seen as the impulse to propose the figure of *Übermensch*, who decides to ‘wrestle’ with life and the world by himself. In the context of a gift we may say that he refuses to accept any gift and any giver.

There is of course the other way, which Western civilization significantly inspired by Christianity follows and proposes. It is the situation of a gift that is supported by grace which allows a man to receive what he is given and implement it in his life. *Caritas in veritate* reminds us about this fundamental fact. We read there that “it is the primordial truth of God’s love, grace bestowed upon us, that opens our lives to gift and makes it possible to hope for a ‘development of the whole man and of all men’, to hope for progress ‘from less human conditions to those which are more human’, obtained by overcoming the difficulties that are inevitably encountered along the way” (Benedict XVI2009, § 8).

With accepting a gift there comes acceptance of the logic it brings. It may be seen as the way of setting free an autonomous individual as *Übermensch* - and somehow similar to him from the point of view of reduced anthropology *homo oeconomicus* -from the burden of responsibility without mercy in the first case, and despair of scarcity without hope of abundance in the latter. Using terms from Bruni’s statement, we can say that the logic of gift is the key to unlock the symmetry of society which - at least in some aspects - can be hopeless and helpless when facing different social challenges. As we read in *Caritas in veritate*, “(...) the logic of gift does not exclude justice, nor does it merely sit alongside it as a second element added from without; on the other hand, economic, social and political development, if it is to be authentically human, needs to make room for the *principle of gratuitousness* as an expression of fraternity” (Benedict XVI2009, § 34).

After explaining the nature of gift now we will discuss how experiencing and learning the logic of gift takes place in the family which can be defined as the first and basic environment where human persons shape their awareness and skills in this sphere.

Family – from Trust to Responsibility

Before it will be done it is necessary to describe the way family is understood, because the situation in this aspect within social sciences is not clear enough.

It can be said that during last years we have been witnesses to the war over the understanding of human nature and human life. One of the fronts in this conflict is the battle over marriage and family. It’s necessary to mention this as the stake in this struggle is the truth about the very basics of how we as people start our life and enter society. We may observe a paradoxical situation: some statements coming from social sciences tend to present skeptical view on the idea that different forms of family life are not equally good. At the same time those who accept this approach would probably - at least part of them - not deny that their scientific inquiry is oriented towards discovering the truth.

When it comes to our understanding of a family, I do think that the most complete vision of the family is expressed in so called ‘traditional’ model of the family. It means that the foundation of a family is a stable, faithful and lifelong marriage between man and woman. Family grows as children are born and spouses become parents. Through accomplishing various tasks family contributes to multidimensional development of society. That is why supporting family and presenting it as a model to follow can be defined as a first-rate social interest (see Buttiglione 2005, p. 228). It should be also remembered that all the proposals to build a society without stable family founded on the enduring marriage between a man and a woman are based on the vision that already has been exposed as false. It should be stressed, that there is no equivalent alternative for the family (see Buttiglione 2005, p. 231). I believe that understanding of this can also be increased by explaining how family contributes to functioning of business and economy.

⁹⁴ See for example works of Martin Buber, Eberhard Grisebach, Wilhelm Weischedel, Dietrich Bonhoeffer, Hans Jonas, Dieter Birnbacher and Emmanuel Levinas.

The unique role of family in preparing and forming persons for full participation in social life can be well observed in the process of trust development in the family. This 'mechanism' will be presented according to Jennifer Roback Morse, who described this crucial phase of child rearing in her book *Love & Economics* (Roback Morse 2001).

As we nowadays are well aware of the role of trust in the business field, I find the contribution of Morse crucial in deepening our understanding of where does trust come from. It makes fuller understanding of the meaning of family for market economy possible. What's more, contemporary crisis that results in lack of trust to economic and financial markets and institutions can be linked to crisis of family life as it was observed by Ettore Gotti Tedeschi (see Zenit 2010). It means that the sphere of material reproduction of society depends on the family which can be defined as the unique supplier of trust and other virtues necessary for the society and all its spheres. It seems especially important to remind that economic instruments and relations can not serve and function properly without mutual confidence and trust which are not goods that can be ordered and purchased in the market way. They can only be developed within human relations and such personal climate is necessary if they are expected to facilitate exchange in the long run. This is well described in *Caritas in veritate*, where we read that if the relations within the market domain are no longer founded on personal dimension then market exchange does not result in social development. It means that "(...) if the market is governed solely by the principle of the equivalence in value of exchanged goods, it cannot produce the social cohesion that it requires in order to function well. *Without internal forms of solidarity and mutual trust, the market cannot completely fulfill its proper economic function.* And today it is this trust which has ceased to exist, and the loss of trust is a grave loss" (Benedict XVI 2009, § 35).

Now we will concentrate on the family's contribution to trust development. As Jennifer Roback Morse writes, "the infant's life in the family lays the foundation for larger social institutions based on trust. Most children learn as infants to trust their parents" (Roback Morse 2001, p. 38). This author describes it in such words:

"The infant's dependence on adults is more profound than his need to resolve his discomfort, for only adult can teach the child to trust. A child cannot become trusting all by himself, any more than he can hop out of the crib, open the refrigerator, and heat up a bottle of milk for himself. The baby cannot navigate through the cycle of trust without an adult partner" (Roback Morse 2001, p. 33).

Later, children gradually learn to trust other people and gradually they become mature members of society, and it demands that the parents allow them to live more and more by themselves. It is obvious that the parents also need to learn to trust their children that they will get by on their own when they grow older. It is also evident, as Morse writes:

"The ability and willingness to trust is intrinsic to our human nature – and to our survival. Indeed, trust is as deep a part of our human condition as is the self-centered impulse that economists spend so much time talking about. The satisfaction of the infant's needs in a personal way leads to the development of trust and then to the capacity for reciprocity" (Roback Morse 2001, p. 38).

Every day of the family life is the day of trust education. Morse gives the example of the smiling baby which is satisfied. This smile is a baby's gift for being safe, warm and fed. Through "this exchange of smiles for satisfactions, the child begins to learn the value of reciprocity, of give and take, in human relationships" (Roback Morse 2001, p. 38). In this context, the fact of a new child coming to this world can be presented as the fundamental experience of asymmetry – for the baby and for the people that surround him. We pointed at this question of symmetry as the kind of longing of human nature and asymmetry that the logic of gift introduces (using intuitions given by Bruni). Here we go back to this approach because it shows well the context that the trust develops in.

This picture of a new-born baby presents universal human experience which points at the fundamental fact of helplessness, and Roback Morse writes, that it "may be the only truly universal human experience, since no one can avoid passing through infancy" (Roback Morse 2001, p. 25). What is important, the fact of helplessness – although characteristic to infancy and childhood - is not reserved to these stages of human life and is experienced at different age and in various situations. It means that asymmetry is a part of our life as well as symmetry is. Helplessness – accompanied by neediness - shows that we never have full control over our own and other people's lives. This dependence can be seen as natural context of trust necessity.

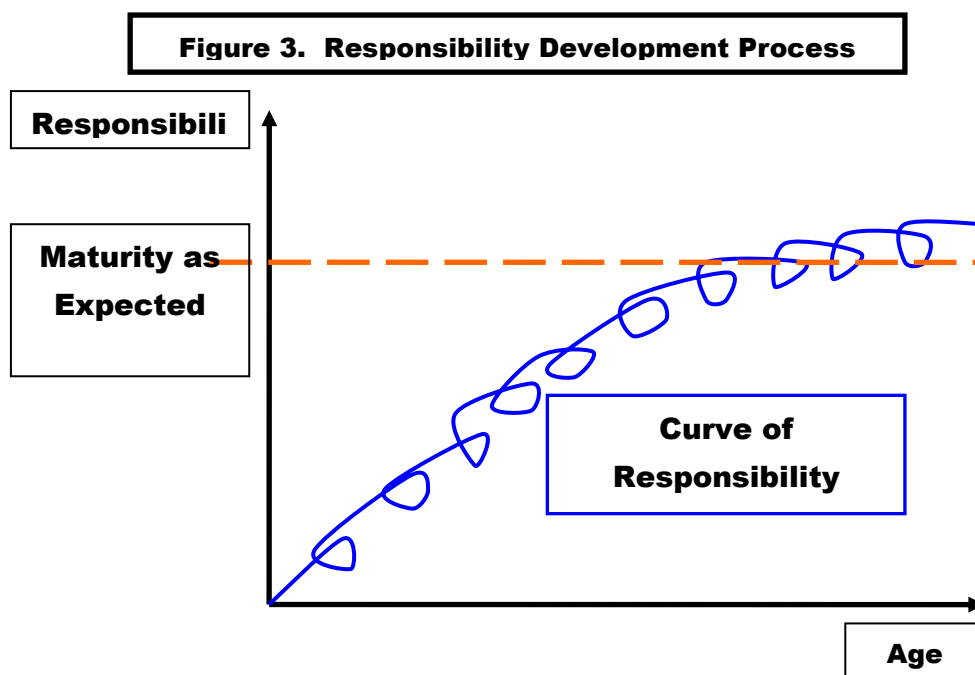
Coming back to this trust development process we can say that it is based on keeping promises and gifts. The picture of child crying for help confirms two fundamental aspects we have just discussed: helplessness and neediness. There are two results if child's needs are met – it is the satisfaction and the capacity to trust. If the child had experienced that there was reaction to his call for help, he has learned that this is the effective way of getting satisfaction. Such continuing process of expressing needs and satisfying them by parents leads to trust development. The important aspect of this process is attachment, which means that the child expects

that the help will come not from any adult, but from the special one. It means that the foundation for trust is the attachment which comes from love as the will to be with the child, to share own time and life with him. This process has its logic and stages. With care that parents manifest for the baby they learn him that his needs will be satisfied. The response that adults give is the signal that tells a baby that it is good to trust. As time goes by the child develops less anxious attitude because he knows that parents will answer to his call. A baby also learns that interaction can be satisfying not only in terms of bodily appetites. The experience tells him that the atmosphere of knowing that mom and dad are there to answer can be the source of joy and comfort. The relations become the source of pleasure for the child and create environment for development of more mature attitude towards parents and others. This includes love, as a deeper kind of attachment (see Roback Morse 2001, p. 37).

In this, way we see that there is fundamental relation between family life and trust development. It can be said that the society benefits from everyday care that parents take for their children. It is essential that we see this link, for no society can function properly without trust. It can be observed historically, and as Roback Morse writes, at the roots of European banking system we find activities of trading families and religious orders which between the eleventh and thirteenth century developed this part of economy. In such and similar ways these networks of trust extended throughout Europe and other parts of the world, contributing to economic development that we now benefit from (see Roback Morse 2001, pp. 45-6).

After description of trust development now it is worth to turn to responsibility. Although it was already characterized, now once again we will analyze why it is the family where responsibility is most likely to develop starting from the first years of human life.

In order to do this I propose Figure. 3 which presents the way the 'Responsibility Development Process' – as I call it - goes on. It is an attempt to visualize the repetitive nature of how we learn this crucial ability.



Although the curve which presents the 'Responsibility Development Process' (RDP) may not look ideal in shape, in my opinion it expresses well the nature of how a person learns and adopts responsible attitude. For every human being it is somehow unique and to some extent unpredictable.

As it is shown, this process has its 'ups' and 'downs': some achievements are lost and some lessons need to be repeated in order to make progress. When it comes to the 'downs' of the curve, which represent the failures of responsibility development they indicate immaturity of the person. In such circumstances his or hers weakness demands the responsible reaction of the other. In family this happens continuously and somehow naturally in the long run, also because family relations are the *longue duree* in character. The everyday interaction between parents and child (or children) is an ongoing cycle of actions undertaken

individually or collectively. The important aspect of these operations and co-operations is the asymmetry between those engaged. In such situation the necessity of responsibility of those more mature for the weaker is obvious.

The curve reaches certain level which is described as 'Maturity as Expected Level of Responsibility' and it happens (or is expected to happen) for most of the people at some age or moment in life which society defines as such. Then a person's performance and behavior stabilize although there also happen 'downs' which means that we are never 'irresponsibility-proof'. Although this fact may not be eagerly accepted, paradoxically it may be helpful in understanding those who are on an earlier stage of RDP. In the context of the family it may help a parent understand the lack of responsibility in a child and better understand the continuous nature of RDP.

In Scarcity or Abundance... We Trust?

Last years – including times of financial and economic crisis - were witness to events that may strengthen pessimistic vision of reality. Using economic language – it's not easy not to believe in scarcity. As the authors of *Habits of the Heart* write:

"More and more of us doubt whether we can trust our institutions, our elected officials, our neighbors, or even our ability to live up to our own expectations for our lives. And anxiety is always close to the surface, a haunting fear that things have somehow gone wrong. For many Americans, these fears come to a head in worries about crime, moral decline, and the deepening divides of income and opportunity. There is a gnawing uncertainty about the future of our jobs, of adequate income, and of our family life, especially our children's welfare" (Bellah et al 1996, p. VII).

In consequence, the possible good that may be accomplished is endangered, because behind these fears people discover that global economic growth does not automatically lead to increase in opportunities but may result in 'downsizing', 're-engineering' and unemployment as well (see Bellah et al 1996, p. VII).

In this context, reinvention of the logic of gift and *caritas* as the foundation of social order may be crucial as the alternative remedy for the crisis. What's more this approach introduces abundance instead of scarcity as the horizon of human actions (see Alford et al 2006).

The scarcity paradigm is important in our discussion as it dominates contemporary economics. Although it is useful to some extent, it should be limited to thinking of material elements and aspects of economic activity. It is known – although should be reminded – that economic activity as one of many social activities involves all of human person which is far more than physical being. Unfortunately, this way of thinking nowadays seems not to determine the economic thinking and can be associated with Social Darwinism. One of the authors who discussed this issue is Stephen Young who wrote, that:

„(...) much of the harshness of some capitalist orders and some of capitalists flows directly from their values of elevating self over others, a form of Social Darwinism. I argue in my book that any such system of brute capitalism is wrong, does not create maximum wealth for society, and should be shunned by well-meaning and right-thinking people. It is only version of capitalism. Our challenge is to build a better version of capitalism, one that spreads its advantages throughout society" (Young 2006, p. 2).

In the context of economy, Social Darwinism takes us back to the situation of a 'zero-sum game' that humanity managed to overcome and it means that people have learned to cope with scarcity. If we believe that story of Adam and Eve can teach us something then we should remember that the exile from Eden was not equal to destruction of the garden of abundance. In this context, the situation before original sin can be defined as the life according to the logic of gift. In *Caritas in veritate* we read that "gift by its nature goes beyond merit, its rule is that of superabundance. It takes first place in our souls as a sign of God's presence in us, a sign of what he expects from us" (Benedict XVI 2009, § 34).

There is of course tension between the perspective of scarcity and perspective of abundance. The dilemma that comes from it can be described as follows: is it better to agree to scarcity and keep control over it, or is it better to agree to abundance, but accept that we are not in full control of it.

As it was shown already - using Morse's contribution – the universal experience of neediness, helplessness and immaturity that is not only limited to infancy, is the argument against the first alternative and it means that the real solution comes with the second vision. It can be summarized by saying that the complete picture consists of 'human scarcity' and 'supernatural abundance'. In this perspective the gift appears to be the link between these two spheres. What's more, it is the link that is necessary for 'human scarcity' to be crossed, and for human person and society to flourish.

Logic of Gift and Logic of Contract

“A society which devotes a disproportionate amount of its life and energy to the exchange system may find this system eventually undermined. (...) The problem of society, like so many other problems, is a problem of finding the right proportions. Disproportionate emphasis on either the coercive systems, the market system, or the integrative system is likely to result in a corruption of the moral life and the eventual disintegration of the society” (Boulding 1968, 236-7).

In my opinion it is justified to say that the view that the logic of gift is less effective than the logic of contract is dominant in public sphere. What seems to be included in this statement is the assumption that these two logics are in opposition and somehow should compete. We will try to show that it is not like that. These two logics are in fact not opposite but may be seen as complementary just as the family and economy should not be seen as rivals or enemies. This is well understood by Bruni, who writes that “(...) contracts (self-interested exchange) and mutual gift are surely two different forms of reciprocity, but these are both forms of reciprocity that are essential in a good society” (Bruni 2008, p. X).

Some may argue, that a gift may be nothing more than the end of social symmetry and complication of exchange. It would be so, if we one looks at it from this point of view. However, it is truth that at the same time the facts of helplessness and immaturity which are characteristic to certain stages of human life or situations are impossible to ignore. It means that expecting that the society will function only in symmetric way is utopian. Another proposal – to use logic of contract in both cases of symmetric and asymmetric situations – has to be analyzed. It seems to be tempting because the relative simplicity of market mechanism of contract may be seen as the easiest way to solve problems. In this case we should remember – as Buttiglione writes – that “the contract is possible only in the situation of relative balance” (Buttiglione 2005, p. 349). We know that it is not always like that, and it means that the logic of contract has its limits and may become disruptive if implemented uncritically. What is interesting, is the question of possibility of implementing the logic of gift in the market sphere. The answer to this question may be based on assumption that if we reserve or limit the logic of contracts to market activity, then we should not try to use the logic of gift there. It seems that nowadays this kind of ‘separatism’ dominates. The argument against it is the fact that the logic of gift precedes the logic of contract. What’s more, the gift can be defined as *conditio sine qua non* of any economic exchange. Also market – as the field where the members of society satisfy part of their human needs – does not cancel the social and immaterial aspects of their actions. We can find support for this approach in *Caritas in veritate*, where we read that “the great challenge before us (...) is to demonstrate, in thinking and behaviour, not only that traditional principles of social ethics like transparency, honesty and responsibility cannot be ignored or attenuated, but also that in *commercial relationships* the *principle of gratuitousness* and the logic of gift as an expression of fraternity can and must *find their place within normal economic activity*. This is a human demand at the present time, but it is also demanded by economic logic” (Benedict XVI 2009, § 36).

This approach is supported by Bruni who presents opinions of Genovesi, who spoke of fraternity and friendship within the market:

“Genovesi places friendship within the dynamics of civil society, comprising the market. On the contrary, it has been noticed earlier that Smith and the economic tradition inaugurated by him do not regard friendship as an economic category. From the Smithian perspective, friendship is a chosen private relation amongst specific individuals that are tied by affective bonds, while trust (in the form the market requires) is impersonal and grounded in interests rather than affections or sentiments. Such a distinction is rejected by Genovesi. His anthropological conception gives rise to a theory in which the person is conceived as a creature naturally tuned to interpersonal relationships and carrying an intrinsic desire that underlies any form of human cooperation.” (Bruni 2008, pp. 19-20).

The logic of gift – as we have already shown - demands trust, and where there is no trust there are less comfortable conditions for development. The authors of *Habits of the Heart* ask and suggest possible answer corresponding with the question we discuss: “why are we paying a higher cost, as a society, for economic change? Is this high cost related to the decline of trust and confidence?” (Bellah et al 1996, p. VIII).

The question asked above draws our attention to the problem of balance between the two logics we discuss. If the family declines, the supply of trust and logic of gift shrinks and the logic of contract starts to dominate. Taking into consideration what we have already discussed – showing the family as a kind of catalyst for the market process – it is justified to say that poor family life results in poor performance of the market system.

When we look to contemporary theory of economy we will find there one of the basic assumptions that there are no ‘free meals’. It may lead to conclusion that there is no place for gift in economic activity. But if we look at the very beginning of any trade or production we must be surprised by the fundamental riddle: ‘where do we

get first goods from'? Obviously we were given, and this gift was the beginning of everything. This 'mystery' is profoundly expressed in the beginning of the Gospel of Saint John, where we read:

"In the beginning was the Word: the Word was with God and the Word was God. He was with God in the beginning. Through him all the things came into being, not one thing came into being except through him. (...) Indeed, from his fullness we have, all of us, received – one gift replacing another, for the Law was given through Moses, grace and truth have come through Jesus Christ" (J 1, 1-3; 16-17)⁹⁵.

Even though someone may not accept the Christian explanation of the creation, it is difficult to deny something that can be called 'natural order' which means that gift comes first – before transaction. This fact shows that there is no equality or full interchangeability between the logic of transaction and logic of gift and that there must be some good given in the beginning, if we want to think about exchanging goods at all. In this perspective a gift can be seen as the indispensable impulse to a transaction. Following this path of thinking we can understand why a family must come first before market – and historically it is visible. We can generalize it also in a different way: a family without a market will manage (although a market is very helpful institution), but a market without a family has no chance. It does not mean that we should abandon market at all. As Buttiglione writes – the existence of a society without market is impossible, it means without something he defines as 'individual moment', because this situation would lead to absorption of a person by a collective. Also the existence of a society consisting only of the market is not possible because this would result in lack of gift and logic that it brings. In the society dominated by market - although there is a place for individual good - the space for common good is missing, and it means that the society faces disintegration.

Family and 'Soft Skills'

In this part I propose to analyze one more aspect of the role that the family plays in the context of economic activity. It is connected with the fundamental function of socialization that a family performs. It means that the new members of society 'arrive' through family, which prepares them to fulfill different roles. As it was already stressed, the family appears to be the first form of social life that a baby encounters, and it is there where he experiences love, learns the meaning of relation, trust, cooperation, responsibility and other values necessary in life. It is also important to understand that every member of the family – parents as well as children - is involved in this process and can benefit from it.

Although it may be obvious, it seems necessary to remind of this basic facts nowadays when we observe the growing attention paid to 'soft skills' in the field of business. They are defined as 'interpersonal skills', or 'people skills' and include communication skills, conflict resolution and negotiation, personal effectiveness, creative problem solving, strategic thinking and team building. More and more often economic organizations understand that their competitive advantage depends greatly on the ability to adjust their activity to changing conditions in the marketplace. The most important factor making this adjustment possible is the potential of the employees to initiate actions (which demands e.g. trust and responsibility) and cooperate within their team. The result of this awareness is growing popularity of 'soft skills' trainings.

In this context it is important to remember that a well-functioning family is the best school of 'soft skills'. It has to be said that no growth in these skills is possible unless a family develops and it means that it is open to change. The fundamental aspect of this attitude is the openness to the gift of life, which is the question stressed in *Caritas in veritate* and understood there as the factor seriously influencing current economic situation. We read there:

"The decline in births, falling at times beneath the so-called "replacement level", also puts a strain on social welfare systems, increases their cost, eats into savings and hence the financial resources needed for investment, reduces the availability of qualified labourers, and narrows the "brain pool" upon which nations can draw for their needs. Furthermore, smaller and at times miniscule families run the risk of impoverishing social relations, and failing to ensure effective forms of solidarity" (Benedict XVI 2009, § 44).

It means that the corporation which is interested in developing its employees' 'soft skills' should respect and protect their family life in the first place. This approach should also lead to significant financial results. A company instead of spending money on hiring 'soft skills' trainers and paying for external services oriented towards 'soft skills' development should let the employees participate in their everyday family life. What's more, trainings organized on workdays may cause the breaks in the company's work, and trainings carried out on Saturdays and Sundays automatically prevent employees from developing their 'soft skills' within the family which is the most natural environment for this purpose.

⁹⁵ Cited from *The New Jerusalem Bible*, 1990.

In this context it is worth to mention that this field of research is still waiting for exploration. In the article written by Domenec Mele we read that “until now, very little attention has been given to the study of the relationship between the organization of work in the company and the family rights and duties of the employee” although – this author states at the same time – that “businessmen are well aware of the marked relationship between family affairs of employees and their behavior in the company” (Mele 2002, 489). This second opinion raises question if this awareness is transformed into real decisions and actions.

The remarks made in the same article by Domenec Mele about the influence of working environment on the unity of marriage and stability of family life are important not only in the perspective of performing marital and parental duties by the members of organization but also from the point of view of the involvement - not only of its employees - but also customers, investors, distributors and contractors. If business leaders do not pay attention to the question of harmony between the work environment and family life they may contribute to the development of the image of business as ‘anti-marriage’ and ‘anti-family’. This will certainly result in decrease in trust towards economic institutions and will influence the behavior of employees, customers and other parties involved. In such context the reaction of those who work for or purchase from the organization which treats family life irresponsibly may be the lack of responsibility in their attitude.

Conclusion

“(…) if the market is to be stable and fruitful institution in society it must be hedged around with other institutions of a non-market character – the home and the school and the church. For here and only here can the *motive* of responsibility develop” (Boulding 1968, 218).

Here I come to the end of my reflection on the role that a family plays in society and its economy in the context of gift, trust and responsibility. The fundamental importance of family life should be then confirmed by business ethics. The ‘family lesson’ - as it can be called – should be seen as the fundamental chapter of our economic knowledge. First of all – because it shows the nature of human person in truth – as someone whose life starts from the gift. It is in the family where we learn that in order to give something we have to be given something first. The same is with trust: we need someone who was given the lesson of trust and has already learned it, so we can learn it from him or her. In this context we think that it is justified to call a family the elementary school of gift, trust and responsibility.

It is important to remember, that this necessity of gift is not limited only to babies. The experience of neediness and helplessness – although so characteristic of infancy – is in fact common to all stages of human life, although not in the same way. It means that when we become mature members of society and economic actors we are not radically different then we were in childhood. This has to be embraced by our economic theories if we expect them to serve us well. It means that they should start their analysis from solid foundation of true assumptions about human person. It is well expressed by Jennifer Roback Morse, who writes, that:

“Societies do much better if they face facts rather than ignore them. In particular, political philosophies and their accompanying social philosophies need to address the limits of human power. We are all completely incapacitated in infancy, and even adults at the height of their capacities are far from omnipotent. If philosophies and the societies built around them ignore either of these truths of human helplessness, negative consequences will follow” (Roback Morse 2001, p. 27; see also p. 28).

I do think that it is important that those engaged in business ethics seriously examine the place of family in their discipline and make sure that all that we know about family's contribution to business and market mechanism is clearly said and expressed. Business ethics should remind those engaged in business activity – or preparing to enter this field of activity – of the fact that a family is a real foundation of every society.

This truth about human embeddedness in a family gives business ethics valuable criteria for evaluation of business dilemmas. In discovering the needs of the customer business should accept true assumptions about human nature and human life. Fundamental part of them is the truth about family and its role in personal and social development. Therefore, merchandise and services - offered and sold - which are not servile to human well-being and development shouldn't be called goods (see Davidson and Larrivee 2006). This also means that family values – somehow universal as universal the experience of family is - may serve not only as helpful but also necessary criteria for creating morally adequate and economically sound identity of business enterprise.

If family – as it was described - mediates between a person and society, it can be defined as necessary ‘interface’ for the development of all the social spheres and the ‘missing link’ in contemporary efforts to harmonize business and other parts of society for the common good. In this context – in my opinion - it is justified to define family as business primary school where present and future entrepreneurs, innovators,

leaders, employees, customers and investors grow and learn priceless lessons of gift, trust, responsibility and ethics.

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THE IMPACT OF AN ONLINE ETHICS MODULE ON UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE INSTRUCTION ON THE MORALITY LEVELS OF APPRAISAL STUDENTS

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Summary

This paper represents a portion of the work performed for the PhD in Education at Walden University.

The financial markets have been in a state of chaos for a number of years. Some of the chaos can be attributed to appraisers bending under unethical pressure exerted by lenders (Martin, 2009). Bandura (2001) and Detert, Trevino and Sweitzer (2008) described such deviation from moral behavior as a disengagement from the agents of cognitive morality. Some suggest a lack of morality among appraisers was a principal

cause of the financial collapse of the 2000s. Therefore, if appraiser morality could be positively affected, adherence to appraisal codes of ethics would be enhanced. Appraisers must complete a 7-hour USPAP Update Continuing Education course once per renewal cycle to maintain their license. The research problem is to determine the effect an online USPAP course has on the moral outlook of appraisal students who take these courses. The research will consist of administering the Defining Issues Test (DIT) before the USPAP course as a baseline, and then again after the USPAP course to determine if there is a difference in moral outlook. An Ethics Module (EM) will be created and added to the USPAP course for some participants. The researcher will determine if the EM affects the student's morality level. The researcher will also determine if the teaching environment (online vs grounded) affects student morality. The results of this research may result in recommendations to the agency that promulgates USPAP based upon the results of this research.

Keywords

Appraisal, ethics, instruction, online, grounded, Kohlberg, Rest, Detert, Martin, tactics of moral disengagement, stages, cognitive moral development, USPAP, real estate, Appraisal Foundation.

Introduction to the Study

The chaotic nature of the financial markets has been attributed to multiple sources, including financial fraud (Hake, 2005), questionable business ethics (Tsalikis, 2011, p. 523), mortgage fraud (Frieden, 2004; Hagopian, 1999), and failures by accountants to act ethically themselves or to report the unethical behavior of others (Malone, 2006, p. 142). In addition, appraisers have been held partially responsible for the complex conditions that led to the economic downturn of the early 2000s, as a result of both passive and active complicity in inflating the housing market. Appraisers were significant players in the inflation of the housing markets because appraisers are considered the experts in valuation and, as such, are gatekeepers for their clients' money. Appraisers' ability to assess pricing accurately and in ways that reflect market conditions are a vital element of a balanced housing economy (Martin, 2009).

The failure of appraisers to function ethically and responsibly amid pressure to inflate the housing market had significant consequences including the origination of inflated mortgages which led to upside down borrowers after the housing crash. Thus, understanding the factors that led to such breaches in moral conduct can help to better understand how the housing crisis of the early 2000s began, and can also help to avoid such situations in the future. Callahan (2004) suggested that the pressure to succeed has culminated in a cheating culture, and that ethics is losing ground in a market-driven economy; morality is a fading influence within the modern marketplace.

Bandura (2001) and Detert, Trevino and Sweitzer (2008) described deviation from moral behavior as a disengagement from cognitive morality; in essence, a perpetrator's excuse for behaving poorly. This disengagement may be influenced to support stronger moral behaviors. The premise of the proposed study is that if appraiser morality could be positively affected and appraisers could re-engage with cognitive morality, adherence to appraisal codes of ethics would be enhanced. This enhancement would have a positive impact on the economy through the reduction of fraud and reduced financial losses to lenders and borrowers due to foreclosures.

Background of the Study

Currently, appraisers take a Uniform Standards of Professional Appraisal Practice (USPAP) 15-hour pre-licensing course to become licensed. Appraisers must then take a 7-hour USPAP Update Continuing Education (CE) course every renewal cycle to maintain their appraisal license. While the USPAP course, designed and promulgated by The Appraisal Foundation (TAF), contains some pedagogically-sound components such as multiple choice assessments and case studies, most of the course is devoted to the passive presentation of facts and rules. Furthermore, the USPAP course lacks a module that focuses specifically on ethics and ethical behavior.

The case can be made that the USPAP course could be more efficacious with the addition of an antecedent ethics module (EM) consisting of properly constructed appraisal case studies. In the field of ethics education, case studies have been shown to be efficacious tools to enhance students' understanding of ethics (M. Keefer and Ashley (2001, pp. 377-378). Case studies in ethics courses have also been shown to enhance student morality (Hashemian & Loui, 2010, p. 202). What is not known is whether ethical case studies would enhance the USPAP course, and whether the inclusion of an EM would influence appraisers' behaviors. Additional concerns include whether there is a difference in ethical outcomes in online versus grounded USPAP courses because several appraisal courses are offered in an online environment now.

If students demonstrate enhanced morality levels after engaging in the current USPAP instruction, then USPAP is “doing the job” as intended. If students do not demonstrate enhanced morality levels, does the addition of the Ethics Module to the USPAP affect morality levels? The solution that best enhances morality in prospective appraisers is a solution that: (a) enhances morality levels; (b) produces appraisers with higher morality; and (c) would best reduce fraud and other immoral behaviors that have a negative impact on the US economy (Frieden, 2004; Hagopiana, 1999). An overriding consideration is whether the EM and USPAP can be delivered effectively in an online environment.

There is a gap in the literature regarding whether USPAP students’ morality can be enhanced by being taught at a distance vis-à-vis grounded, and whether the addition of an Ethics Module would positively influence appraisal students’ morality levels. The work of Izzo (2000a) has shown that there is a direct relationship between cognitive moral development as promulgated by Kohlberg and success in real estate sales. Furthermore, Izzo (2000b) disputes the contention that compulsory ethics education affects salespersons’ cognitive moral development. The use of interactive cases, however, has positively influenced moral development of real estate salespeople (Izzo, Langford, and Vitell, 2006, p. 239). Izzo’s work informs the current study, but does not expand into non-agents, that is, those who do not have a client-agent relationship, such as appraisers. Izzo also does not address the issue of teaching ethics online. To address the gap in the literature, the author will also examine if a researcher-designed Ethics Module taken before the USPAP course affects appraisal students’ moral outlook. The research will consist of administering Rest’s (Rest et al., 1977) Defining Issues Test (DIT) before the USPAP course as a baseline, and then again after the USPAP course to determine if there is a change in moral outlook pre and post USPAP course. The EM will be created and administered as an antecedent to the USPAP 7-hour course, with some participants taking the EM and then USPAP, but others just taking USPAP. The DIT will be administered (pre and posttest) to see if the EM affects student morality levels. Recommendations will be made to the agency that oversees USPAP (the Appraisal Foundation) based upon the results of this research. The DIT will be administered to participants taking the 7-hour USPAP course to see what impact USPAP has on experienced appraisers. The assumption is that if morality can be influenced in distance appraisal students, morality can be influenced in distance students in other professions. The results of the proposed study may be generalizable across professions for the betterment of society.

Problem Statement

Reports of appraisers committing fraud have fostered an environment of bank and public distrust of appraisers (American Public Media, 2011). The client-appraiser dynamic can harm the public, if the client places pressure on the appraiser to “hit numbers” or otherwise misstate facts in the appraisal report (The National Community Reinvestment Coalition, 2005). It is important to understand appraisers’ decision-making process with regard to their relationship with clients and the rationale of appraisers to succumb to client pressure. Related professionals, such as assessment officials, have been alerted to the issue of illicit real estate transactions. This alert helps protect the appraisal profession and the public (Hagopiana, 1999, p. 33).

This environment resulted in the passage of various federal and state laws to control the relationship between appraisers and their clients in an effort to protect the public. One such law is the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, commonly referred to as Dodd-Frank (House of Representatives, 2010). The Dodd-Frank law purports to separate depository institutions from risky endeavors by the creation of firewalls (Omarova, 2011, p. 103). Dodd-Frank also created a barrier between the client and the appraiser to prevent the suborning of the appraisal process and the diminishment of appraiser neutrality (House of Representatives, 2010, p. 812).

Although legislation offers an additional layer of regulation that can help avoid conflicts of interest and corruption, the law alone fails to address the core issue that leads to negative behaviors among appraisal professionals. The disengagement of these professionals from the moral and ethical foundations of their work is the root cause of this issue (Baker et al., 2006). Beyond external regulations, appraisers must re-engage with their own cognitive morality. To date, there has been little consideration of how to make that happen. The mandated training and continuing education required of appraisers through the USPAP course provides an opportunity to explore the effectiveness of the infusion of ethical principles into the curriculum, and to find out how such instruction might support ethical thinking and behaviors.

Purpose of the Study

The purpose of this study is to explore how appraisers’ morality is influenced following participation in an Ethics Module as part of a USPAP course, as measured by Rest’s (Rest et al, 1977) Defining Issues Test (DIT). A pretest/posttest analysis will help determine the efficaciousness of the USPAP courses and their impact on appraisal morality. Some participants will complete the DIT, the USPAP course with an EM created by the author, and the DIT again; other participants will not receive the EM. These two groups will be

compared to gain insights into the differences in outcomes between those who participated in the Ethics Module and those who did not. The researcher will analyze the DIT and the translation of DIT scores into Lawrence Kohlberg's (Rest, Turiel, & Kohlberg, 1969) moral development stages. The study will further ascertain the usefulness of the DIT for measuring the impact of the USPAP course on the morality levels of participants wanting to attain a real estate appraisal license and participants who have appraisal experience, but want to maintain their license.

Ethical behavior is of paramount importance in appraisers who evaluate real estate to be used as collateral for real estate loans. Billions of dollars of lender money is at risk if appraisals are faulty. Massive losses have been recorded in the lending industry. Much of this loss is attributed to a downturn in the real estate market (Frieden, 2004; Hagopiana, 1999). Yet, a considerable amount of this loss is attributed to lender pressure placed on appraisers and fraud. If appraisers are expected to "just say no" to bribes and other illicit inducements, many appraisers may not be up to the challenge (Mortgage Fraud Blog, 2006).

Research Questions and Hypotheses

The researcher will explore the impact that taking the USPAP course and an adjunct Ethics Module have on the morality level of students in an online environment. The results of the study will affect the future course design of USPAP and the USPAP document itself. It is hypothesized that changing the USPAP course will affect the morality level of incoming appraisers and, consequently, levels of fraud in appraisal and mortgage lending. This study will enhance awareness of the role of cognitive moral development when appraisers are faced with dilemmas; the dilemmas will be operationalized via case studies included in the ethics module.

After a careful review of the literature the following null and alternate hypotheses were formulated.

Research Question 1

Is there a difference between the moral affect of continuing appraisal students taking the 7-hour USPAP CE course without the ethics module versus those taking the 7-hour USPAP CE course with an antecedent ethics module?

Null Hypothesis 1

There is no difference between the moral affect of continuing appraisal students taking the 7-hour USPAP CE course without the ethics module versus those taking the 7-hour USPAP CE course with an antecedent ethics module.

Alternative Hypothesis 1

There is a difference between the moral affect of continuing appraisal students taking the 7-hour USPAP CE course without the ethics module versus those taking the 7-hour USPAP CE course with an antecedent ethics module.

Research Question 2

Is there a difference between the moral affect of continuing appraisal students taking the 7-hour USPAP CE course online versus continuing appraisal students taking the 7-hour USPAP CE course in a grounded environment?

Null Hypothesis 2

There is no difference between the moral affect of continuing appraisal students taking the 7-hour USPAP CE course online versus continuing appraisal students taking the 7-hour USPAP CE course in a grounded environment.

Alternative Hypothesis 2

There is a difference between the moral affect of continuing appraisal students taking the 7-hour USPAP CE course online versus continuing appraisal students taking the 7-hour USPAP CE course in a grounded environment.

A null hypothesis posits an assertion about a population parameter and follows a traditional approach (Creswell, 2009, p. 134). The assertion is held to be true unless there is sufficient statistical evidence to conclude otherwise. The notation is:

$$H_0: \mu_1 = \mu_2$$

$$H_a: \mu_1 \neq \mu_2$$

where H_0 and H_a = null hypothesis and alternative hypothesis respectively. In addition μ_1 and μ_2 represent the arithmetic means of the two populations. The alternative, or directional, hypothesis suggests a potential outcome based on research or literature (p. 134).

Theoretical Base

Three theories provide the foundation for this study. These theoretical bases are Lawrence Kohlberg's (1963) theory of cognitive moral development; James Rests' (1974) work stemming from Kohlberg's theory; and Bandura's (2006) tactics of moral disengagement (TMDs). Together, these theories will support the systematic examination of the moral decision-making of appraisers.

Ethical decision making in appraisal is largely an individual process. While some agencies purport to control the appraisal profession and the sanctity of appraisal ethics, the appraiser decides to violate ethics or not. In this way, the appraiser is an insular entity, with few appraisers belonging to organized appraisal groups. Lawrence Kohlberg (L. Kohlberg & Lickona, 1976) postulated that human morality can be categorized by the following six stages:

Level I: Pre-conventional morality

Stage 1-Obedience and punishment orientation. Do as you are told. Avoid rule-breaking.

Stage 2-Naively egoistic orientation. Let's make a deal.

Level II: Conventional Morality

Stage 3- Good boy orientation. Be nice and kind and get along with others.

Stage 4- Authority and social order maintaining orientation. Do your duty and receive protection from the law.

Level III: Post-conventional morality

Stage 5- Contractual legalistic orientation. Duty defined by contract or the will of the majority.

Stage 6- Conscience or principle orientation. Orientation to logical social rules and principles of choice appealing to logical universality. Conscience is the guiding force. (pp. 225-226)

Individuals progress through these stages until they reach a terminus. Not everyone makes it through all six stages. These six stages (Rest et al., 1969) of cognitive moral development outline how individuals develop morally across the course of a lifetime. Individuals can, with outside influences, progress to higher stages (Rest et al., 1969). Regardless of the stages they evolve through, individuals deviate from moral perfection. Bandura (1990, 1999) postulated that individuals who choose to deviate from the ethical expectations of society do so because tactics of moral disengagement (TMDs) deactivated agentic processes (Albert Bandura, 1990, 1999; Detert et al., 2008; Martin, 2010). The eight TMDs are: (a) moral justification; "I am in the right, therefore I may proceed with my action;" (b) euphemistic labeling; sanitizing language to make an action appear acceptable; (c) advantageous comparison with more reprehensible cultures; (d) displacement of responsibility; "others are forcing me to perform immorally;" (e) diffusion of responsibility; others share the responsibility for the immoral act making self-action more palatable; (f) disregarding or distorting actions; people recall positive effects of actions but not the negative effects; (g) dehumanization; the objects of actions are less-than-human and therefore deserving of their fate; and (h) attribution of blame; the subject is faultless due to external provocation by others. Martin (2010) postulated another TMD that supersedes the other eight, a zero TMD that disengages an agent of morality for the greater good of humanity.

While various theories explain the nature of human behavior and development, the relationship between moral development and individual behavior is uncertain. Albert Bandura (2002, p. 103) posited eight TMDs that explain the disconnect between the individual and moral behavior. In Bandura's (2002) eyes, humans have an agentic nature that allows them to act as agents of social change, or to make the conscious decision to not act as such agents (p. 101). Bandura's (2002) contention is that moral behaviors are affected by agentic response concerning morality vis-à-vis cognitive reactions to morality. In other words, acting on what is right versus merely thinking about what is right.

Rest et al. (1977) took Lawrence Kohlberg's (1963) work and expanded upon it. Rest et al. (1977) developed a quantitative tool, the DIT, to measure (among other things) the moral development of participants, and how moral development correlates with Kohlberg's stages (Rest et al, 1977). Rest's work was further expanded in

1999 (Rest et al.). Hundreds of studies over a span of more than thirty years have been based upon the DIT of James Rest (Rest, Navaez, Bebeau, & Thoma, 1999, p. 2). Rest's work and the work of his colleagues and peers has culminated in a Neo-Kohlbergian approach to the study of moral development. While agreeing in many important areas, Rest et al. (1977) differed from Kohlberg (1963) in several areas: (a) instead of hard stages, Rest proposed soft schema that are based on frequency of usage instead of being a staircase; (b) schema are more concrete than stages; (c) schema do not directly assess cognitive operations. People are aware of content in their mental life but are not aware of what generates the content (p. 3). The DIT started as a "quick-and-dirty" alternative to the cumbersome questionnaire used by Kohlberg (1963), and then evolved into the reliable assessment used today (p. 7). Using Kohlberg's work as the foundation, Rest and his colleagues have moved the study of moral development forward. In this study I will analyze the moral decision-making of future appraisers and licensed appraisers. The relationship between taking the USPAP (with or without an EM) and changes in morality will be ascertained. Kohlberg's (1963) stages of moral reasoning will be operationalized using James Rest's (DIT), specifically the online version (DIT-2)(Rest et al., 1999).

Definition of Terms

Agentic theory: "Individuals adopt standards of right and wrong that serve as guides and deterrents for conduct" (Bandura, 2006, p. 171).

Cognitive: The mental thought process or the process of knowing (Kohlberg, 1984).

Cognitive moral development: The development of thought processes including remembering, problem-solving, and decision-making, from childhood through adolescence to adulthood (Kohlberg, 1984).

Defining Issues Test (DIT): The DIT is an assessment that measure moral or ethical dilemmas using a scale likened to a Likert scale (J. Rest, 1974, p. 174)A series of moral dilemmas identified how respondents would react across various stages of moral development. An updated online version of the DIT (DIT-2) is available (Rest & Narvaez, 1999).

Ethics: A code of ethics "is a guideline for reasoning through a moral dilemma, an enactment of Kohlberg's (1963) conventional level of moral development in which one seeks to follow established rules of ethical behavior" (Bivins, Morrow, Bowen, & Doescher, 2002, p. 179). "A code of ethics is often thought of as idealistic, but such a code is required to bridge the gap between the idealistic and the realistic" (Bivins et al., 2002, p. 178).

Fraud: A deliberate misrepresentation of fact. Fraud is contrary to the codes of ethics of all professions. Fraud can be for profit or for property (Firozabadi, Tan, & Lee, 1999).

Moral or ethical dilemma: A condition wherein there is no choice clearly "right." All options violate one or more ethical standards (Kohlberg, 1984).

Stages of cognitive moral development theory: Stages of moral development in the individual. The first proponent was Kohlberg, who postulated that processing moral dilemmas led an individual through successive stages of morality. Kohlberg posited six such stages (Lawrence Kohlberg & Hersh, 1977).

Tactics of moral disengagement (TMDs): Mechanisms whereby moral decision-making is short-circuited, allowing (or excusing) the individual from proper behavior. There are eight such tactics: moral justification; euphemistic labeling; advantageous comparison; displacement of responsibility; diffusion of responsibility; disregarding or distorting consequences; dehumanization; and attribution of blame (Detert et al., 2008; Martin, 2010).

Uniform Standards of Professional Appraisal Practice (USPAP): The USPAP as promulgated by the Appraisal Foundation (TAF). USPAP contains the generally accepted standards of the appraisal profession in North America (The Appraisal Foundation, 2010).

USPAP 7-hour update course: A continuing education (CE) course that all licensed appraisers need once every renewal cycle (i.e., every 2 years). The course is based upon the most current version of USPAP and the 7-hour Student Manual. The latter acts as a guide through USPAP and contains real world sample problems (The Appraisal Foundation, 2011, p. 1).

USPAP 15-hour course: A pre-licensing course that all students must take and pass prior to becoming a licensed appraiser. The course is based upon the most recent version of USPAP and the 15-hour Student Manual. The latter acts as a guide through USPAP and contains real world sample problems (The Appraisal Foundation, 2011, p. 1).

Values: Core beliefs that guide and motivate attitudes and actions (Ethics Resource Center, 2011).

Assumptions

One major assumption is that all parties agree on definitions of morals, morality, values and ethics. The study assumes that Kohlberg's (1963) cognitive moral development model, Rest's (1974) subsequent expansion of Kohlberg's (1963) theory, and Bandura's (2002) tactics of moral disengagement are efficient ways of analyzing appraisal student behavior. These theoretical frameworks are assumed to reveal the relationship between cognitive moral development and ethical decision-making in appraisal students. Though an honorarium will be offered to augment the number of appraisal students who participate in this study, it is assumed that the honorarium will not affect the participant responses or the study outcome.

Limitations

The 7-hour USPAP course is a continuing education course that must be taken every renewal cycle by appraisers wishing to renew their appraisal licenses. This 2-year renewal cycle differs from state-to-state, with many states staggered in time. Therefore, the number of students available to participate in the study at any given time might be quite limited.

The 7-hour grounded USPAP CE course does not have a test requirement. Therefore students might not have an incentive to pay close attention in class. The 7-hour online USPAP CE course has a proctored test, so students might be more inclined to study the course material.

Delimitations

The scope of this study includes students who are attempting to retain an appraisal license. Specifically, I will analyze the morality level of online and grounded students taking the 7-hour USPAP course. The students' contact information will be made available by a limited number of schools, thus further diminishing the number of students who may participate. To increase student participation, I will assure the students of the confidential nature of the study. I will also offer a monetary incentive to participating students in the form of a gift card to a local restaurant or store.

Students are taken as they are made available by the schools, with disparate backgrounds and motivations. As the DIT depends upon participants being motivated and having a reading level (at least) of a 12-13 year-old, a lack of motivation or understanding could present problems when analyzing DIT data. As a precaution against a lack of motivation or reading comprehension, the instructions for the DIT and ethics module will be presented in a manner that is easily read by a 12-13 year old.

Literature Review

As discussed above, the financial markets are in a state of chaos, in large part due to mortgage and appraisal fraud. The inability of appraisers to stand up to client pressure, and the willingness of some appraisers to accept gratuities and favors from clients to bend values that favor client objectives led to public mistrust in the appraisal profession. Appraiser is defined as "One who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective" (The Appraisal Foundation, 2010, p. U-1). The definition of the word appraiser, therefore, sets the expectation that appraisers must be unbiased. That some appraisers accept bribes or succumb to client pressure is troublesome, particularly in light of the critical role appraisals play to safeguard a lender's money. If the appraisal is inflated, the lender (who is the appraiser's client) lends more money than would normally be justified. The result is a lender with increased exposure to risk and a borrower who could be "upside down," owing more than their home is worth.

This review of the literature examines the theoretical explanations for deviations from ethical behavior, with particular emphasis on how such deviations have impacted the work of appraisers and the housing market in general. Theories of moral development including those of Kohlberg, Rest, and Bandura are examined in-depth. The root causes of moral disengagement are also explored in depth. The chapter concludes with an examination into ethics education and the value of including ethical content in the USPAP, and the potential of case studies to support moral engagement and critical thinking that supports ethical decision-making. The value of case studies in both on-ground teaching and online teaching environments are also discussed.

Stages of Moral Development

Before one can determine whether current USPAP instruction has an impact on appraisal students some additional information is required, starting with Kohlberg's (1963, 1984) stages of moral development and the work of other scholars who expanded Kohlberg's theory. Kohlberg provided the initial foundation for the stages of moral development. Since his original conceptualization, others including Rest have refined and augmented the original theory. The social-cognitive conception of moral identity has also been explored in the literature, and the tenets of this theory are also presented.

Kohlberg's Stages of Moral Development

Kohlberg (1963, 1984) postulated six stages of moral development. These six stages denote phases of moral judgment that children pass through, each phase with its unique way of organizing and structuring its moral and social order (Rest et al., 1969, p. 225). The successful completion of each stage is contingent upon the mastery and reorganization of all former stages. According to Rest et al. (1977) and Kohlberg (1963), Kohlberg's stages of moral development include:

- Stage 1: Obedience and punishment orientation. Do as you are told. Trouble avoidance. This stage is similar to Piaget's first stage of moral thought (Crain, 1985).
- Stage 2: Naively egoistic orientation. Let's make a deal. Satisfy the self's needs and occasionally the other's.
- Stage 3: Good boy orientation. Be nice and kind and get along with others. Conform to the stereotypical images of the majority (Crain, 1985).
- Stage 4: Authority and social order maintaining orientation. Do your duty and receive protection from the law. Regard the earned expectations of others.
- Stage 5: Contractual legalistic orientation. Duty defined by contract or the will and welfare of the majority.
- Stage 6: Conscience or principle orientation. Orientation to logical social rules and principles of choice appealing to logical universality. Conscience is the guiding force.

The first two stages are known as *Level I: Preconventional morality*. Stage 3 and Stage 4 are known as *Level II: Conventional Morality*. Finally Stage 5 and Stage 6 are known as *Level III: Postconventional morality* (Lawrence Kohlberg, 1963). These levels provide order to Kohlberg's (1963) ordinal stages of moral development. Kohlberg's stages are broad brushstrokes, likened by Rest et al. (1999, p. 292) as measuring macromorality. On the other hand micromorality deals with the day-to-day moral struggles faced by the individual (J. Rest et al., 1999, pp. 292-293). Rest et al. (1977) created the DIT to measure participant responses and correlate outcomes with Kohlbergian stages. Whereas Kohlberg relied on qualitative analyses, such as presenting moral dilemmas and asking participants *why* they responded the way they did, Rest et al. (1999) utilized quantitative analysis based on multiple-choice questionnaires.

According to Kohlberg (1963), the preconventional stage dominates early development. As a child grows and matures, the reliance on these early stages lessens while the child learns to structure and construct information into organizations that rely less on the "me" and more on exterior constructs or the "you" and "others." People pass through and build upon earlier stages (Kohlberg, 1963). Children do not move from a lower stage to a much higher stage of development. Instead, children progress and master one stage, then move to the next stage, until the child hits a plateau. The plateau is not necessarily "good" or "bad," the process is simply what it is. Understanding the developmental process of moral development helps society understand why people act as they do, and how curricula and courses should be designed to improve moral development.

Rest's Expansion of Kohlberg's Theory and Development of the DIT

Rest et al. (1999) surmised that the original Kohlbergian stages deal with the macromoral, but that applying Kohlberg's theory to current social issues provides a powerful tool for understanding fundamentalism/modernism, orthodoxy/progressivism, and conventional/postconventional (J. Rest et al., 1999, p. 293). Kohlberg's theory is often critiqued for not dealing with the micromoral levels and for not being universal (Jorgensen, 2006). Rest addressed this shortcoming and modernized Kohlberg's perspective. The weaknesses of Kohlberg's morality research and stages of morality include:

1. A focus on only one component process in the larger psychology of morality to the neglect of moral motivation, moral sensitivity, and follow through in behavior.
2. A focus on abstract, coarse-grained markers of life-span development to the neglect of intermediate-level concepts.
3. A focus on justice issues to the neglect of personal or intimate relationships and the role of religion in the formation of moral thinking.
4. The limited scope of dilemmas. (Cabot, 2005, p. 324)

Rest (1999) created the DIT with these shortcomings in mind. In response to Kohlberg's (1963) shortcomings, Rest et al. (1999) developed a four-component Neo-Kohlbergian model that included (a) moral sensitivity, (b) moral judgment, (c) moral motivation, and (d) moral character. Moral sensitivity allows one to perceive a moral dilemma when one exists. Moral judgment allows one to decide which moral action one should take, once a dilemma is perceived. Moral motivation is the degree to which one takes responsibility for one's moral actions. Moral character allows one to have courage in following the moral routine.

The DIT measures these four components, whereas Kohlberg's interview method dealt with only higher-order morality such as law-and-order. According to Cabot (2005), more than 400 studies have been conducted using the DIT; these studies confirmed the external validity of the DIT. The DIT-1 includes six ethical dilemmas, with each dilemma having 12 issues. Respondents were asked to rate the issues by importance and then rank the top four issues. The result is known as a "P" Score, a measure of principled reasoning (Cabot, 2005, p. 326).

The DIT-2 evolved from the DIT through additional years of research and refinement (Rest et al., 1999). The DIT-2 shortens the assessment, updates the dilemmas and items, and updates the performance (1999). Additionally performance is enhanced by the addition of the N2 Index which has superior reporting in various DIT data. The DIT-2 also has enhanced methods of reporting bogus data (1999).

Cabot (2005) further extended Rust's work with the DIT and DIT-2 by conducting a study of 168 undergraduate students at California State University, Long Beach representing a variety of majors, grade levels, and ethnicities. Cabot (2005) found that the P scores of younger students were not significantly different from those of upperclassmen. Unlike other studies, it appeared that college experience did not affect P scores (Cabot, 2005). He concluded that P scores of respondents were low because of self-absorption (narcissism) among students, a claim that requires considerable additional study, and recommended that ethics training be built into the curricula of programs that scored particularly low. The DIT and DIT-2 have been determined valid and reliable instruments for the measurements of moral reasoning. The ability to maintain moral reasoning is a function of moral engagement. Moral engagement has been linked to moral identity, and this connection has been explored within the context of the social-cognitive conception of moral identity.

The Social-Cognitive Conception of Moral Identity

While the public might blame professionals for the economic woes of recent years, Aquino, Freeman, Reed, Lim, and Feips (2009) argued that people are not "good" or "evil," per se. There are no absolutes, only a spectrum of behaviors. The authors asserted that certain situational factors, which are "determinants of moral behavior," affect behavior (Aquino et al., 2009, p. 123). Situational factors such as being rushed or rationalizing immoral behavior in the current context, negatively affect individuals' behavior. Situational factors are not the only variables that affect moral behavior. Individual characteristics can also affect moral behavior patterns. Individual characteristics that might affect moral behavior include moral reasoning, moral maturity, moral commitment, and moral character.

A social-cognitive conception of moral identity is the theoretical framework that is the basis of the study. People learn by doing, and positive actions receive positive feedback. People balance "multiple identities" over time, and only adopt a handful of identities at any one time (Aquino et al., 2009, p. 125). Extrinsic goals include popularity and image. Intrinsic goals include affiliation and community feeling, and are diametrically opposed to extrinsic goals. Self-interest and "community feeling" are also diametric opposites. As Aquino et al. (2009) stated, "the situational activation of a self-interested facet of identity may temporarily reduce the accessibility of moral identity for people for whom the latter is highly central" (p. 127). One aspect of identity can be minimized under certain conditions, thereby leading to amoral behavior. The more ingrained the moral identity, the less likely the switch will be thrown toward amorality.

Aquino et al.'s (2009) study included 92 undergraduate business students from the University of Delaware. Two tests were administered to the group, including the internalization subscale of Aquino and Reed's (2002) moral identity measure. This particular test asks a series of questions with a Likert Scale, and is sensitive to the activation of moral identity. The test has been analyzed in several studies, and found to be valid. The results support the authors' contention that a situational factor can activate a person's moral schema.

In an additional study conducted by Aquino et al. (2009), the researchers examined morality in a salary negotiation—in particular, behavior in a performance incentive condition. Subjects exhibited a lower level of current accessibility of moral identity when money was at stake. The control group exhibited no such issues. The researchers concluded that "the accessibility of moral identity within the working self-concept

should determine the extent to which it influences moral outcomes” (Aquino et al., 2009, p. 138). This conclusion is consistent with the social-cognitive framework adopted by the authors.

Aquino et al. (2009) demonstrated a relationship between situational factors and the moral identity of the individual. In keeping with the social-cognitive theoretical framework adopted by the authors, if a moral identity factor is ingrained, situational factors may have less influence. However, if the situational factors are quite powerful, the individual may behave in a manner not normally considered moral by the individual. Future studies could be performed to enhance the prediction quality of situational factors, and thus avoid such factors as might provide temptation (Aquino, Freeman, Reed, Lim, & Feips, 2009).

The Aquino et al. (2009) study confirmed the influence of the environment on moral behavior. Derryberry and Thoma (2000) found social networks, not curriculum, to be the driving force behind their moral development. According to Derryberry and Thoma (2000), factors out of college are as important as factors in college. This is consistent with the findings of Cabot (2005, p. 331), who found college experience did not affect morality scores, but that social environments did exert a significant influence.

The social-cognitive conception of moral identity can be linked back to the earlier works of Kohlberg and Rust, in that all of these theories propose that the individual is shaped both intrinsically and extrinsically. Understanding the factors that support a strong moral identity and therefore also support strong moral and ethical decision-making can avoid the occurrence of what Bandura (2002) called moral disengagement.

Tactics of Moral Disengagement

Perhaps one reason why appraisers are succumbing to client pressure and committing fraud is because of the acceptability of immoral behavior. Indeed, the promise of more appraisal work and bribes is a powerful motivator, and “other appraisers are doing it, so why not me?” As we shall see such feelings are explained as tactics of moral disengagement (Albert Bandura, 2002; Albert Bandura, Barbaranelli, Caprara, & Pastorelli, 1996). Moral disengagement is best defined as mechanisms whereby moral decision-making is short-circuited, allowing (or excusing) the individual from proper behavior (Detert et al., 2008).

Psychological theories focus on moral thought rather than moral action (Albert Bandura et al., 1996). This is due in large part because investigatory methods make it is easier to study moral thought, and because of a rationalistic bias of researchers. It is easier to study the thought patterns of people vis-à-vis the underpinnings of their actions. In Bandura’s (1999) social cognitive theory, moral reasoning translates into actions by way of self-regulatory mechanisms or agents. The disabling of such agents is caused by tactics of moral disengagement. “In the face of situational inducements to behave in inhumane ways, people can choose to behave otherwise, by exerting counteracting self-influence” (Bandura et al., 1996, p. 364). These are self-regulating agents that can be selectively disengaged using various tactics. Normally social cognitive theory influences self-regulation through three subfunctions: self-monitoring; judgmental; and self-reactive.

The self-monitoring subfunction is the first step in the control of an action. The action is critiqued and analyzed through the judgments of the individual. The action is then modified and possibly altered in the self-reactive subfunction (Bandura et al., 1996, p. 364). The three subfunctions are cyclical, each providing valuable feedback in the decision-making loop. The development of self-regulatory subfunctions does not create an invariant system (p. 364). Self-regulated processes must be activated. Self-sanctions can be disengaged from inhumane conduct in a variety of ways. This disengagement allows different reactions by individuals who might have the same moral code or ethics (p. 364).

The significant issue is discerning what turns on some tactics in some but not in others. A code of ethics might exist for all in a profession; yet, individuals engage with such codes differently. Understanding the perspectives that allow for wide variations in compliance with such codes is critical to addressing moral lapses and avoiding moral disengagement.

The tactics of disengagement include moral justification; euphemistic labeling; advantageous comparison; displacement of responsibility; diffusion of responsibility; disregarding or distorting consequences; dehumanization; and attribution of blame (Bandura et al., 1996). These tactics are defined as:

1. Moral justification. The immoral act is justified by portraying it in a morally valuable light. Immoral behavior is justified in the name of protecting honor.
2. Euphemistic labeling. The immoral act is called by a different, less objectionable name that prompts a sympathetic response from peers or witnesses. The act is seen as valiant, although the victim views the act as the same atrocity.
3. Advantageous comparison. Compared to other, more vile acts, the subject act is seen as less despicable and, indeed, may be seen as advantageous.

4. Displacement of responsibility. Responsibility of actions is due to external forces, such as a boss. Because outside forces are involved people are not agents of their actions and there is no personal self-censuring involved.
5. Diffusion of responsibility. Related to displacement of responsibility above, diffusion of responsibility refers to actions that are dispersed among many individuals, each seemingly innocuous but harmful in totality. Alternatively, if a group makes a decision, then no one individual is responsible for the decision.
6. Disregarding or distorting consequences. The individual remembers beneficial effects of an action but conveniently do not recall any harmful effects. In addition to the selective inattention to harmful effects, the detrimental effects might be deliberately discredited.
7. Dehumanization. The object of scorn is divested of humanity, or is given attributes of a bestial nature. This process then disengages self-censure.
8. Attribution of blame. People are faultless because they blame their adversaries. Self-censure is avoided because fault lies elsewhere. The victims themselves are to blame. This tactic is related to displacement of responsibility.

As appraisers become accustomed to reprehensible behavior, such behavior seems to be the norm. Related to this phenomenon is the inverse relation of disgust with immoral behavior (Jones & Fitness, 2008). Moral disgust was defined by Jones and Fitness (2008) as “the experience of disgust in response to exposure to moral transgressors and offenses” (p. 613). Moral disgust can affect those who are characterized as *morally hypervigilant*. Moral hypervigilance is defined as “a syndrome consisting of behavioral tendencies, attitudes, and cognitive biases aimed at reducing the risk of exposure to transgressors” (Jones & Fitness, 2008, p. 613). Jones and Fitness (2008) purported the existence of moral disgust is evidenced by a lexicon evincing disgust, such as “revolting” and “pigs” (p. 613). The authors argued that disgust is an emotion separate from anger, and their 2008 study of moral disgust among college students found a difference between disgust and moral disgust. Additionally, they found that these emotions were distinct from hypervigilance. These distinct emotions all held consequences for moral agency and moral disengagement. The findings of Jones and Fitness (2008) correlated with Bandura et al.’s (1996) earlier findings that high moral disengagement is associated with low guilt; low prosocialness is related to moral disengagement and, in turn, to detrimental conduct; moral disengagement fosters aggression proneness and transgressive behavior (Bandura et al., 1996).

Bandura et al. (1996) found significant results of their study of children and moral disengagement. Predictably, aspects of peer popularity were positively correlated, just as popularity and rejection were negatively correlated. As expected, individuals ranking high in hostile rumination and irascibility, and low in the threshold for anger arousal, were more prone to act in a punitive manner. Guilt acted as a self-sanction which mediated transgressive behavior.

Bandura et al. (1996) concluded that a child’s proneness to moral disengagement was unrelated to socioeconomic status or age. Males exhibited higher moral disengagement than females ($F = 22.7$; $p < .0001$). In comparison to females, males were more likely to provide moral justification for detrimental conduct ($F = 45.81$, $p < .0001$); to mask it in euphemistic language ($F = 33.81$, $p < .0001$); to minimize injurious effects ($F = 6.14$, $p < .025$); dehumanize victims ($F = 26.60$, $p < .0001$); and attribute blame to victims ($F = 9.92$, $p < .002$).

The overall patterns that emerged from this study or were documented within it, included the finding that individuals who are prone to morally disengage are “more irascible, ruminate about perceived grievances, and are neither much troubled by guilt nor feel the need to make amends for harmful conduct” (Bandura et al., 1996, p. 368). Such individuals also tend to engage in aggressive behavior. High moral disengagers tend to be less prosocially oriented. However, moral disengagement is not necessarily negatively correlated with peer popularity. Disengagers can be popular with peers (i.e., other disengagers). Congruent with Bandura’s (1999) theory of social cognitivism, moral conduct is regulated by the ongoing exercise of self-reactive influence.

Recognizing that moral disengagement causes reprehensible behavior is an important first step, but this does not uncover the causes of moral disengagement. The neurobiological constructs that correspond with moral disengagement must be explored to gain insight into the mechanisms that permit such disengagement and, in turn, lead to crime and other immoral behavior. As Bandura et al. (1996) claimed, “There is much to be gained from understanding how the facility for moral disengagement develops and how institutional justificatory strategies are used to enlist people for exploitive and destructive purposes” (p. 372).

Appraiser immorality could be related to the disengagement of moral agents and the three sub-functions (i.e., self-monitoring, judgmental, and self-reactive). In particular, appraisers might be disengaging due to

displacement of responsibility (e.g., “The client made me do it”); diffusion of responsibility (e.g., “I was but a small part of the fraud ring”); and dehumanization (e.g., “If the victim was dumb enough to be taken advantage of, they deserve it”). High moral disengagement is associated with low guilt. This combines with the low disgust associated with immorality reported by Jones and Fitness (2008).

The analysis of unethical decision-making has focused primarily on the outcomes of social disengagement in children. Studies focused on the underlying causation, especially at the neurological level, have been wanting (Detert et al., 2008, p. 374). Little has been published about the antecedents of moral disengagement. If organizations understood what predisposed individuals to moral disengagement “perhaps they could target resources toward improving these individuals’ decision making processes” (Detert et al., 2008, p. 374).

Detert et al.’s (2008) study examined different antecedents of disengagement and the relationship between moral disengagement and subsequent immoral behavior. The authors suggested that moral disengagement is an extension of social cognitive theory, wherein individuals exhibit control over themselves through self-regulatory processes. People develop standards of good behavior that regulate immoral behavior, deterring bad behavior. Individuals act to censure themselves in what Bandura called an “agentic perspective” (Detert et al., 2008, p. 375).

Detert et al. (2008, p. 376) identified four individual differences associated with moral cognition and action. The authors proposed that these differences make individuals more or less predisposed to morally disengage. The four characteristic differences are (a) empathy, (b) trait cynicism, (c) locus of control, and (d) moral identity. The four characteristic differences are described below.

Empathy describes the degree to which an individual is concerned about another. Kohlberg would describe this as role-taking (Detert et al., 2008). Being more disposed to the feelings and well-being of others should inhibit moral disengagement. Therefore, being high in empathy should predispose someone from disengagement and immoral behavior, particularly regarding other people.

Trait cynicism is a general attitude characterized by feelings of disillusionment and distrust of other people. Trait cynicism is a characteristic that is difficult to change through a person’s lifetime. A person higher in trait cynicism should be predisposed to moral disengagement (Detert et al., 2008).

Locus of control relates to how people think about their personal control over outcomes in their lives. These orientations are stable over a person’s life. Specifically, individuals with strong internal locus of control see clear connections between their actions and outcomes of those actions (Detert et al., 2008). Persons who see the proposed outcomes of their actions and take responsibility for those actions are less likely to morally disengage. External locus of control lies at the opposite extreme of internal locus of control (Detert et al., 2008) and includes chance locus of control and power locus of control.

Chance external locus of control describes individuals’ beliefs about how much of life experiences are attributable to luck or fate. Power external locus of control refers to the belief that, although the world is predictable, powerful others are in control. Individuals who rank high in power locus of control should be prone to moral disengagement through displacement of responsibility.

Moral identity refers to how individuals think about themselves. Moral identity is self-conception around specific moral traits. A highly self-important moral identity should inhibit moral disengagement and therefore diminish immorality. Moral disengagement is hypothesized to increase unethical behavior. Moral disengagement disconnects the immoral act from the guilt that would otherwise prevent it (Detert et al., 2008, p. 378). Moral disengagement could mediate between stable individual differences and unethical decision making.

Detert et al.’s (2008) study of business and education students at a major university found that male subjects tended to be more morally disengaged than females, and that business majors were less prone to disengagement than education majors. Empathy was negatively related to disengagement, explained by the fact that those who identify with others are less likely to commit immoral acts against others. Trait cynicism was positively related to disengagement. Chance locus of control was positively related to disengagement, which means those who see life as being dictated by fate are more likely to commit immoral acts. The other loci of control (power and internal) were not related to disengagement. Moral identity was negatively correlated to disengagement, meaning that people with a strong self-identity are less likely to disengage (Detert et al., 2008).

This agrees well with the role of the appraiser in the lending process: The appraiser is perceived as having little power (control) in the process, although the appraiser’s role is critical for an underwriter making a “go-no-go” decision. Coming from a self-perceived position of weakness the appraiser would have a low self-identity which equates with likelihood to disengage. This puts appraisers at particular risk for poor moral decision

making and lower ethical standards. This points to a vital need for ethical training and overt efforts to fortify the moral decision-making process of those in the appraisal field.

Casuistry in Ethics Education

The topics of agentic theory and moral disengagement and their relationship to moral development are essential to professionals. Muscavitch (2005, p. 431) stated that the use of case studies in ethics education is assumed to be *de rigueur* for effective pedagogy. However, inclusion of case studies does not guarantee the desired results. According to Muscavitch (2005), the main issue is the type of educational material used in the ethics course, not whether the course is on or off-line. The educational goals and objectives should dictate course design, not merely time and cost (p. 431). If the goal is straightforward knowledge acquisition then true/false or multiple choice items are appropriate. However, if students are left with the impression that this is all that is required for ethics problem-solving, then educators may be doing more harm than good.

Harris, Davis, Pritchard and Rabins (1996) noted a number of important objectives for ethics instruction, including: (a) stimulate ethical imagination of students; help students recognize ethical issues; (b) help students analyze ethical concepts; (c) help students deal with ambiguity; (d) encourage students to take ethics seriously; (e) increase student sensitivity to ethical issues; (f) increase student knowledge of relevant standards; (g) improve ethical judgment of students; and (h) increase ethical will-power of students. These objectives can be further categorized as emotional engagement (affect); intellectual engagement (cognition); and particular knowledge (competence in the field at hand, and competence in ethics; Harris et al., 1996).

Keefer (2005) stated that less experienced students provide simple actions and justifications for resolutions. This exclusionary attitude where simpler solutions preclude the usage of more complex solutions can reduce the motive to explore more creative solutions. Students are “funneled” through multiple choice questions that stifle creative solutions (p. 426). Muscavitch (2005) referred to the Hastings Center (1980) white paper which proposed five goals in teaching ethics: (a) stimulating the moral imagination, (b) recognizing the ethical issues, (c) developing analytical skills, (d) eliciting a sense of moral obligations and personal responsibilities, (e) and tolerating (and resisting) disagreement and ambiguity. The students’ feelings and imaginations must be engaged. Student affect must be considered or rote memorization of simple ethics principles will be the most educators can hope for.

According to Glasser (Louis, 2009), socialization can increase affect and produce the desired outcomes in ethics instruction. Moral obligation must be elicited to move students into higher domains of ethical thought. Face-to-face discussions are not the only way to accomplish this. Online interactive discussions can also be effective in enhancing student affect. Students can develop a “justificatory mind-set,” wherein students recommend the simple course of action rather than apply critical thought and be creative in their proposals. Students must move beyond simple justifications in their problem-solving.

To avoid justificatory mind-set Muscavitch (2005) recommended small-group assignments over tutorials. The latter has a “check-off” mentality that is common in universities today. The author concluded, “online tutorials alone cannot...constitute an effective educational program in professional or research ethics” (p. 433). She stated that adding facilitated exchanges would go far. Such exchanges enhance student affect and enmesh the student in a collegiate experience, which enhances academic integrity and reduces incidents of unethical academic behavior (Olt, 2007). As Cabot (2005) demonstrated, such extracurricular experiences also enhance student morality even more than collegiate experiences themselves.

Appraisal is a complex subject that has far-reaching consequences for client and homeowner, but other professions are considered more complex with potentially graver consequences. Engineering is one such profession (Jonassen et al., 2009). Jonassen et al. (2009) researched what happens to engineering students when the students are asked to solve engineering ethics problems as opposed to teaching ethics outright. Students given more meaningful ill-structured assignments were able to solve ethical dilemmas and produce coherent arguments to justify their actions (p. 246).

Haws (2001) stated that ethical behavior is grounded in different theoretical approaches considering multiple options with multiple consequences and communicating with stakeholders. Jonassen et al., 2009 designed a learning environment that engaged the principles espoused by Haws (2001). This learning environment is called Engineer Your Ethics (EYE). EYE consisted of ethics scenarios conducted serially, designed to investigate how learners reconcile perspectives when determining a solution to ethics problems.

Several issues emerged as Harris et al. (1996) and Jonassen et al. (2009) designed EYE and the case studies used in EYE. Typically, engineering ethics problems are represented as either decision-making, design, trouble-shooting, or dilemma (Jonassen et al., 2009, p. 236). According to Harris et al. (1996), decision-making case studies require a selection of one action among a variety of context-rich alternatives,

while dilemmas represent an argument between two or more undesirable issues. Harris et al. (1996) assumed for the sake of their study that engineering ethics problems were decision-making issues that invoked professional competency in context-rich scenarios. Harris et al. (1996) concluded that ethics problem-solving cases should be integrated into every engineering course to enhance the argumentation and counter-argumentation process. This has implications for an appraisal ethics module that could be used as an adjunct to a USPAP course. Such an environment could be called “Appraise Your Ethics” or “AYE,” based on Jonassen et al.’s (2009) EYE.

A time-honored traditional tool in education in general and ethics education in particular has been the use of case studies, or *casuistry*. As Bivens (1993, p. 4) noted, there has been a trend toward allowing professionals to learn ethics on the street, with little theoretical background. However, such background is important in the creation of a status quo, an ethical relativism that allows professionals a chance to understand what is expected of them (Bivins, 1993). A theoretical underpinning gives the newer professionals the rationale behind the written ethics rules. Once a student has been taught the basic ethical foundations the onus is on introducing those students to ethical concerns specialized to their individual professions (Bivins, 1993, p. 6). One way to bring a student from the basic introductory material to a more specialized level, or to move from the lower levels of Bloom’s Taxonomy to the higher (analytical) levels is the usage of case studies.

According to a report by the Boston University Center for Excellence and Innovation in Teaching (2012), “Many students are more inductive than deductive reasoners, which means that they learn better from examples than from logical development starting with basic principles. The use of case studies can therefore be a very effective classroom technique.” Case studies can be undertaken individually or in teams to good effect. A major advantage in using case studies is that it actively engages the students in the subject matter. The guidelines for using case studies are (Boston University Center for Excellence & Innovation in Teaching, 2012):

- What is the issue?
- What is the goal of the analysis?
- What is the context of the problem?
- What key facts should be considered?
- What alternatives are available to the decision-maker?
- What would you recommend — and why?

It is this issue that encourages facilitator feedback and encouragement of student immersion in the subject matter. Instructor feedback is critical in enhancing student affect and the cognitive domain.

Bivins (1993, p. 8) has proposed the following questions for the creation of case studies:

1. What is the ethical issue/problem? (Define in one or two sentences.)
2. What facts have the most bearing on the *ethical* decision you must render in this case?
3. Are there any other external or internal factors to be considered? (Economic, political factors, etc.)
4. Who are the claimants and in what way are you obligated to each of them? (List all affected by your decision.)
5. What are the operant ideals?
 - a. For you
 - b. For the client/organization/profession
 - c. For other affected parties
6. Do any of these ideals conflict? In what order would you honor them?
7. What are your options, and which would be favored by each affected party? (List at least 3.)
8. Which options could cause harm to any claimant?
9. Would honoring any of the ideals listed above invalidate any of your options?
10. Are there any rules or principles (legal, professional, organizational, or other) that *automatically* invalidate any of your options?

11. Which ethical theories support or reject which options?
12. Determine a course of action based on your analysis.
13. Defend your decision in writing to your most adamant detractor.

Bivin's worksheet can be adapted to appraisal with relative ease. The most current version of USPAP informs Number 10, and the ethical theories that introduce the USPAP course should inform Number 11. Number 13 relies the most on instructor and student/peer feedback.

Leading students through such sequential cognitive processes, while viewing decisions through a moral and ethical lens, can help students avoid moral disengagement and maintain ethical conduct (p. 12). The hands-on nature of case study instruction requires students to consider these steps and their consequences within a realistic and relatable context. These are the affordances of case study instruction, and this method holds promise for enhancing the pre-license and continuing education of appraisers, both in grounded and online environments.

To summarize, case studies have been in use in ethics education for several years. The use of cases, called casuistry, can be an effective tool if the cases are constructed effectively. Just as not all educators are good writers or course designers, not all educators are good writers of case studies (Schonfeld, 2005, p. 33). Therefore, it is important that good case study principles be implemented in course design. This is especially true with online education where there are even more concerns in creating a proper pedagogically-sound learning environment (Schonfeld, 2005, p. 493-494).

Summary of the Literature Review

The purpose of this study is to explore the influence of an Ethics Module on the moral decision making of appraisers who will take the USPAP CE course either online or grounded. The interest in exploring the ethical decision-making of appraisers stems from the prevailing mistrust in economic professionals in general and appraisal professionals in particular, due to misconduct on the part of these professionals. The solitary nature of the appraisal business, combined with a low sense of control and constant external pressures makes appraisers vulnerable to moral disengagement.

Kohlberg (1984) asserted that individuals attain morality by progressing through various stages, and Bandura (2001) posited that the individual is in control of his or her behavior. Included within this control, according to Bandura (2001), is the choice to morally disengage. This phenomenon leads to a failure to apply moral and ethical decision-making, and can result in poor professional performance. Curbing the tendency to slide into moral disengagement is vital to preventing future ethical lapses within housing and other industries.

This study will explore the effectiveness of an Ethics Module added to the existing USPAP CE curriculum in supporting strong moral decision making, as measured by the DIT-2. The Ethics Module will be developed using a case study model; the case study model was selected based on significant evidence of their effectiveness in ethics instruction (Bivins, 1993; Boston University Center for Excellence in Teaching, 2010). Therefore, the researcher will create an Ethics Module case study that will be presented to USPAP students prior to taking USPAP. Morality levels will be measured pre-post, and the scores will be compared to the scores for the group that did not take the ethics module.

Research Method

Introduction

The purpose of this study is to compare the morality level of students prior to taking the 7-Hour USPAP course with students who have already taken the course, and to explore the influence of an Ethics Module added to the existing USPAP curriculum on moral decision-making. The aim of the study is to determine if an ethics module intervention improves moral reasoning in real estate appraisers. This chapter defines the methodology used to analyze the single hypothesis and provides information about the sample, variables, instrumentation, data collection, and analysis. This research seeks to provide an increased understanding of how the 7-hour USPAP course with or without an ethics module might affect morality levels and the stages of cognitive development of appraisal students. The Defining Issues Test (DIT-2) will be used to measure moral decision-making in both the pre and posttest.

As stated above, the financial markets are in turmoil at least in part due to an increase in immoral and criminal behavior. A dearth of research concerning the efficacy of online ethics education is a concern at a time when the public is disenfranchised about professional morality. Indeed, Meine and Dunne (2010) stated that a variety of institutions, ranging from police departments to municipalities, have implemented online ethics education. Such implementation has made delivery of instruction more convenient and cost-effective.

However, Meine and Dunne (2010) do not report analyses as to the efficacy of such online delivery systems vs. their grounded counterparts.

The research questions that guide this study are:

1. Is there a difference between the moral affect of continuing licensed appraisal students taking the 7-hour USPAP CE course without the ethics module versus continuing licensed students taking the 7-hour USPAP CE course with an antecedent ethics module?
2. Is there a difference between the moral affect of continuing licensed appraisal students taking the 7-hour USPAP CE course online versus continuing licensed appraisal students taking the 7-hour USPAP CE course in a grounded environment?

Research Design and Approach

A pretest posttest causal-comparative design (Trochim & Donnelly, 2007, p. 200) will be used to test changes in moral cognitive development in appraisal students taking the USPAP 7-hour CE course. The instrument that will be used to collect self-defined morality data was the DIT-2. A quantitative causal-comparative design is the most appropriate method to analyze the questions since numerical data was collected at the interval level for each participant. Further, as stated by Campbell and Stanley (1963, p. 2),

[Comparative designs] may be the only means for settling disputes regarding educational practice, as the only way of verifying educational improvements, and as the only way of establishing a cumulative tradition in which improvements can be introduced without the danger of a faddish discard of old wisdom in favor of inferior novelties. (p. 2)

The purpose of a causal-comparative design is to test cause and effect. In the case of the present study, the impact of USPAP (with or without an ethics module, and online or grounded) on the morality of appraisal students is in question. A quantitative methodology was chosen, as it better supports answering the research questions at hand and is more efficient when dealing with electronic administration of surveys such as the DIT-2 (Rhodes, 2010, p. 56).

A qualitative methodology was considered, but was not supported due to the lack of objectivity a qualitative analysis might have when answering the research questions. Creswell (2009) noted that qualitative analyses can be intrusive, costly, and time consuming in terms of finding participants. Qualitative studies have a place when inductive ("ground up") research is conducted, and when the researcher wants to get close to the subject. The current study is deductive in nature, and objectivity must be maintained. Therefore, a quantitative analysis was chosen for this analysis.

This research project employs a pretest posttest non-randomized design (Trochim & Donnelly, 2007, p. 200). The notation for this design is:

Group A R-----O-----X-----O

Group B R-----O-----O-----O

The notational symbols are: R (randomly assigned groups); O (different waves of measurement); and X (the treatment). If the Os are vertically aligned, this indicates pretest and posttest are measured at the same time. If horizontal, the Os indicate different waves of measurement (p. 201). In this study, Group A will receive USPAP instruction with no ethics module, while Group B will receive USPAP instruction with an Ethics Module. The DIT-2 pre-post is represented by O.

Setting and Sample

The population defined in this study is adult students in appraisal schools throughout the United States taking classes online or face-to-face. There are several thousand licensed appraisers in the United States, all of whom must take the 7-hour USPAP CE course every renewal cycle if they wish to maintain their license. A renewal cycle is typically two years. In Illinois, licensed appraisers must take the 2012 USPAP CE course in the first six months of 2012.

The sample will be derived from five appraisal schools throughout the United States. Participants were of varying ages and socio-economic backgrounds. Students taking the 7-hour USPAP course will have had their appraisal license for varying lengths of time. Given that participants cannot be forced to participate, and random assignment to a particular group (online, traditional) was not an option, a true random sample of participants from the population cannot be obtained. Specifically, students who participated will have signed up for either an online course or a traditional course, and students will not be randomly assigned to either the non-ethics module or ethics module.

The groups of subjects will consist of USPAP (online), and USPAP (grounded); with or without an antecedent ethics module (EM). An adequate number of participants is required in each group to ensure sufficient power when conducting the analysis.

Power Analysis

A priori sample determination was assessed by conducting a formal power analysis. Three factors are taken into consideration when conducting the analysis including the intended power of the study, effect size of the phenomena under study, and level of significance to be used in rejecting the null hypotheses (alpha). Study power is the probability of rejecting a false null hypothesis. As matter of convention, adequate power to reject a false null hypothesis is .80 (Kuehl, 2000). Effect size, is an estimate measurement of the strength of the relationship between variables in the study (Cohen, 1988). The effect size was characterized by Cohen (1988) as Cohen's f^2 small, medium, and large where each level is associated with a specified effect size. Thus, a small effect = .10, medium = .25 and large = .40.

Alpha is defined as how confident one is when rejecting the null hypothesis. Social science research convention suggests that alpha should be set at .05. Thus, with power set at .80, effect size set at .25 and alpha set at .05, the sample size required is 128 participants, with a minimum of 64 per cell (Faul, Lang, & Buchner, 2007).

Instrumentation and Materials

A demographic survey and the DIT-2 will be used in the study. Demographic questions include age, gender, experience, education, ethnicity, and type of course (online, traditional). Demographic questions will be used to help profile the sample wherein descriptive information in aggregate form about willing participants will be analyzed.

The DIT is a component model of moral development devised by James Rest in 1977. An initial review of the literature indicates that the DIT-2 has been a standard in measuring morality levels in a variety of students for several years (Bebeau and Thoma, 2003). For example, Venezia (2008) stated that the DIT has been used to measure morality in accounting students, and that gender had an effect on DIT scores. A review of the literature reveals that, while there have been discussions about using online resources to teach ethics, little has been done to ascertain the difference between DIT-2 scores in online vs. grounded learning environments.

The subject's task is to read a moral dilemma, and rate and rank corresponding statements in terms of their moral importance. A Likert-type scale is used in the DIT to assess level of morality on five moral dilemmas. Three schemas of moral reasoning are assessed including: (a) Personal Interests Schema (considering what will benefit me and help others to like me), (b) Maintaining Norms Schema (considering what will maintain the law and social order), and (c) Postconventional Schema (considering human rights and other moral principles).

The DIT-2 includes five hypothetical moral dilemmas, each followed by 12 issues (60 questions total) that could be involved in making a decision about the dilemma. Participants are asked what decision they would make in each dilemma and which issues they consider most important in making the decision. These responses are scored to find which aforementioned moral schema students follow in making moral decision:

An original purpose of the test was to assess transition of moral development from adolescence to adulthood. However, in 1999 the test was revised as the DIT-2 for brevity, clarity, and stronger validity. Venezia (2008) asserted that the DIT has been used in more than 800 studies over more than 25 years.

Variables

Four variables will be used in the study: one dependent variable, two independent variables, and one covariate. The interval scaled dependent variable is the Defining Issues Test (DIT-2) while the two nominal scaled independent variables are Group Type (Control, Experimental) and School Type (online, traditional). The covariate is the interval scaled DIT-2 pretest, which will be used to control for natural differences in morality of participants.

Data Collection

A letter of introduction and a link to a demographic survey and DIT-2 will be sent to prospective students. Names and emails will be provided by appraisal schools scattered across the US. Schools and students will be assured of student confidentiality in an introductory e-mail. All students in each course will be asked to participate, with varying percentages from each course actually volunteering. Invitations will be e-mailed to prospective subjects once IRB approval was obtained.

Before taking the 7-hour USPAP CE course a letter of introduction, a DIT-2 questionnaire, and a demographic survey will be distributed to all participants. Additionally, an Ethics Module will be distributed to some of the participants randomly. All material will be made available via online links. After taking the USPAP course participants will be given the second DIT-2. Again, a link will be provided so students can take the online version of the DIT-2.

A defined sample of participants will take an Ethics Module before the USPAP course, but after the DIT pretest. This EM has been based on modern design principles for case studies in ethics instruction (Bivins, 1993; M. W. Keefer, 2005; The Hastings Center, 1980). According to these authors, case studies are an important tool in the instruction of ethics. Online students will take the introductory survey, pretest DIT-2, Ethics Module, USPAP CE Course, and posttest DIT-2 entirely online. All components will be available through an online Survey Monkey survey, with the exception of the USPAP course, which is offered through the school's platform. Instructions will be provided online prior to beginning the introductory survey. Grounded students will attend the appraisal school's USPAP course in a face-to-face classroom environment, with the introductory survey, pretest DIT-2, Ethics Module, and posttest DIT-2 offered in an online format. Grounded students are those who take a class in a face-to-face environment.

Data Analysis

A 2 x 2 analysis of covariance (ANCOVA) will be conducted to address Research Question 1. ANCOVA analysis is a statistical method used to study if the dependent variable (DIT-2 posttest score) is affected by instruction type or school type after controlling for DIT-2 pretest scores. The analysis procedure will be conducted using the Statistical Package for the Social Sciences (SPSS) software program, Student Version 20.0.

Components of ANCOVA include a pretest, posttest, and specified independent variables. The pretest can be called a *covariate* (Trochim & Donnelly, 2007, pp. 200-201). The covariate is co-varied with the outcome variable or posttest to remove variability or noise. Therefore, the ANCOVA design is considered a noise-reduction design. A covariate reduces noise by reducing the variability in the posttest, while preserving the difference between the groups; a covariate is the variable adjusted for in the study (Trochim & Donnelly, 2007).

The ANCOVA design adjusts posttest scores for variability on the covariate (pretest). The pretest is usually the likely candidate to be adjusted as a covariate, because the pretest is usually the variable that is most highly correlated with the posttest. When the pretest (covariate) is subtracted, extraneous variability is removed from the posttest (Trochim & Donnelly, 2007)

The raw DIT-2 data will be sent to the testing center in Minneapolis, the Center for the Study of Ethical Development ("Center") for processing. The results will be returned for further statistical analysis, including the ANCOVA. Of particular import are the P and N2 scores which translate into moral development levels. The report consists of:

1. A case processing summary for the first set of indices.
2. Individual participant output: Developmental Indices. This has the P and N2 scores by ID number, and whether scores were analyzed or purged due to irregularities.
3. A case processing summary for the developmental profile and phase indices.
4. Individual participant output: Developmental profile and phase indices.
5. A case processing summary for the experimental indices.
6. Individual participant output: Experimental indices. This includes more indices, such as the Humanitarian Liberalism, Number of cannot decide choices, and a Religious Orthodoxy (proxy measure) index.
7. A case processing summary for the reliability indices.
8. Individual participant output: Reliability checks and additional DIT scores. This numbered listing of respondent ID numbers is followed by New Checks total score, Meaningless item check, and Antisocial score.
9. A case processing summary for the demographic variables included with DIT-2.
10. Demographic variables.
11. Report. The last two pages of the report represent descriptive summary statistics.

12. Computer files accompanying the report (Bebeau & Thoma, 2003, pp. 17-18).

The moral judgment scores are described as follows: DIT items center around three moral theories: "Arguments that appeal to personal interests (Personal Interest), to maintaining social laws and norms (Maintaining Norms), or appeal to moral ideals and/or theoretical frameworks for resolving complex moral issues" (Postconventional-P score; Bebeau & Thoma, 2003, p. 18).

The Maintaining Norms score relates to Stage Four moral development in the Kohlbergian scheme, which pertains to maintaining Law and Order (Bebeau & Thoma, 2003, p. 18). The Postconventional Schema Score relates to the postconventional stages of Kohlberg, namely Stages Five and Six. The N2 score is a newer addition to the DIT-2 and bolsters construct validity over the old P score. "The N2 score has two parts: the degree to which Postconventional items are prioritized; and the degree to which Personal Interest items (lower stage items) receive lower ratings than the ratings given to Postconventional items (higher stage items)" (p. 19). The report submitted by the Center has the moral schema scores required for additional analysis in the afore-mentioned ANCOVA, plus a host of schema scores that can aid in further data analysis, such as the Maintaining Norms score.

Summary of Methodology

The methodology used to conduct the research has been discussed. This study employed a pretest-posttest, quantitative experimental design (Trochim & Donnelly, 2007, p. 200). The purpose of this study is to provide an increased understanding of how the 7-hour USPAP course might affect the morality levels and cognitive development stages of appraisal students maintaining their appraisal licenses. The DIT-2 will be administered online prior to the USPAP courses and then again after the USPAP courses. The data gathered from the DIT-2s will be used to ascertain if there is a statistically significant difference between subjects who took the USPAP with or without an EM, and whether there is a difference between subjects who took the USPAP grounded or online. ANCOVA will be used as a basic analytic tool to determine group differences. A quantitative methodology is best suited to the DIT measurement instrument, and Rest (Rest et al, 1977) developed the DIT to be used in conjunction with quantitative methods.

In the coming months participants will be evaluated and results analyzed, at which time the interpretation of the results will be published.

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SOCIAL RESPONSIBILITY OF A UNIVERSITY – CHALLENGE, COMMITMENT OR CHANCE FOR EDUCATIONAL INSTITUTIONS

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The background of social responsibility

We can read about the issue of responsibility for one's actions as far back as in ancient writings. In his works Aristotle stresses the significance of ethical action. He emphasizes the appropriate use of material goods and he calls justice an ethical virtue. In the modern times the importance of personal choice and values have been pointed out by J.P. Sartre. Elements of responsibility for acting in accordance with the precept of norms which stem from the human nature can be found, among others, in K. Wojtyła's "Ethical Primer" (Wojtyła, 1999, pp. 38-39). It is difficult to assume the existence of one universal ethics for the whole world. However, all human kind relies on certain assumptions of certain ethical systems. This view is shared by R.C. Salomon, who says that "there exist many sets of values and rules depending on context, society or subculture" (Sartre, 2007). Other authors, such as A. Lewicka-Strzałecka, claim that "responsibility is a category with a cognitive and practical quality for the analysis of economic life" (A. Lewicka-Strzałecka, 2006). The business and society theory presented by S.L. Wartick and P.L. Cochran presents a critical attitude towards the neoclassical tradition of an economy based on growth, which assumes that business actions which ensure gaining a maximal profit, within legal regulations, are the only responsibility business bears before society (Wartick, Cochran, 1985, pp. 758-769). Multidimensional actions undertaken in accordance with Wartick and Cochran's model of social action not only increase competitive advantage but also create an added value for society.

The genesis of social responsibility, according to J.J. McMillan, has its source in the lack of interest in taking care for others. Nowadays it is organisations that deal with that issue. The increasing universality of this phenomenon results from the powerful development of economy, companies, institutions, etc. (McMillan, 2007, pp. 15-29). The idea of social responsibility has been evolving alongside the civilizational and economic development. Since the 1960s the issue of social responsibility has become "an important problem not only for the business sector but also for the theory of law, politics and economy" (McKie, 1974). In E. Peyro's opinion the greatest interest in social responsibility, recorded in the 1970s, was a consequence of a coincidence of many ecological disasters and of an economic crisis (Peyro, 1997, pp. 681-703).

The idea of social responsibility, then, stems from many historical breakthroughs and is connected with the development of societies but above all with the progressing civilizational development. The dynamic economic development has only enhanced and emphasised these phenomena. The process of society's realisation of the awareness of its needs has been slow and multidimensional. It seems, however, that currently both organisations and their stakeholders are aware of their aims and needs to a degree that allows us to expect a further development of this idea in the future.

The vision of full, and indeed comprehensive, responsibility of organisations for their actions seems to be increasingly prevalent. Beside their economic results, social effects of organisations' actions will also be subject to assessment. The most important thing, however, is how such actions influence the improvement of the quality of life of the whole society (Kanter, 2011, pp. 48-49). Universities play a substantial part in the dissemination of the idea of social responsibility of enterprises. By incorporating those issues in their curricula universities influence the awareness of future social and economic leaders. The constantly growing number of consultants, legal regulations and international actions promoting socially responsible business and the practice of social reporting are of no less importance (Utting, 2003, pp. 6-9).

Along with economic development, the increased intensity of globalisation has increased the expectations and requirements that society has towards organisations, businesses and other public or social and economic institutions. In these circumstances, higher education institutions, due to the role they play in social and economic development, have to face particularly high requirements. They form future elites, they participate in the process of the development of a knowledge-oriented society and they examine the surrounding environment. It seems then that the implementation of such important tasks requires socially responsible actions from universities.

The term *corporate social responsibility* (CSR) is determined by the meanings of three words: society, responsibility, business, and it describes the relations between enterprises, or other organisations, and societies. It also describes the scope of responsibilities at both ends of this relation. *Society* must be understood in its broadest sense so that it encompasses all potential stakeholders of an organisation, i.e. those who may hold any interest in its current or future activity (Werther, Chandler, 2006, p.6). One may say

then that the term *social responsibility* identifies a subject, i.e. an organisation, and gives us knowledge on this subject by presenting it as a party in a social contract with society (Bergesteiner, Avery, 2010, pp. 8-33).

The issue of stakeholders was first dealt with when it was discovered to what degree any activity influences society. Such an interaction may be beneficial but it may also cause expenses. The stakeholders theory undermines the commonly accepted and privileged position of shareholders. Now it is not only shareholders who can influence management and expect ethical actions from it. The thing is that organisations influence all stakeholders and they have the right to submit their expectations towards those organisations (DesJardins, 2006, p. 66). Although the stakeholders theory emerged quite a long time ago its most dynamic development took place in the 1960s. It was discussed in the works of E. Rhenman, I. Ansoff and R. Ackoff and their disciples. It is associated with the very old tradition which sees economic activity as an integral part of society, not a separate enterprise of an economic character independent of society. In the 1980s a new management theory appeared – *stakeholder management* – which systematically takes into account those groups which influence organisations or are influenced by them or, in other words, stakeholder groups. Back in the 1980s and at the beginning of the 1990s the numerous transformations resulting from ecological disasters, financial scandals and the evolution of the notion of business ethics led to doubts concerning the issue of whom organisations should serve – their shareholders or their stakeholders (Freeman, 1996).

The issue was also researched by A. Stark. In his opinion the stakeholder theory appears to be one of the most influential ones among the theories which emerged within the idea of corporate social responsibility (Stark, 1994, pp. 38–48). Similarly, K. Gibson claims that the stakeholder theory is at the core of business ethics (Gibson, 2000, pp. 245–257). R.F. Gago and M.N. Antolin, in turn, say that it is a foundation for further studies and the development of the practical side of social responsibility (Gago, Antolin, 2004, pp. 65–76).

The presumptions of the stakeholder theory reject the privileged position of stockholders in favour of stakeholders. The introduction of the notion of stakeholders and the development of that concept allowed for an explanation of the complex relations between organisations and their environments. Mature organisations appreciate the need for social sensitivity and their stakeholders' expectations are at least as important as those of their founders or owners.

Because they deal with the transfer of knowledge and research universities are important social and economic institutions. Playing the part of centres of knowledge and skills requires them to form and maintain appropriate relations with their stakeholders. It seems important then to examine whether the issue of social responsibility may be referred to universities and how this issue is perceived by stakeholders. At the same time it is important to know if universities develop their own development strategies guided by the rules of social responsibility and stakeholders' identified needs.

The key issue for university managers is to determine precisely the final recipient of educational services – students, parents, potential employers. It is still a current question then whom a university really serves and what environment it functions in. Universities must pay constant attention to the balance between expectations and needs of students, authorities and society in its broad sense, i.e. all university stakeholders (Hazelkorn, 2004, p. 136). It is not uncommon that an educational service does not meet the expectations of potential students or even totally misses them. It is also possible to imagine a situation where the service goes far beyond the students' future needs (Caesar, Baker, 2004, p. 213).

A long term strategy based on previously delineated objectives is at the core of any university activity. It seems to be important then to examine to what extent the strategy includes actions which meet stakeholders expectations. It is also important to determine the rules of the development and implementation of a strategy based on the concept of social responsibility. The question must also be answered whether the manner in which universities are managed meets stakeholders' expectations and whether universities themselves are willing to respond to suggestions from their social environments.

To that purpose a detailed research was designed and a comparative analysis of the aims and strategies of selected universities was conducted. On their basis the level of social involvement of the universities was assessed. The foundation of the multi-level research, which encompassed all university stakeholders, was the assumption that university managers undertake pro-social actions more and more actively, thus significantly modifying their strategic plans. This first stage of the survey made it possible to arrive at the expected results of the research enterprise (Szreder, 2004, p. 31). We are talking here about the project "Social Responsibility Of The University As Perceived By Its Stakeholders" which was conducted in the years 2007-2010 under the direction of the author of the present work (Geryk, 2010, pp. 5–6)⁹⁶. The results of the research led to the formulation of the following research thesis:

⁹⁶ In the remaining part of the monograph this work will be referred to as the report.

Socially responsible actions of universities are expected by all stakeholders. They also benefit both society and schools. Therefore such actions should find their implementation in the strategies and missions of educational institutions.

A theoretical introduction to the issue of social responsibility was presented in the first chapter of the report. It described the issue of responsibility in social and economic life which derived from the western philosophy. The historical take is based on the *Nicomachean Ethics* by Aristotle, where responsibility is closely connected with justice. The development of the idea was presented through a discussion of the changes in the Victorian period in England and the social relations in the 19th-century America. However, a rapid development of the idea of social responsibility dates back as early as the "reform era", i.e. the years 1900-1920, and the next impulse for its development was in the 1950s. A social debate was begun then on social issues, which was later extended in the 1970s alongside the increased interest in privatization, deregulation, the scope of social benefits or trade limitations.

The second chapter of the report was dedicated to the pro-social issues in university management. The increased need for social values in societies has resulted in the development of organisations based on universal values. The dynamics of the development and the mobility of academic circles induces structural changes in universities all over the world. Being social institutions they follow certain values which are common to the higher education environment. An identification of social needs and a significant change of strategic assumptions is a way to increase the quality and accessibility of educational services. It should lead to the effective implementation of the assumptions of social responsibility in missions, visions and strategies of universities. It is a task of universities, in broad terms, to popularise the rules of social development by raising intellectual levels of individuals. At the same time, thanks to the possibility to form their graduates' attitudes, they influence the dissemination of civic ideas and attitudes. The key to develop the right relations with their environments is the sensitivity of educational institutions to their needs.

The aim of university activity was described as supporting the development of society through emphasising the role of universities in their local environments. Pursuant to the assumptions of the education policy, consistent with the requirements of the Organisation for Economic Cooperation and Development (OECD), the World Bank and the European Union, education is supposed to build human and social capital and prepare individuals to function in an information society and in a knowledge-based economy.

Appropriate education was presented as a way to prepare graduates who, thanks to the skills and ethical norms they have acquired, will be conscious and committed employees, thus benefiting the whole society. An accumulation of such actions should lead to the release of social capital, which is a basis of democracy.

In this chapter areas were presented in which academics should demonstrate greater creativity while propagating new ideas. It ought to be assumed that the facilitation of innovativeness and competitiveness processes by universities constitutes a long term factor in society development. The tendency for the facilitation processes to grow was described as an effect of the development of a knowledge-based economy (Boguski, 2008, pp. 55–64).

Guidelines for scientific research and for staff education were also formulated for those universities whose strategies are socially responsible (Geryk, 2008, p. 381). At the same time, pursuant to P.F. Drucker's statement, suggestions were presented as to how universities should be run in order to become organisations which learn, seek new innovative ideas and finally ones which may be considered truly 21st-century organisations (Drucker, 1995, p. 15).

In chapter three an analysis of the process of management strategy formulation under the influence of stakeholders was made. While attempting to identify those expectations it was discovered that the biggest problem universities face is the constant search for the balance between the expectations and needs of students, authorities, and society in its broad sense, i.e. all university stakeholders (Hazelkorn, 2004, p. 136). It must be borne in mind that educational services do not always meet the needs of potential students. They sometimes even miss them completely. It is also likely that the services will go far beyond the students' current and even future needs (Caesar, Baker, 2004, p. 213). At the same time, stakeholders are seriously interested in universities' achievements in implementing their strategic objectives. As A. Guskin and M. Marcy write, "this century higher education experiences a paradoxical situation in which it is much more critical in relation to the future of society while at the same time being under a strong pressure to prove their usefulness in educating students and to convince society as to the legitimacy and effectiveness of the resources spent to that purpose" (Guskin, Marcy, 2002).

In response to stakeholders' expectations universities ought to develop their own corporate codes of ethics, which are a specific set of explicitly expressed values essential to the universities, their employees and also other stakeholders. The significance of codes of ethics and the huge need for development of this issue was shown by W. Gasparski. In his Polish research he noted that in a 38-million country as few as 6 thousand organisations have their codes of ethics. He pointed to their fundamental significance for the appropriate functioning of ethical programmes (Gasparski, 2002, pp. 142–150). For a strategy to be successful decision

making is a key issue. So the quality of thinking of managers of organisations is of crucial importance. The leader must impose a high discipline of thought on their subordinates. It is essential for the ability of the whole organisation to undertake effective actions concerned with the choice of the directions of changes taking place in the whole sector. A strategy describes both the changes which the organisations intends to introduce as well as those which it has decided to avoid (Porter, 2005, pp. 161–185).

In chapter three the main tasks of a leader of an educational institution were described – team development and effective motivation of teams to achieve an organisation's aims (Homan, Hollenbeck, Humphrey in., 2008 pp. 1204–1222). The disparity between the strategic aims of universities and the aims of enterprises was pointed out. The differences in operation within financial regimes and the relations which influence them were emphasised (Cowling, 1998, p. 5). Besides, the relatively small changes in university management were pointed out. For a better presentation of the problem examples from the British market were used.

Chapter four presented the results of the research conducted on the rules which Polish universities follow while implementing the concept of social responsibility. The universities' activity in this respect were pointed out. Also, synthetic conclusions concerning the right solutions for an effective implementation of the key postulates were formulated. It was pointed out how respondents defined the notion of social responsibility of university. It was also highlighted that actions of universities should be directed at their broad environments, they should not be narrowed down to their students only, who are sometimes identified as the only stakeholders. Original postulates concerning the directions of socially desired actions which should be undertaken by universities constitute an important part of the work. Finally, the broadly understood promotional benefits for universities implementing the rules of social responsibility were noted.

The issue of social responsibility of the university is practically non-existent in Polish scientific publications. This topic is written about more frequently in foreign publications. Most frequently, however, one encounters studies concerning social responsibility of companies and entrepreneurs. However, comprehensive analyses of the role of the university and its influence on the development of its local environment are missing. The development of appropriate relations of the university with its environment ought to be included in its mission and the unique role of higher education organisations predetermines them to play a particular role in the development of the desired social attitudes.

The importance of the issue of social responsibility of universities is also shown by the fact that Google returns nearly 15mln results for *social responsibility of university*. It shows how pertinent it is to refer the notion of social responsibility to education institutions but it also presents how serious the interest in this problem is (www.google.pl, 17.10.2010.).

Social responsibility in the author's own research⁹⁷

Subject and aim of the research

As it was mentioned before, in the years 2007-2010 the project "Social Responsibility Of The University As Perceived By Its Stakeholders" was carried out. The initial period was spent on working out its presumptions, formulating correct objectives and selecting research methods and techniques. The final stage was the interpretation of the collected data and the preparation of the publication in the form of a research report. Marcin Geryk Ph.D. was head of the project and the task was financed by the Gdańsk Management College. The aim of this project was to examine the position and role of social responsibility in the process of higher education management. The key issue of the research process was the characteristics of social responsibility in the sector of higher education and an attempt to evaluate the influence of activities in this area on improvement of management in a short-term as well as long-term perspective. It was just as important to enquire as to whether the management methods in higher education institutions meet the expectations of their stakeholders and also to what extent schools, both state and private, see it as necessary to analyse their opinions.

The main aim of the research was to attempt to confirm the statement that there is a fundamental influence of social responsibility on the management process of a higher education institution, which should make it possible to collate important clues as to what actions are expected by its stakeholders. This statement should find its application in the implementation of the results by higher education institutions. Research results obtained in particular groups of school stakeholders will provide some important guidelines. The complexity of those actions may contribute to the improvement of the image of higher education and

⁹⁷Detailed results of the research may be found in the report "Social Responsibility Of The University As Perceived By Its Stakeholders" which was translated into English and Chinese, M. Geryk, Warsaw School of Economics 2011.

substantially increase its role in the forming of a modern society as well as develop a knowledge-based economy.

Research topic

The research was also conducted in order to find out to what extent socially responsible actions are concerned with the management process of a school and are socially-oriented, and to what extent they are an element of marketing activity. To that purpose a comparative analysis of the aims and strategies of some higher education institutions was conducted, which allowed an evaluation of the level of social involvement of the institutions. The factors taken into account by the author were: the moral attitudes of the management, models of management, and organisation culture. It was extremely important to examine the process of the development of the mission, the vision and the strategy of a school as well as the manner in which schools identify problems and avert situations that are undesirable from the point of view of their stakeholders' expectations.

The author assumed that through the use of the multi-stage research he will obtain important guidelines as to what pro-social actions are expected by stakeholders of a higher education institution. He evaluated the current situation and the perspectives of actions planned by a higher education institution in the respect of social responsibility. It appeared to be fundamental whether and to what extent the schools attach any importance to developing good relations with their environment and whether they recognise the need to establish any relations with their stakeholders. Such a construction of the research made it possible to evaluate the current actions of a school and to draw out some perspectives for actions that should be taken by every school which has in mind the good and the expectations of its stakeholders. As was expected, the research provided answers as to what role is played by relations with the environment in the practice of school management. In order to achieve that objective it was also necessary to examine whether schools develop their model of social interaction in a proper manner. The reasons to undertake those actions seem to be an interesting aspect of the research: to what extent are they inspired by the development of a school's position and its competitive advantage, and to what extent are they an interaction whose actual aim is to build social relations. In order to determine to what extent the conclusions from the domestic research are synonymous with the guidelines of the management in schools in Europe and on other continents research was conducted among more than one hundred foreign institutions of higher education.

Research methods and techniques

The author conducted both qualitative and quantitative research. Qualitative research answers such questions as: how? or why? It is the first stage in recognising phenomena before their quantitative diagnosis and it constitutes a basis for the proper construction of tools for quantitative research. It is also a method used to explain issues which cannot always be recognised by means of classical research methods. It presents research problems in a broader context. It is more process-oriented and its aim is to reach the essence of the problem. It does not envisage solutions a priori. On the other hand, quantitative research makes it possible to evaluate the volume of phenomena within a population and to verify hypotheses. It is unbiased and it applies standardised tools of statistical verification. The researcher has a limited influence on the researched subjects. Certain categories and expectations are defined before the research is conducted, and the research is to find relations among them (Nikodemaska-Wołowik, 1999, pp. 28–31). It is accepted that quantitative methods describe the researched phenomenon numerically and they are expressed by some mathematical model; whereas qualitative research is used to evaluate phenomena which cannot be described numerically (Mikuś, 2003, pp. 35–36).

On account of the new concept of referring the issues of social responsibility to higher education institutions and on account of the significance of the problem the author decided to develop a set of empirical tests. Their aim was to determine, as accurately as possible, whether the hypothesis of the influence of social responsibility on the management process in a higher education institution is justifiable. To that purpose a complex set of tests was devised and conducted. It consisted of the following stages:

- stage one – qualitative research of the question whether the rules of social responsibility may be applied to higher education institutions;
- stage two – qualitative research conducted among stakeholders;
- stage three – quantitative research conducted on a 300-person sample of representative adult inhabitants of Gdańsk, Sopot and Gdynia;
- stage four – quantitative research conducted on a representative sample of inhabitants of Poland ($n = 500$), whose aim was to describe, among other things, the perception of the significance of various actions taken by business organisations and institutions and to describe the level and scope of satisfaction of stakeholders' expectations by higher education institutions;

- stage five – quantitative research conducted on a sample of 81 managers in higher education institutions, whose aim was to evaluate the institutions' involvement in terms of social responsibility along with the analysis of the influence of this involvement on the institutions' management;
- stage six – quantitative research among representatives of higher education institutions from all the continents ($n = 122$), whose aim was to identify pro-social activities and to attempt to compare the awareness of necessity of pro-social activity.

Conclusions

The analysis of the market of stakeholders' needs conducted by the author on the basis of multi-stage empirical research allows for a pronouncement that universities are more and more intent to take into account the needs of their local communities. It seems to be a common phenomenon, yet what is more important, it is also one very much looked forward to by society. In the opinion of the author of the research project, the nature of the interactions between an organisation and its stakeholders needs particular emphasis. It is so because the quality of the relationship with stakeholders is one of the main determinants of the social responsibility of an organisation. The key issue is to find a common ground for dialogue among the three leading groups: society, entrepreneurs and the authorities responsible for the regulation of the market environment (Hawkins, 2006, s. 273).

Each group has different aims. However, it is only when they are understood all together and integrated actions are accepted that true co-operation, the growth of the market position of the organisations, and an improvement of living conditions in the communities that is in line with the legal and customary order may take place. The notion of social responsibility seems to be clear for the respondents. It is normally defined as running a university in accordance with the legal and moral norms. Additional actions for society are considered positive, but they are just that: additional actions. They are rather underestimated by the university managers. Sometimes it is a result of a lack of funds for the kind activity which seems to be costly and does not yield tangible benefits. However, there is also an opinion that universities should not busy themselves organising charity actions, they had better focus on the primary aim of their activity, which is the education and formation of young people. The university representatives focus the most attention on the latter issue. Being academic teachers themselves, they are very much involved in ensuring a top level education. They also emphasise the significance of having ethical and polite personnel.

The attitude towards social responsibility would most probably be different in the case of people responsible for the management or marketing of a university. The rectors and vice-rectors, as it appears, are not quite interested in this issue. Of course, there were exceptions but they concerned smaller universities. A relatively small involvement in social responsibility does not suggest a complete lack of knowledge on that matter in relation to the managers' own universities. Some of the respondents mentioned spontaneously, and most of them did that when prompted or asked additional questions, the pro-social actions undertaken by their own universities.

However, the university representatives' knowledge on these types of actions organised by other universities is minimal. Despite the rather traditional approach to social responsibility it is plain to see that the rectors and vice-rectors of higher education institutions present a much more modern attitude towards marketing activity. Not only do they not consider them as unethical but they also express the opinion that they are necessary for universities. Moreover, they may benefit universities and, as a result, their students themselves. A conclusion may be made that a greater popularisation of the notion of social responsibility and its actions as well as a greater awareness among universities of the benefits they may bring, will lead to the situation where in the future those actions will be as common as marketing actions are now.

The respondents have a certain difficulty understanding the notion of social responsibility. Some of them mistake it for collective responsibility. Attempts at defining the notion were normally made from the point of view of an individual. This kind of social responsibility means being accountable to the world for what we do. It is also being aware of our role in a community. We are able to define our significance in a community and, depending on the situation, make choices on whose interest is more important. As for the social responsibility of institutions and companies, the respondents do not always accept this approach. Some of them claim that collective responsibility does not exist and it must actually be investigated as the responsibility of each individual. Some people define social responsibility as the accountability to the world for an institution's offers. There was also an opinion that the social responsibility of business is really PR activity, which must be treated with a certain degree of distrust.

When talking about the social responsibility of higher education institutions, most of the respondents focus on the primary activity of schools, i.e. the education and formation of young people. In their opinion, the very mission of universities expresses social responsibility. Higher education institutions should only make sure that they operate honestly, bearing in mind that they do it for society. Such an attitude may result from the minimal knowledge on social responsibility, or from an informed choice of what universities' actions focus on (there were opinions that universities should not get involved in charity actions because it is not their task).

The respondents expand their understanding of the social responsibility of the university into the following issues:

- 1) teaching certain values and moral standards to young people (this is not, however, a task of the whole of the university, it is the job of individual lecturers),
- 2) teaching creativity (so young students can find their bearing on the volatile job market),
- 3) influencing society's views,
- 4) educating young people in accordance with society's and the market's requirements (not according to trends, which would be beneficial for universities),
- 5) running universities in accordance with the legal and moral norms,
- 6) university activity as an ethical model for society.

It is plain to see, then, that the respondents understand social responsibility as responsibility to two types of stakeholders: the students themselves and the whole of society, university graduates being its members. Social responsibility in this understanding is limited to influencing students, universities being involved in their primary functions. No other additional actions of higher education institutions appear in the respondents' spontaneous statements. However, two respondents (from schools of economics) pointed out that the aim of a higher education institution is, among other things, influencing society.

The quantitative research yielded interesting results. The respondents claimed that the main factors motivating universities to undertake pro-social actions are: the wish to develop their image (87%) and the perspective of benefits which is connected with it (82%). It follows, then, that in the respondents' opinions universities' pro-social actions are not always inspired by the wish to develop mature relations with their stakeholders. In the respondents' opinion the perception of universities as socially responsible organisations may improve their image and significantly influence the strength and valuation of their brands. Interestingly enough, the factor "a sense of moral duty" had quite a high incidence (74%). The respondents pointed to the example set by other schools a little less frequently (65%).

Society's expectations on being informed on universities' pro-social actions confirm the research results. Most of the respondents expect to be informed about how universities support pro-social initiatives or what pro-social actions they undertake themselves. It is most likely that the respondents consider universities to be public institutions which should be as transparent as possible in every aspect of their activity. The respondents assume that universities undertake many pro-social actions, however, the information on these ventures are not made public adequately.

The notion of the social responsibility of the university itself is not commonly known. 24% of the adult citizens of the country had come across this notion. However, it appears that every fifth member of that group, when asked to define it, could not do so. In such a situation the actual incidence of the spontaneous perception of the social responsibility of the university oscillates between 19% and 20%, which, on the other hand, may be interpreted as quite a good result, given the rather low or occasional interest of the majority of Polish citizens in universities' actions. The perception of the notion is, as it appears, irrespective of sex, age or education.

The quantitative research results conducted on a representative sample of adult Polish citizens demonstrate how difficult it is to define the notion of the social responsibility of the university. It demonstrates itself in the variety of the replies to the open question of what, in the respondents' opinion, is the social responsibility of the university. Again, the question was asked to all the respondents, regardless of whether they had come across this notion before or not. A high level of education had a relatively frequent incidence (18%), followed by a very sketchy formulation of the responsibility of universities for their students, personnel and society (8%) and the preparation of students to living within society (6%). Only 4% of the respondents pointed to universities' actions for their local communities. More than 42% of the respondents did not demonstrate any knowledge on that matter.

In the times of increased competition and the demographic low the need to improve their image makes state and private universities be interested in actions which go beyond the regular offer of educational services and scientific development. It was the wish to improve their image and develop their brands that were pointed out as the main reason why universities undertake pro-social actions (93%). This result corresponds with the growth of competitiveness and the improvement of the position of universities in the educational market (91%) as well as the aspiration to improve their relations with local communities (89%). It should be pointed that the fact that other universities do that too (74% of incidence) motivates for action less often, and the influence of the public opinion or public pressure is slightly smaller (71%). People with a higher education (i.e. those who once had contact with a university or are still dealing with one) voice the opinion that universities are motivated by moral duty when undertaking pro-social actions significantly less often than the respondents at large (68% in the face of 84%). They put more stress on commercial reasons, such as image improvement, the need to develop their brands or better relations with local authorities of various levels.

The vast majority of adult Polish citizens (92%) support openness in the universities' information policy concerning pro-social actions. The opinions begin to differ when it comes to deciding how the

information should be delivered – whether it should be by the announcements of the university itself (43%), or whether it should be by audit conducted by an independent organisation (49%).

The notion of the “social responsibility” of the university is little known among Polish people (barely 19%), which is a result of the minimal knowledge on how the sector of higher education operates. Social responsibility of the university is identified mainly with a high level of education and, in general terms, with a sense of responsibility for the process of education and scientific research, graduates and the country as the beneficiaries. Actions which are strictly pro-social are very rarely mentioned spontaneously. The respondents notice the differences between pro-social actions of state and private universities, however they cannot describe them. University actions for environment protection, health care, or for various groups of stakeholders are considered as very important. The respondents placed less importance on supporting academic sport.

Universities undertake pro-social actions mainly because they want to improve their image, develop their brands or improve their relations with authorities, which does not fundamentally influence their image. The public creates its image of a university on the basis of its speculations and the knowledge it has on the quality of education, and on the size and level of the scientific and didactic personnel. Support for the education of children and young people is commonly approved, however, it should not come in the way of the fundamental aim of the university, which is education at an academic level and development of science. The public is interested in the nature and types of university actions for the social environment which go beyond the education and research processes. The support for evaluation of these actions by an independent auditor was slightly bigger. The last stage of the research (quantitative research among universities from all around the world) yielded inspiring results. The present study was an opportunity to verify the perceptions of university managers, from all continents, regarding the actions of universities for the benefit of their social environment. Thanks to the participation of university representatives from 46 countries it was possible to examine social responsibility from a multidimensional perspective.

The notion of social responsibility of the university itself is not unknown to the universities' representatives, one might say – it is something quite natural. Merely in a few cases, out of 122, respondents claimed that they had not encountered this notion in a university context. The notion must be considered in two ways. The first pertains to such a formation of the educational process that university graduates leave their schools as individuals who are not unfamiliar with the notion of social responsibility and who, in their professional lives, will undertake various non-commercial actions for their social environment. The other refers to universities undertaking such actions themselves. A socially responsible university should offer its students the best possible education, prepare them to live in the modern society, educate ethical and responsible managers and specialists required by the structure of the job market, only then should it act for a local environment that is not directly associated with the school (e.g. secondary schools or cultural institutions).

Most of the university representatives (56%) did not observe important differences in pro-social actions between commercial and state universities. The remaining ones pointed to the role of state universities which should, so to say, *ex officio* be more involved in the social development, whereas private universities, on account of them charging for their tuition, must emphasise their pro-social nature by a more flexible formation of their educational offers, a development of better relations with the business environment or more personalised students/personnel relations. The following are the main reasons mentioned by the respondents why universities undertake pro-social actions: aiming at improving relations with the social environment (92%), the wish to develop their brands and improve their image (89%). This result corresponds with increased competitiveness and the improvement of their position on the educational market (81%) and – which is interesting – a sense of moral duty (84%).

One may notice some differences in the assessment of the influence of certain factors on universities' perceptions among respondents from different continents. The representatives of North American and Asian universities stressed the role of the number of courses on offer slightly more often than the average of the whole sample (52%-56%, the average for the whole sample being 41%). On the other hand, the European universities stress the number of students in this context, i.e. indirectly, the size of the school (54% of the indications, the average for the whole sample being 46%).

In the respondents' judgment, an evaluation of curricula conducted by accreditation institutions has the biggest influence on a university's image (73% incidence). The second important factor influencing the opinion on a university is the number of students (46%); the third one is the number of profiles on offer (41%). The actions that are not directly related to the educational process, i.e. broadly understood actions for communities, change the image of a university in the opinion of 40% of the respondents. It is worth pointing out, however, that the representatives of the universities from the United States and Canada place the least importance on that factor (only 11% incidence).

The most popular actions undertaken by the participating universities in the past academic year were environment protection projects (73%).

The aim of the research conducted among foreign universities was to supplement the results obtained in the previous stages and demonstrate potential differences in attitudes towards certain matters between the Polish universities and the foreign ones. The part of the research conducted abroad made it clear (similarly to what the domestic part had demonstrated) that the respondents understand the notion of social responsibility in two ways – as the responsibility of the university itself and as the education of socially responsible graduates. The international and the domestic hierarchy of pro-social actions do not differ much from each other. In ranking the importance of the actions, it is support for the students with distinguished academic achievements that comes first, and then come fair treatment of employees and respect for their rights, environment and relics protection. A comparison of how important potential actions for the local community might be with the importance of potential actions for the whole of society did not present significant differences.

The idea of social responsibility of the university

The transformations that have taken place in higher education in the past decades have sprung from different backgrounds. The progressing globalisation has led to a greater openness of higher education markets, thus giving rise to a significant growth of international exchanges of students and university teachers. Simultaneously, the noticeable demographic low in the highly developed countries has resulted in an increased recruitment action in the rising markets, mainly in China and India. It has led to the situation where it is relatively easy to compare the educational services offered by universities.

The analysis of the market of stakeholders' needs conducted by the author on the basis of multi-stage empirical research allows for a pronouncement that universities are more and more intent to take into account the needs of their local communities (Geryk, 2010, pp. 123–129). It seems to be a common phenomenon, yet what is more important, it is also one very much looked forward to by society. In the opinion of the author of the research project, the nature of the interactions between an organisation and its stakeholders needs particular emphasis. It is so because the quality of the relationship with stakeholders is one of the main determinants of the social responsibility of an organisation. The key issue is to find a common ground for dialogue among the three leading groups: society, entrepreneurs and the authorities responsible for the regulation of the market environment (Hawkins, 2006, p. 273). Each group has different aims. However, it is only when they are understood all together and integrated actions are accepted that true co-operation, the growth of the market position of the organisations, and an improvement of living conditions in the communities that is in line with the legal and customary order may take place. In D.E. Hawkins' opinion "after all we will all have to accept a sustainable vision today and tomorrow eventually" (Hawkins, 2006, p. 274).

The development of a strategy requires an appropriate understanding of the social vision of an organisation. It describes the environmental, ethical and social obligations of an enterprise towards society (Burke, 2005, p. 47). It constitutes a specific guideline and aid in directing a university towards achieving its own aims in relation to its social aims. The highest form of the development of a university is when it completely integrates its educational mission with its social mission. Then its social mission is perceived as an integral part of the vision of its development. At this point a university becomes a truly responsible citizen, and the rules of social responsibility are fully integrated with its strategic aims.

D. Grayson and A. Hodges developed an interesting strategy of adaptation of the idea of corporate social responsibility which brings measurable benefits for enterprises. They described an analytical seven-stage process which shows what decisions should be taken and in what order. It leads to reaching final decisions on the basis of the information obtained successively while going through the consecutive levels (Grayson, Hodges, 2004).

As is well known, implementing comprehensive actions concerned with broadly understood social responsibility and incorporating them in the strategy of organization management may bring measurable benefits. These are, however, difficult to be clearly indicated. Besides, research conducted by K. Møller and T. Erdal confirms the fact that the strategy of implementation of the ideas of social responsibility is dependent on the different models of social environment. Nevertheless, many actions have a transnational character and regardless of the numerous differences they may find their application, with similar intensity, in countries like Sweden, the Netherlands or Spain. Many organisations are actively involved in the development of local communities. K. Møller and T. Erdal formulate the following recommendations (Møller, Erdal, 2003, pp. 78–80):

- the promotion of organisations' involvement in the ideas of social responsibility should be based on supporting and facilitating the adaptation of the idea of social responsibility;
- common initiatives which help solve issues that are important for local communities should be supported, it would make it possible to find some common ground for dialogue within those communities;
- search for ways to promote the ideas of social responsibility combined with involving as many stakeholders as possible is a task that must be continued in the future.

It is worth remembering, however, that organisations' growing interest in the implementation of the ideas of social responsibility is often inspired by the fact that evident lack of this kind of responsibility may eventually be a high price to pay. Besides, being involved in socially responsible actions is met with widespread acquiescence and social acceptance for many other actions undertaken by organisations. It is much more difficult to achieve the desired market position or safeguard the development and growth of the university (Cogman, Oppenheim, 2008, pp. 76–82).

According to public opinion, a university is an organisation based on universal values. It is a source of knowledge whose job is to inspire society, to suggest guidelines for its development and to influence future generations. Actions of universities should free social capital. After all, as educational institutions they form attitudes and disseminate the ideas of civic society. Thus the main tasks of universities are: supporting civic development by raising society's intellectual level, an adaptation of the educational process to the needs of society in the future, and particularly to the needs of the business environment, anticipation of those needs, and popularization of business ethics. The aim of those actions is to educate graduates who are sensitive to social problems and who are ready to take responsibility for their actions.

Education is a priority for modern societies. Universities are expected to contribute to science through scientific research and its dissemination – it is the fullest expression of their social responsibility. Universities, being centres of intellectual resources as well as being equipped with their research facilities, should stimulate innovative actions in their local environments. The people who create universities, academics, should be creative – they should develop and disseminate new ideas.

Universities should invest in research and be sources of innovation. They ought to participate in clusters, co-operate with business, be open to changes and popularize those changes. The effects of scientific research should be implemented in such a way that the whole society will benefit from them. Only then will universities fully deserve the title of centres of knowledge and innovation.

Social intentions should be an inspiration for all university managers. Being institutions of a peculiar area of influence, higher education institutions have to bear a greater responsibility for their actions and their social results. Such a wide area of activity is important for it brings effects which are visible in a long period of time, which may have serious implications for the shape of the society of future generations and their intellectual development.

Organisations which develop close relationships between their strategies, plans and achievements often experience a cultural phenomenon of a snow-ball effect. With time they turn their strategies into great achievements. Those synergic, socially responsible actions may facilitate the development of a new quality of educational services – a response to market demands. External stakeholders judge organisations in terms of their activity and effectiveness, measuring this activity in the categories of economic responsibility as well as in terms of fulfilling social expectations (van Dongen, 2006, p. 57).

Leaders of socially responsible organisations are more likely to take the risk of changes and it is easier for them to inspire their partners to build a powerful organisation (Mankins, Steele, 2005, pp. 65–72). The influence of universities should be subordinate to the long-term objective of freeing social capital, i.e. interactions based on the idea of co-operation which take place among individuals in their social space (Bratnicki, Strużyna, 2001, p. 128). Knowledge, skills and abilities of human resources are essential to university activity. Skilful and efficient implementation of these assets may prominently influence the competitiveness of universities (Lewandowski, 2003, p. 251).

It can be achieved by directing employees towards the aim of educating future intellectual elites. The synergistic effect, brought about by shared commitment, trust and the growing network of informal connections, causes social capital to be considered as equal to financial, material and human capitals (Rudolf, 2003, pp. 264–265).

An effective development of appropriate relations requires an initiation of and an engagement in a dialogue with those stakeholders who contribute to the narrowing of cultural gaps and to the implementation of codes of ethics. A dialogue with stakeholders and the development of mutual trust are the main aims of those actions. However, P.F. Drucker's important statement must always be remembered: a programme for an organisations activity which, in a long term, would not need to be altered does not exist. Actions must always be evaluated and improved, which means that one must not become attached to the current methods of work or providing services. Their offer always has to follow the expectations of the market and the needs of the recipients (P.F. Drucker, 2004, p. 6).

The most important message that strategic management sends is the realisation that it is business ethics that paves the way to the further development and better organisation of universities. By accepting such assumptions chances of developing a successful plan of action for an organisation are increased. It may be supposed that such actions will be appreciated by stakeholders and met with a positive reception by participants in the market of educational services. The analysis of the theoretical achievements and the results of the multi-level research allowed for the confirmation of the research thesis presented at the beginning of this work:

Socially responsible actions of universities are expected by all stakeholders. They also benefit both society and schools. Therefore such actions should find their implementation in the strategies and missions of educational institutions.

On the basis of the knowledge gained by the author, supported by theory and empiricism, the following recommendations for all university managers in the world have been formulated :

- universities should consciously integrate all their strategic and operational actions with the ideas of social responsibility;
- the relations between the university and its environment should be constantly improved;
- it must be borne in mind that practically all institutions of social and economic life and the whole of society are university stakeholders;
- efforts must be made to develop forms of providing stakeholders with information on all actions of the university, and not just those concerned with the issues of social responsibility;

and most significantly:

- university managers must be fully aware of responsibility for their actions as stakeholders put great challenges and very high ethical, moral and qualitative requirements before universities.

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BETWEEN THE MARKET AND THE STATE:

ETHICAL GOVERNANCE AND HYBRID VALUES IN HIGHER EDUCATION

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Summary

This paper explores governance in the context of higher education stakeholders, especially in relation to the hybrid case. Its focus is upon what is described as 'thick' values: promoting the authentic voice; engaged participation leading to a cultivation of solidarity; and a movement from opportunities for community to inhabiting spheres of community. The context between the market and state is considered for higher education as relevant for Central and Eastern Europe. The philosophical framework draws upon the writings of Philip Selznick and Charles Taylor. The role of responsive contractualism and response regulation is briefly outlined. The discussion has implications for institutions and organisations involved in higher education. Responsibility and autonomy are considered as part of the ethical discourse entwined with these values in proposing a different approach to the issue of governance.

Key words: Governance, hybrid, authentic voice, participation, solidarity, community, higher education, market, state, responsibility, organization, institution, welfare state, business, communitarian.

Introduction

This paper is divided as follows: Part I positions the discussion within the context of the challenges of higher education governance in the modern period. Part II examines structural links that can be mediated through innovative forms such as responsive contracting and responsive regulation which emphasise standards and principles rather than prescriptive rules. Then in Part III, the discussion focuses on an evolving set of governance arrangements with the aim of instilling and encouraging important values such as trust; participation; reciprocity; solidarity and community as the basis for a different way of conceiving ethically informed governance in higher education. This paper is contextualized against two (2) important underlying currents. The provision of higher education is mediated through organisational forms which encompass those which are state funded and controlled, private providers and what I will refer to as hybrids. We start by outlining the hybrid case scenario which has emerged in the Australian context.

Hybrid higher education scenario⁹⁸

Navigating the demand to maintain high academic standards in a more commercialised operational environment presents unique challenges and opportunities. It is one being currently experienced in the changing landscape of higher education in Australia today. Increasingly we are finding that our places of higher learning and education are becoming subject to commercial imperatives⁹⁹, whether the institution is public, private or 'denominational'. An interesting hybrid has also emerged over the last decade in Australia the area of international education. In the hybrid case, academic staff are employed by a private entity but in which the University has an ownership stake. Academic staff have employment obligations and commitments to the private entity which tends to emphasise business objectives and a concern for effective and efficient management and delivery of tertiary courses to students enrolled at the University. However, academic staff of course also have academic accountabilities to the University and to their students in all the usual ways who are enrolled at the University. What emerges is an intricate set of governance arrangements between academic faculty in the University; permanent academic faculty employed by the private entity; the Academic Council of the University which governs all matters touching the University's aims and objectives; the Vice-Chancellor of the University as Chief Executive Officer of the University and executive management of the private entity including the separate Chief Executive Officer of the private entity, who typically also holds a University position as well. All of these personnel must work together to ensure that high standards of education delivery and assessment are maintained consistently for all students of the University. There are examples of retreats from such arrangements¹⁰⁰ as well as others which continue and have been by all accounts highly profitable and successful.

⁹⁸ Adapted from Michael Nancarrow, 'Learning opportunities in legal education for International MBA students', Australasian Law Teachers Association (ALTA) Conference Waikato University, Hamilton, New Zealand, 6 July 2005, Proceedings of the 2005 Australasian Law Teachers Conference, <http://www.alta.edu.au/2005-conference.aspx>.

⁹⁹ See for example (the estate of) Bill Readings, *The University in Ruins*, Harvard University Press, Cambridge, Mass, 1996, esp pp 21-43.

¹⁰⁰ See for example, 'Melbourne's costly experiment to end', *Campus Review*, Vol 15, No 23, June 15 2005, p 1 discussing the closure of the Melbourne University Private's operation by the newly installed Vice Chancellor of Melbourne University.

One of the differences of being an academic in this type of hybrid context is that there tends to be an emphasis on seeing students as customers, as they are usually full fee paying. The individual student is a consumer of educational services. The student has entirely legitimate expectations of a high standard of university educational learning and service. Student-consumers have rights which must be respected. The implications of this for academic staff is that they need to view themselves as part of a high quality professional service provider. That places performance responsibilities and obligations on all staff, including academics. With international students it can often also mean being prepared to go the extra yard, sometimes in a pastoral way. But it also means maintaining a high quality product and service not compromised by conduct or decisions which might interfere with that quality.

Being involved in the 'business' of international education brings challenges but equally it brings opportunities. Opportunities to be more *entrepreneurial*, more focussed on individual students and their needs because every student's experience is important and impacts upon the reputation of both the business and University in the market. And make no mistake, the market is packed with plenty of competitors who are keen to promote their advantages over yours. Another feature of this different operational environment for an academic is the necessity to get an understanding in different areas of the overall business and to take a holistic view of the business operation, given the nature of an academic instructor's contribution. Sometimes the ride can get a bit bumpy.

Part I. The higher education governance conundrum

The challenges facing modern higher education and the governance of its institutions have been identified by Thomas Docherty¹⁰¹ in the United Kingdom. Both have been strong advocates voicing concerns about the direction and pressures being exerted upon modern Universities. Docherty argues for the need to spell out first principles. This strategy articulates that 'the University' involves the pursuit of the true, the good and the beautiful reflected through the faculties of science, social ethics and aesthetics. The University should be about the extension of freedom and that it propels '...a particular kind of contemporary democracy.'¹⁰² For Docherty, the University is where humanity is cultivated.¹⁰³ It is less a place and more an event and one that is action-centred.

'The University of the Idea is not a place for disembodied thinking, for the *preconditions* of deliberative democracy: it is-or should be-democracy itself...'

Docherty is hostile to the limitations and the 'insularities' of bureaucratic reasons where the University has become governed by bureaucracy. For Docherty this is coercive and carceral.¹⁰⁴ The university qua democracy of which Docherty speaks has as its hallmarks: imagination, freedom and diversity. Educators and those responsible for the governance of higher education institutions must extol educational values. These values can be characterized as intrinsic and instrumental. For John Dewey in the United States they resolve as a genuine appreciation of experience and the valuation of study.¹⁰⁵

A Central and Eastern European perspective

Janos Kornai arguing from an economic perspective, distinguishes between bureaucratic, market and associative co-ordination¹⁰⁶. For Kornai each contains imperfections, even associative co-ordination which aligns with self-governance and civil society. He argues that the fallacies and misconceptions of the three approaches for Central and Eastern Europe lies in becoming fascinated with one while being blind to their *necessary* weaknesses. Kornai argues for an approach which combines two values: individual freedom and solidarity. 'Solidarity, or equal access to a certain level, but individual choice above this level.'¹⁰⁷ As Central and Eastern European countries and their educational institutions emerge from socialist controlled regimes

¹⁰¹ Thomas Docherty, *For the University-Democracy and the Future of the Institution*, Bloomsbury Academic, London, 2011. See also Martha C Nussbaum, *Not For Profit-Why Democracy Needs The Humanities*, Princeton University Press, Princeton, NJ, 2010.

¹⁰² Thomas Docherty, *For the University-Democracy and the Future of the Institution*, Bloomsbury Academic, London, 2011, pp 17-18.

¹⁰³ Thomas Docherty, *For the University-Democracy and the Future of the Institution*, Bloomsbury Academic, London, 2011, p 21 ff. This draws upon the ideas promoted in Martha C Nussbaum, *Cultivating Humanity*, Cambridge, MA: Harvard University Press, 1997.

¹⁰⁴ Thomas Docherty, *For the University-Democracy and the Future of the Institution*, Bloomsbury Academic, London, 2011, p 35.

¹⁰⁵ John Dewey, *Democracy and Education- An Introduction to the Philosophy of Education*, The Free Press, Macmillan, New York, 1916, especially pp 231-249.

¹⁰⁶ J Kornai, 'The Role of the State in a Post-Socialist Economy', Leon Kozminski Academy of Entrepreneurship and Management (WSPiZ) and TIGER, Distinguished Lecture Series. 6, Warsaw, 16 November 2001.

¹⁰⁷ J Kornai, 'The Role of the State in a Post-Socialist Economy', Leon Kozminski Academy of Entrepreneurship and Management (WSPiZ) and TIGER, Distinguished Lecture Series. 6, Warsaw, 16 November 2001, p 14.

and through transition are transformed into civil societies the inevitable change holds both a promise and a challenge.

It was reported in *The Financial Times* in 2010 that,

'University education has been one of democratic Poland's biggest successes-training a generation of people who had been left out under communism and giving them skills to compete in a market economy.'¹⁰⁸

But it was also reported that the burgeoning success of both public and especially private higher education providers in Poland has been characterized by low standards, easy courses and not the knowledge frameworks required in an advanced economy. This is not universally true. Kozminski University is Poland's highest-ranking private University.¹⁰⁹

Part II. Reorienting governance: the role of responsive contractualism and responsive regulation in higher education.

The issue of governance is necessarily about both accountability and responsibility. It involves the implications of those characteristics in terms of the relationship between key individuals and the organisational entity. Governance concerns both how decisions are made (the procedural aspect) and what decisions are made (the substantive aspect).

2.1 Responsive contractualism

Peter Vincent-Jones in the United Kingdom has sought to articulate an argument for contractual governance which emerges from a linking of Ian McNeil's relational contract theory (which encompasses both political and social relations) with theories of responsive regulation as advanced by Philip Selznick in the United States. For Vincent-Jones,

'...the institutional and organisational dimensions of contractual governance are determined to a significant degree by legislative and regulatory interventions and by state policy generally.'¹¹⁰

Vincent-Jones has also sought to apply contractual governance to what he terms 'quasi-market' relations, of which new forms of education providers including in Eastern and Central Europe are arguably an example. In these quasi-market contexts, the complexity of both the regulatory and contractual picture cannot be overestimated.

'The quasi-market arrangement and associated contracting processes are not just subject to regulation, but themselves serve regulatory functions. Contractual arrangements are increasingly the product of *positive policy driven regulation*, which is fundamentally different from simple *regulatory control* (as may occur in markets) of more general contractual processes that exist independently of particular policies promoting them.'¹¹¹

Vincent-Jones is clear that in these quasi-market relations, the role of contract needs to be completely rethought in terms of specifications, monitoring and enforcement.¹¹² However, this broader understanding leads not merely into an argument about social contract theory, which explains the relationship between the government and the governed, but rather it leads into claims about a new and different contractualist methodology of governing.

¹⁰⁸ J Cienski, 'Higher education: Private universities face lesson in harsh facts of life', *The Financial Times*, June 25, 2010 <http://www.ft.com>

¹⁰⁹ J Cienski, 'Higher education: Private universities face lesson in harsh facts of life', *The Financial Times*, June 25, 2010 <http://www.ft.com>

¹¹⁰ P Vincent-Jones, 'Contractual Governance: Institutional and Organisational Analysis', (2000) *Oxford Journal of Legal Studies*, Vol 20, No 3, pp 317-351, at p 330. Now see P Vincent-Jones, *The New Public Contracting-Regulation, Responsiveness, Relationality*, Oxford University Press, 2006.

¹¹¹ P Vincent-Jones, 'Contractual Governance: Institutional and Organisational Analysis', (2000) *Oxford Journal of Legal Studies*, Vol 20, No 3, pp 317-351, at pp 340-1. (emphasis in original)

¹¹² P Vincent-Jones, 'Contractual Governance: Institutional and Organisational Analysis', (2000) *Oxford Journal of Legal Studies*, Vol 20, No 3, pp 317-351, at pp 342.

The new contractualism¹¹³ confronts the classical view about equality and contractual standing. Arguably, this is about advancing a role for government in resourcing and assisting individuals to be able to participate in contractual relations.¹¹⁴ Contractualism also has an important relationship to the notion of citizenship.

The approach to contracting adopted under contractualism becomes important. For Terry Carney and Gaby Ramia in the Australia context,

'...the present form of contracting tends to be "hard", mimicking the bilateral agreement and strict enforcement terms (wrongly) thought to characterise commercial dealings. Rarely does it take the Danish form of a "soft" contract, one which concentrates its energies on cultivating the communitarian values of flexibility, co-operation and "relationships of trust" which thrive outside the formal terms and conditions. Such conditions already more accurately characterise real commercial relations, and they resonate more closely with the elevation of "trust" in founding relationships in civil society.'¹¹⁵

This approach also accords with the claims of Vincent-Jones for a responsive/relational contract approach, which he argues:

'...stresses the need to take into account all the constituencies involved in contractual processes, beyond the interests of "the parties" individually or dyadically conceived.'¹¹⁶

It is not the hard form of contracting with its attention to formal agreement and legal mechanisms for the enforcement of contractual rights which will best serve the interests of higher education stakeholders: University councils and governing boards; Presidents, Vice-Chancellors and Rectors; the community of academics and professional staff and importantly, students. A particularly interesting context for application of this thinking is in the contractual frameworks between the University and its private entity. It is these contracts and 'agreements' which underpin the financial, staffing and logistical arrangements between the two (2) entities. The so called 'soft' or more aptly termed responsive form of contract which emphasises responsiveness, co-operation and trust offers both promise and opportunity for contractualism as a framework for a regulatory approach in the governance of higher education institutions and in all its contractual relationships. In a more responsive approach to contracting, the features just identified are not discrete. There is an inter-relationship between responsiveness and trust.¹¹⁷ We can also amplify the value of trust into a capacity for trustworthiness.

'[L]egal sanctions rarely make a significant contribution to the construction of trust, and the invocation of the legal process can damage perceptions of trustworthiness.'¹¹⁸

John Braithwaite has argued that the notion of trustworthiness as a social science concept aligns most closely with what he terms the legal concept of trust as a moral obligation of power.¹¹⁹ He contrasts these approaches with understanding trust in terms of confidence. Braithwaite argues that when trust is viewed as confidence it involves social solidarity to the trustee (used in a non-legalistic sense within common law legal systems). These different ways of understanding trust, which Braithwaite portrays as thin and thick respectively, lead to a broader claim.

¹¹³ See generally: A Yeatman, 'Contract Status and Personhood' in G Davis, B Sullivan and A Yeatman (eds), *A New Contractualism?* Melbourne: Macmillan, 1997; A Yeatman 'Interpreting Contemporary Contractualism' in M Dean and B Hindess (eds) *Governing Australia: studies in rationalities of Government* Cambridge: Cambridge University Press, 1998; A Yeatman 'Mutual Obligation: what kind of contract is this?' in P Saunders (eds) *Reforming the Australian Welfare State*, Melbourne: Australian Institute of Family Studies, 2000. The idea was further developed at a national two-day workshop on 'Contractualism, Citizenship and the Human Services', Womens College, University of Sydney, 7 and 8 October 2000. Specific applications of the concept are found in T Carney and G Ramia, 'Contractualism and Citizenship: rivals or bedfellows?' *Law in Context* Special Issue: Contractualism and Citizenship, (2001) Vol 18 No 2, pp 8-33.

¹¹⁴ B Sullivan, 'Mapping Contract', in G Davis, B Sullivan and A Yeatman, *The New Contractualism*, Centre for Australian Public Sector Management, Macmillan Education Australia, 1997, Melbourne, pp 1-13, at 7.

¹¹⁵ T Carney and G Ramia, 'Contractualism and Citizenship: rivals or bedfellows?' *Law in Context* Special Issue: Contractualism and Citizenship, (2001) Vol 18 No 2, p 17.

¹¹⁶ P Vincent-Jones, 'Contractual Governance: Institutional and Organisational Analysis', (2000) *Oxford Journal of Legal Studies*, Vol 20, No 3, pp 317-351, at pp 350.

¹¹⁷ D Campbell, 'Reflexivity and Welfarism in the Modern Law of Contract', *Oxford Journal of Legal Studies*, Vol 20, No 3 (2000), pp 477-498, at 483-486 which juxtaposes the theory of contract advanced by Collins in H Collins, *Regulating Contracts*, Oxford University Press, Oxford, 1999 with the approach of classical contract law theory. Campbell's article is an extended review of Collin's theory and book.

¹¹⁸ Collins, Id, p 126, cited in D Campbell, 'Reflexivity and Welfarism in the Modern Law of Contract', *Oxford Journal of Legal Studies*, Vol 20, No 3 (2000), pp 477-498, at 484; see also: R D Putnam, *Bowling Alone: The Collapse and Revival of American Community*, Simon & Schuster, New York, 2000, who argues that in social trust, either in its thick or thin versions, 'Trustworthiness, not simply trust, is the key ingredient.' (at 136); F Fukuyama, *Trust – The Social Virtues and the Creation of Prosperity*, Penguin Books, London, 1995.

¹¹⁹ J Braithwaite, 'Institutionalizing Distrust, Enculturating Trust', in V Braithwaite and M Levi (eds), *Trust and Governance*, Russell Sage Foundation, New York, 1998, pp 343-375, at p 344.

'The idea is that if we can structure distrust deeply enough into our institutions, then in day-to-day life we can be maximally nurturant of trust; in short, we would institutionalise distrust so we can enculturate trust.'¹²⁰

Yet this strategy does not sit easily with attention to performance management techniques, which tend to accentuate the emphasis on efficiency and effectiveness. Such a focus also emphasises the role of risk¹²¹ and how and who should manage those risks. Building those features into a contractual framework between government and higher education institutions should seek to share risks between contracting parties. However, from an operational perspective risk is managed on a day to day basis in Universities by managers. In the hybrid case, the risk element is a critical factor against which performance and 'success' is judged especially for the private entity by the University. The assessment is strongly compliance oriented, subject to ongoing monitoring and audit oversight. However, it is academic senates, councils and 'corporate' boards that are ultimately responsible for corporate and organisational governance. In the hybrid case this sits both with the ultimate governing body of the University and the board of the private entity where there is often cross representation.

2.2 Responsive regulation

Peter Vincent-Jones has also argued that two strains of responsive regulatory theory have emerged (in Anglo-American literature): the first takes its point of reference from Philippe Nonet and Philip Selznick and focuses attention on policy and purpose; the second derives initially from the work of Ayers and Braithwaite and has tended to '...reduce the assessment of regulation to the technical evaluation of efficiency and effectiveness in the attainment of given ends.'¹²² For Vincent-Jones, Nonet and Selznick were concerned with '...much tougher questions about governmental purposes and the implications for the integrity of law are to the fore.'¹²³

Vincent-Jones sees three distinct but inter-related problems associated with the attempt to elevate purpose and substance in regulatory analysis. First, the failure of welfarist interventions in the past. In Kornai's terminology this translates as the failure of bureaucratic co-ordination in Central and Eastern Europe's state controlled education institutions and providers. In response, Vincent-Jones claims that the solution to this problem of past welfarist regulatory failures lies in a more subtle conception of purposiveness.¹²⁴ Second, is the problem of how state policies and regulatory objectives are determined. The translation of responsiveness into state purposes, policies and regulatory activities is not straightforward. Vincent-Jones argues that although Nonet and Selznick had not confronted this directly, part of the answer lies in what might be described as 'thick participation'. That is, '...increased involvement of groups and organisations in the making of public policy through legal action and social advocacy.' Kornai's associative co-ordination resonates with this approach. Third, the tension between substantive intervention and rule of law values. Again, Vincent-Jones argues that this tension is dissipated by the fact that modern interpretations of the rule of law focus not on what might be described as formal legalistic concerns - such as how administrative discretion is exercised or the absence of formal legality in a decision-making process, but with '...rationality and justification of regulation, judged in terms of moral purpose and underlying values.'¹²⁵ Thus, Vincent-Jones proposes a restatement of responsive regulation as follows:

'...regulation may be defined as the systematic exercise of control for the pursuit of public purposes (social as well as economic) through the linking of law to policy instruments of force, wealth and information and persuasion.'¹²⁶

¹²⁰ J Braithwaite, 'Institutionalizing Distrust, Enculturating Trust', in V Braithwaite and M Levi (eds) *Trust and Governance*, Russell Sage Foundation, New York, 1998, pp 343-375, at p 342.

¹²¹ Campbell observes 'The real incentive to perform obligations is the maintenance of a "willingness to run [the] risks" of non-performance which Collins calls "trust"' (Campbell, 'Reflexivity and Welfarism in the Modern Law of Contract', *Oxford Journal of Legal Studies*, Vol 20, No 3 (2000), pp 477-498, at 485.

¹²² P Vincent-Jones, 'Values and Purposes in Government: Central-local Relations in Regulatory Perspective', (2002) Vol 29 *Journal of Law and Society*, at pp 33-34. On Braithwaite's approach also now see J Braithwaite, *Regulatory Capitalism*, Cheltenham, UK, 2008.

¹²³ P Vincent-Jones, 'Values and Purposes in Government: Central-local Relations in Regulatory Perspective', (2002) Vol 29 *Journal of Law and Society*, at pp 33-34.

¹²⁴ P Vincent-Jones, 'Values and Purposes in Government: Central-local Relations in Regulatory Perspective', (2002) Vol 29 *Journal of Law and Society*, pp 34-35.

¹²⁵ P Vincent-Jones, 'Values and Purposes in Government: Central-local Relations in Regulatory Perspective', (2002) Vol 29 *Journal of Law and Society*, p37. Cf the analysis of modern rule of law perspectives in, *The Rule of Law After Communism: Problems and Prospects in East-Central Europe*, eds, M Krygier and A Czarnota (1999) especially P Selznick, 'Legal Cultures and the Rule of Law', 21-38.

¹²⁶ P Vincent-Jones, 'Values and Purposes in Government: Central-local Relations in Regulatory Perspective', (2002) Vol 29 *Journal of Law and Society*, p37.

Vincent-Jones defines regulation as including 'all acts of controlling, directing, or governing according to a rule, principle or system.'¹²⁷ Selznick had also defined regulation much earlier as 'sustained and focussed control by a public agency over activities that are valued by a community.'¹²⁸ For Vincent-Jones, regulatory objectives occur in a public sphere.

'The designation 'responsive' implies that regulatory goals are legitimate,¹²⁹ this assessment being made with reference either to the quality of deliberative processes leading to policy formation ('thick proceduralisation'), or to the inner morality and 'process values' at work in public institutions ('thick institutionalisation').¹³⁰

The recently enacted *Tertiary Education Quality and Standards Agency Act 2011* (Cth)¹³¹ is arguably an example in current higher education regulation which illustrates how this might begin to be structured. The innovative feature of this new regulatory framework for Australian higher education is captured in the Act's Objects in Section 3 (b) as follows:

'The objects of this Act are:...

(b) to regulate higher education using:

(i) a standards-based quality framework; and

(ii) principles relating to regulatory necessity, risk and proportionality...'

The Principle of Regulatory Necessity pursuant to section 14 emphasises that that the Australian Tertiary Education Quality and Standards Agency (TEQSA) only exercises its power in relation to registered providers in a way that '...does not burden the entity any more than is reasonably necessary.' The principles of reflecting risk and proportionality are addressed in Sections 15 and 16 respectively and are broadly cast in relation to a registered higher education provider's functions and services, link with the higher education standards framework¹³² and have a risk compliance focus.¹³³

Part III. Ethical governance-embedding thick hybrid values

Beyond law and legality, contract and problem-centred regulation lay 'thicker' values which need to inform and underpin a different approach to governance. In the vein of seeking a different governance path, the Australian Governance stream of the Australia 2020 Summit resolved as a priority theme for Australia:

'...the need to strengthen the participation of Australians in their governance: a revolution in community and government interaction through grassroots and non-traditional community engagement...'¹³⁴

Focusing on thicker values moves us beyond instrumental and structural concerns, even though those concerns remain necessarily important to the framework which is developed. The applied values which emerge in hybrid form include for example: promoting the authentic voice; engaged participation which evolves into the cultivation of solidarity; and from seeking opportunities for community to inhabiting spheres of community. It is these values expressed in hybrid form which can more significantly underpin the nature and the context of the governance arrangements of all stakeholder relationships for institutions and organizations

¹²⁷ P Vincent-Jones, 'Values and Purposes in Government: Central-local Relations in Regulatory Perspective', (2002) Vol 29 *Journal of Law and Society*, p 28, and sources cited at n3 on that page.

¹²⁸ P Vincent-Jones, 'Values and Purposes in Government: Central-local Relations in Regulatory Perspective', (2002) Vol 29 *Journal of Law and Society*, p 37 n52. See P Selznick, 'Focusing Organizational research on Regulation', in *Regulatory Policy and the Social Sciences*, ed RG Noll (1985), 363.

¹²⁹ Cf Selznick, where he seeks to clarify that '...responsive law asks us to go beyond legitimacy, to maintain legitimacy while putting it at risk.' ('Selznick Interviewed: Philip Selznick in Conversation with Roger Cotterrell', (2004) 31 *Journal of Law and Society*, at p 309.)

¹³⁰ P Vincent-Jones, 'Values and Purposes in Government: Central-local Relations in Regulatory Perspective', (2002) Vol 29 *Journal of Law and Society*, pp 37-38.

¹³¹ http://www.austlii.edu.au/au/legis/cth/consol_act/tegasaa2011466/

¹³² <http://www.tegsa.gov.au/higher-education-threshold-standards>

¹³³ http://www.austlii.edu.au/au/legis/cth/consol_act/tegasaa2011466/. Cf for example to the regulatory and policy strategies of The Bologna Process and the European Higher Education Area

<http://www.ond.vlaanderen.be/hogeronderwijs/bologna/>

¹³⁴ Australia 2020 Summit, *Initial Summit Report*, April 2008, p 32. Accessed at http://www.australia2020.gov.au/docs/2020_Summit_initial_report.pdf

involved in the business of higher education including in Central and Eastern Europe (CEE) even in the midst of continuing wider societal transformation in this region.

This hybrid theme emerges in different ways with relevance for higher education stakeholders: through the reconfiguration of the (welfare state) in explaining the provision of public and quasi-public goods, including higher education; through structures that work between the pull of the market and the control of the state; and through the structures of corporate governance in their more appropriate adaptation to the situation of educational institutions and organizations. Philip Selznick has argued that:

'In modern special-purpose institutions the great need is cooperation, not democracy as such. Appropriate forms of democracy may well enhance cooperation, however, and are sometimes indispensable to it. The most important form is *shared governance*...participatory democracy...presumes that the enterprise can be a locus of value and a vehicle of meaningful participation.'¹³⁵

3.1 Promoting authentic voices through participation

From principles important values can emerge. From transparent accountability emerges integrity; from autonomous responsibility emerges self-determination. Both institutions and organisations necessarily work through the decision-making of individuals. Transparency, accountability and responsibility are uncontroversial in arguments about appropriate regulatory strategies and frameworks in higher education. The language of autonomy and self determination as part of ethical discourse is less familiar and the role of the *authentic voice* often remains unidentified in debates about regulation and governance.

The claim here is for the central role of an authentic voice. It is explained by being juxtaposed with the countervailing 'captured' voice. The authentic voice is robust, speaks with independence and in the familiar vein of public service officials 'without fear or favour'. In higher education the authentic speaker is not partisan to the public purse manifested through either funder or regulator. It is not aligned with vested interests. In the increasingly more commercialized contexts of some providers it is not captive to revenue, profit and the determination to maintain student numbers at all costs. Yet such a voice speaks with authentic conviction and is pragmatic and understands tensions and conflicts and finds a way to navigate through these being anchored by values which are both certain yet flexible. Periods of societal and institutional transition produce challenges. The hybrid case is in a sense paradigmatic of these challenges but also of the potential opportunities.

The concern is to identify the distinguishing characteristics of these different voices in institutional and organizational decisions and practice and thus to appreciate the potential contribution that can be made by the authentic voice. Recognizing the consequences of funding dependency is arguably significant in deciding questions about which voices count in the provision of social goods such as education. Increasingly, individuals with strategic roles find that they are performing a number of roles which straddle a variety of organizational and institutional contexts. The voices that represent these participatory capacities must be robust and genuine if that participation is to be meaningful.

Developing a strong social capital structure assists in contributing to facilitating participation in the institutions and structures of democracy through engagement in civil society by its members.¹³⁶ Membership brings opportunities but also risks especially in circumstances of multifarious involvements through policy, operational, funding and representative bodies in managing and governing higher education and its providers. Potential conflicts of interest can neither be denied nor completely removed but rather must be skilfully managed and navigated. The temptations of capture are powerful. To understand the importance of the authentic voice and how it might be implemented within higher education we will sketch the contours of authenticity, conceptually. The aim will remain as practical as possible.

Charles Taylor has provided a very useful explanation of the nature of authenticity in his brief yet compelling *The Ethics of Authenticity*¹³⁷. Taylor's argument is an attempt to recapture the centrally important role of the ideal of authenticity in modern western society. To do this he builds a case which seeks to reposition the

¹³⁵ P Selznick, *The Moral Commonwealth-Social Theory and the Promise of Community*, University of California Press, Berkeley, 1992, p 317.

¹³⁶ 'Membership' of a society is more inclusive than the narrower but politically and socially charged concept of citizenship. See Robert D Putnam, *Bowling Alone - The Collapse and Revival of American Community*, Touchstone, Simon & Schuster, New York, 2000, pp 336-349. See also Productivity Commission 2003, *Social Capital: Reviewing the Concept and its Policy Implications*, Research Paper, AusInfo, Canberra. [accessed at <http://www.pc.gov.au/>]

¹³⁷ Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991.

nature of authenticity away from a culture which in his view over emphasises the individual's capacity to choose whatever form of life they determine to be of value to them against no particular criteria in terms of what constitutes a valuable choice. For Taylor, the deviation from the true locus of authenticity is partly explained through the complex interconnection between self-determining freedom and authenticity:

'...they have developed together, sometimes in the works of the same authors, and their relations have been complex, sometimes at odds, sometimes closely bound together. As a result, they have often been confused, and this has been one of the sources of the deviant forms of authenticity...' ¹³⁸

Taylor builds a relationship between authenticity and individuals becoming more self-responsible: 'Like all forms of individualism and freedom, authenticity opens an age of responsabilization...' ¹³⁹ But what needs to be understood is that extreme outcomes of appreciating the role of authenticity are less helpful than seeing an ongoing struggle ¹⁴⁰ for the differentiating qualities and characteristics of human involvement and commitment which authenticity holds out. Against this Taylor articulates a framework within which we may understand the nature of authenticity:

'Briefly, we can say that authenticity (A) involves (i) creation and construction as well as discovery, (ii) originality, and frequently (iii) opposition to the rules of society and even potentially what we recognize as morality. But it is also true, as we saw, that it (B) requires (i) openness to horizons of significance (for otherwise the creation loses the background that can save it from insignificance) and (ii) a self-definition in dialogue. That these demands may be in tension has to be allowed. But what must be wrong is a simple privileging of one over the other, of (A), say, at the expense of (B), or vice versa.' ¹⁴¹

Taylor argues for a clear differentiation between issues of manner and issues of matter or content in grasping the true nature of the ideal of authenticity.

'On one level, it clearly concerns the *manner* of espousing any end or form of life. Authenticity is clearly self-referential: this has to be *my* orientation. But this doesn't mean that on another level the *content* must be self-referential: that my goals must express or fulfill my desires or aspirations, as against something that stands beyond these...To confuse these two forms of self-referentiality is catastrophic. It closes off the way ahead, which can't involve going back behind the age of authenticity. Self-referentiality of manner is unavoidable in our culture. To confuse the two is to create the illusion that self-referentiality of matter is equally inescapable. The confusion lends legitimacy to the worst forms of subjectivism.' ¹⁴²

Authenticity necessarily involves being true to one's idea of the life one aspires towards and seeks to live out. ¹⁴³ It is at the core of what it means for a life to *flourish*. This notion of 'flourishing' has also been identified as part of an ideal for a conception of law. For example, Philip Selznick has argued that the rule of law should be perceived as

'...a dual focus on baselines and flourishings. We hold fast to the vital minimum even as we reach for the more subtle, more elaborated, more problematic ideal.' ¹⁴⁴

Taylor's claim identifies the need to articulate common values through a participatory political life where 'difference' moves us beyond a concern only to secure procedural justice. ¹⁴⁵ Selznick has argued:

'Authentic existence is the result of engagement as well as principle...Authenticity requires being open with oneself and others, not out of mindless candor, but in a spirit of caring and being cared for...to be

¹³⁸ Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991, p 28.

¹³⁹ Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991, p 77.

¹⁴⁰ Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991, p 78. Taylor aptly describes this as *la lotta continua*, a slogan of the Italian Red Brigade in quite another sense and another historical epoch.

¹⁴¹ Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991, p 66.

¹⁴² Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991, p 82. (emphasis in the original)

¹⁴³ Taylor argues it involves being true to oneself, Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991, p 29.

¹⁴⁴ Philip Selznick, 'Legal Cultures and the Rule of Law' (a revised version of a lecture given to the International Conference of the Research Committee for the Sociology of Law, Tokyo, 1995), in *The Rule of Law After Communism*, ed by Adam Czarnota and Martin Krygier, Dartmouth, UK, 1999?; See also J Finniss, *Natural Law and Natural Rights*, Clarendon Press, Oxford.

¹⁴⁵ Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991, p 52.

authentic is to establish integral connections with other people...authenticity requires honesty, openness, and self-criticism-...¹⁴⁶

Consequently, there needs to be an emphasis on a more dispersed representation of voices in decision-making processes, and not only in the context of 'legal' development. But contributions in the context of organizational involvements and commitments are necessarily through the work, actions and contributions of individuals. It is these involvements which should reflect an authentic comportment¹⁴⁷ in debates and discourse and potentially policy and ultimately law. It is this too as we will see which moves individuals from an orientation which is essentially private in character to a perspective which seeks the experience of community.

3.2 From participation to the cultivation of solidarity¹⁴⁸

Participation has a strong resonance in various ways in higher education and its governance structures, organisational forms and institutions. In particular, the participation of the various stakeholders in the decision-making of the University, while not bearing as much in overall satisfaction as more immediate and practical concerns, remains nonetheless both significant and important as reflecting a more inclusive approach to decision-making and governance in general. Opportunities for participation in different ways through for example representative bodies (both at state/provincial and national levels), ministerial advisory bodies and via a somewhat fluid interchange of personnel between education providers, non-government bodies and agencies of government, create an environment of inclusion more generally. However, there are risks here too and a multiplicity of involvements must be carefully managed by concerned and engaged individuals. Various involvements can be partly explained more conceptually through those participants' relationships of '...trust, reciprocity, sympathy, and fairness that they have experienced between themselves and their fellow contributors.'¹⁴⁹ This understanding moves us in the direction of something more significant than participation for its own sake, though the worth of that is not negated. Charles Taylor has argued for instance that:

'The agent seeking significance in life, trying to define him or herself meaningfully, has to exist in an horizon of important questions. That is what is self-defeating in modes of contemporary culture that concentrate on self-fulfilment *in opposition* to the demands of society, or nature, which *shut out* history and bonds of solidarity.'¹⁵⁰

Thus, participation when tinged with an experience which reflects the values identified above leads to a thicker form of commitment and involvement which emerges as a claim for solidarity. Charles Spinoza, Fernando Flores and Hubert Dreyfus have argued that:

'...solidarity is founded on a shared feeling generated by a familiarity with, and competence in, practices that support a way of life focussed in a set of shared values...solidarity in a multi-cultural society is not a passive experience of a common unifying good but the active cultivation of a set of shared values, and that this cultivation produces a "we" identity.'¹⁵¹

Two questions vie for attention from this understanding: 1) what will be constitutive of those values which are shared; and 2) can a claim essentially pitched at explaining the role of a key animating idea, like solidarity for a society, be applied in more limited contexts, such as higher education?

The answer partly comes in the explanation which Spinoza, Flores and Dreyfus provide in further elaborating their conception of solidarity.

'The kind of solidarity we shall be interested in will be one that excites us to heightened activities precisely in the name of our ordinary ways of life. This requires us to look at another way of understanding our experience. Under this view of experience, we do not merely have feelings, we feel concerns. And concerns as we understand them, are not subjective. They do not motivate the activity

¹⁴⁶ P Selznick, *The Moral Commonwealth: Social theory and the Promise of Community*, University of California Press, Berkeley, 1992, pp 71-73. (underlined emphasis added)

¹⁴⁷ See generally C Spinoza, F Flores and H Dreyfus, 'Disclosing New Worlds: Entrepreneurship, Democratic Action, and the Cultivation of Solidarity', (1995) 38 *Inquiry*, pp 3-63, especially pp 39-57 on the idea of 'ethical comportment'.

¹⁴⁸ On the cultivation of solidarity see: C Spinoza, F Flores and H Dreyfus, 'Disclosing New Worlds: Entrepreneurship, Democratic Action, and the Cultivation of Solidarity', (1995) 38 *Inquiry*, pp 3-63, especially pp 39-57.

¹⁴⁹ C Offe, 'Democracy Against the Welfare State? Structural Foundations of Neoconservative Political Opportunities', *Theorizing the Welfare State*, *Political Theory*, 15 (4), 1987, pp 501-537, at 519. (underline emphasis added)

¹⁵⁰ Charles Taylor, *The Ethics of Authenticity*, Harvard University Press, Cambridge, Mass, 1991, p 40. (emphasis in the original)

¹⁵¹ C Spinoza, F Flores and H Dreyfus, 'Disclosing New Worlds: Entrepreneurship, Democratic Action, and the Cultivation of Solidarity', (1995) 38 *Inquiry*, pp 3-63, especially p 44.

so much as call our attention to what needs to be done by us as members of a group engaged in the activity.¹⁵²

It is this very practically applied orientation which hints at the kinds of shared experiences of value which are meaningful for participants in higher education. These valuable experiences would characteristically include: 1) the nature of the orientation in the higher education enterprise; 2) the independent status of the education provider; and 3) higher education management which is empathetic to the situation and circumstances of all stakeholders. It is precisely the factors outlined above which draw individuals with a shared concern, a common experience and a desire for involvement and which bind them together and constructs both a sense of their history and how what they have done has made a difference, practically. Governance arrangements must seek to recognise this and not discount either its importance or its ongoing contribution. As Spinoza, Flores and Dreyfus have concluded, albeit in a broader societal context:

‘...our public institutions are no longer perpetuating a sense of solidarity. Rather, it is informal relations among people who inhabit those institutions and those on the outside that are our source of solidarity cultivation.’¹⁵³

3.3 From opportunities for community to the development of spheres of community¹⁵⁴

‘Community’ is used here with a holistic and ‘communitarian’ orientation. In higher education different forms and structures exist across a spectrum of different education providers even though that diversity of providers has historically addressed the needs of arguably a similar broad cohort of potential students. However, a more robust and well grounded understanding of community is needed if we are to appreciate its significance especially for example in the wider context of transformations taking place in Central and Eastern Europe as it embraces a more diverse and more diffuse context for the ‘business’ of higher education. Philip Selznick has explained that any theory of community,

‘...must take into account the key values at stake in the construction and nurture of a community. These constitute a complex set of interacting variables: historicity, identity, mutuality, plurality, autonomy, participation, and integration. Each has limited and primitive forms; each is the basis for a more elaborated ideal.’¹⁵⁵

For Selznick, historicity expresses a sense of a shared history and culture and the principles which emerge from that context. This leads to a distinctive *formed* identity, an identification through association; the experience of interdependence, reciprocity and co-operation. Mutuality implicates persons and groups as *unities* and contemplates continuing relationships-there is a transition from reciprocity to solidarity. According to Selznick, plurality is achieved through differentiation of institutions and groups without causing fracture or fragmentation to the social order; autonomy is promoted though encouraging ‘...the flourishing of unique and responsible persons.’ A community that ‘flourishes’ nurtures participation.

‘All the elements noted above require supportive institutions, norms, beliefs, and practices...We thus see the emergence of distinctively integrative political, legal and cultural institutions.’¹⁵⁶

More recently, Selznick has sought to further clarify his idea of community.¹⁵⁷ He sees the animating principle of community refracted through the union of solidarity and respect.¹⁵⁸ Critically, for Selznick, community is

¹⁵² C Spinoza, F Flores and H Dreyfus, ‘Disclosing New Worlds: Entrepreneurship, Democratic Action, and the Cultivation of Solidarity’, (1995) 38 *Inquiry*, pp 3-63, especially p 49. (underline emphasis added)

¹⁵³ C Spinoza, F Flores and H Dreyfus, ‘Disclosing New Worlds: Entrepreneurship, Democratic Action, and the Cultivation of Solidarity’, (1995) 38 *Inquiry*, pp 3-63, especially p 54.

¹⁵⁴ This phrase works between M Walzer, *Spheres of Justice, A Defense of Pluralism and Equality*, Basic Books, New York, 1983 and P Selznick *The Moral Commonwealth-Social Theory and the Promise of Community*, University of California Press, Berkeley, 1992., Chapter 13 - ‘In Search of Community’, pp 355-386 and P Selznick, *A Humanist Science: Values and Ideals in Social Inquiry*, Stanford University Press, Stanford, California, 2008.

¹⁵⁵ P Selznick, *The Moral Commonwealth: Social theory and the Promise of Community*, University of California Press, Berkeley, 1992, p 361.

¹⁵⁶ P Selznick, *The Moral Commonwealth: Social theory and the Promise of Community*, University of California Press, Berkeley, 1992, pp 361-364. This paragraph is a limited attempt to capture the threads of Selznick’s careful and reflective articulation of the aspects of each of the elements he proposes as integral to his theory of community.

¹⁵⁷ P Selznick, *The Communitarian Persuasion*, Woodrow Wilson Center Press, distributed by John Hopkins University Press, Baltimore, 2002. This is the title of chapter 2.

¹⁵⁸ P Selznick, *The Communitarian Persuasion*, Woodrow Wilson Center Press, distributed by John Hopkins University Press, Baltimore, 2002, p 20.

expressive of the characteristics of both inclusion and exclusion but inclusion is definitional. He offers up the following definition of community:

'A group is a community *insofar as* it embraces a wide range of interests and activities; *insofar as* it takes account of whole persons, not just specialized contributions or roles; and *insofar as* bonds of commitment and culture are shared.'¹⁵⁹

For Selznick, community carries with it an ethos of open-ended obligation which has '...the effect of enlarging the obligations fixed by contract or by the apparent limits of professional responsibility.'¹⁶⁰ Thus, for Selznick the parameters of the experience of community resounds with the values of solidarity and respect for whole persons; the tension between inclusion and exclusion; and embracing a spirit of open-ended obligation. The context of higher education as it has emerged in its various forms captures these tensions and opportunities. It is borne of an abiding experience into the needs of the community and all those in the society which it ultimately serves. Its participants share a common history and purpose grounded in the value of education. Its situation is sensitive not merely to respect for those involved and critically those who thirst for education and learning, its students, but for the experiences which bring Faculty members, students and education managers and executives together in the common enterprise. It gives them a sense of solidarity as to both what needs to be done in a very practical way but also what can be achieved, in circumstances of autonomy rather than dependency. It is these features which I argue characteristically mark the hybrid form of higher education provider as a break with the old bureaucratised culture and methods of public structured and conditioned education and which makes hybrid providers arguably more able to be more intuitively sensitive to a student's well-being as whole persons. There are lessons here for how higher education more generally can better fulfil its purpose, objectives and mission.

Conclusion

This paper has articulated a different perspective of governance for higher education and the implications for the hybrid higher education context. The paper has argued that responsiveness is critical in developing and implementing new methods of ethically informed governance arrangements.

We have seen that the hybrid provider scenario highlights the need for more flexible and adaptive strategies to accommodate a diverse range of education providers and the changing context of higher education globally. The value orientations of: the authentic voice in education; nurturing the bonds of solidarity and commitment; and experiencing a fuller sense of community have been argued to speak to a deeper understanding of the environment and implications of how higher education and its providers must operate and be governed in the modern period. While the hybrid higher education scenario draws from and is informed by public education considerations, values and control; its methods and patterns of working and operation often align more closely with private sector business imperatives. The context, challenges and opportunities which this model of higher education presents must navigate a course between the insistence of the market on the one hand and the paternalistic control of the state on the other.

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THE “SUSTAINABLE DEVELOPMENT REFERENTIAL” AS AN INNOVATIVE TOOL TO PILOT AND IMPLEMENT SUSTAINABILITY DEVELOPMENT STRATEGIES IN FRENCH HIGHER EDUCATION INSTITUTIONS

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Abstract

The implementation of “Sustainability management systems”, has been viewed as a facilitator (lever) when it comes to developing and integrating sustainability and social responsibility in companies. An increasing number of higher education institutions adopt such systems to support the elaboration and implementation of sustainability strategies in their activities and operations. However, to our knowledge, few researches (if any), have addressed this topic in the context of Higher Education Institutions in France. This paper presents and discusses why and how an innovative tool “the sustainability development referential” has been developed to support these institutions (“Grandes Ecoles” and Universities) in their efforts to implement social responsibility (SR) and sustainable development (SD). More specifically, it traces back the origins and stages (from 2002 to 2012) leading to the establishment of this framework. To conduct this research we applied the methodology of case study analysis. The paper shows that this referential is an innovative tool aiming at helping higher education institutions to (1) Make a diagnosis of their situation regarding SD and SR ; (2) Define SD and SR strategies in line with national policies. (3) Implement an action plan (short term) and structure (mid and long term) their approach of SR and DD. (4) Assess actions; progress and outcomes in SD and SR. (5) Evaluate the possibility to benefit from "labels" and certifications in SD and/or SR. This paper situates at the interface between two principal fields of literature on: (1) Sustainability Management Systems (adapted to address the specificities of higher Education institutions) and (2) the design process (to identify stages in the development of this innovative tool.) .Emphasis is put on three interdependent questions and dimensions: - the reasons why the innovative framework has been developed – its content (evolutions) - and the underlying processes (how it evolved). This case study shows that the design process follows a trajectory based on the interplay between "internal" and "external" dimensions. “Internal dimensions” cover (1) The number and variety of stakeholders involved in the process (2) The interactions between these actors. The process suggests a progressive transformation of “intermediate” and “boundary” objects which are co- constructed by actors involved . “External” drivers, such as national policies and laws, triggered new stages in the design of the referential; putting pressure on actors to modify its content.

Key words: sustainable development, responsible innovations, management systems, higher education institutions

1. Introduction and background.

Since the early 1990s an increasing number of Higher Education Institutions (HEI) has introduced sustainability and responsibility in their activities; education researches and service to the society (ex. in Business schools, Benn, Dunphy (2009), Sherman, Hansen, (2010), Christensen, Peirce, Hartman, Hoffman, Carrier (2007), Rusinko (2010) or in Faculties of Applied Sciences and Schools of Engineering (Ashford, 2004)). As leaders or key actors in these fields, HEIs are invited to play a central role in the diffusion of sustainability in the society (Bradfield, 2009). To this end, a great number of HEIs have embarked themselves into strategic and organizational changes and adopted management systems to support these processes.

1.1. Moving towards sustainability in Higher Education Institutions: Implications for Strategic and Organizational changes

HEIs are facing the challenges of (re)aligning their governance, strategies, activities, processes and resources to fully integrate sustainability in the short and long term. (Finley, Massey, 2012). Coordination and integration of sustainability in HEIs are not easy tasks. Meeting these challenges offers the opportunity (or necessitates) for these institutions to embark themselves in strategic and organizational change processes (Finley, Massey, 2012). Sustainability in higher education has become a subject of research¹⁶¹. The following sections show the diversity of researches on this topic. They cover the analysis of large samples of institutions, international comparisons or specific case studies that have been documented to identify levers and obstacles associated to changes induced by sustainability in HEIs.

1.1.1. Sustainability and changes in HEIs:

In an international comparative analysis of sustainability transformations in seven universities, Ferrer-Balas *et alii.* (2008) outline that “the main barrier to be overcome is the lack of incentive structure for promoting changes at the individual level. The main drivers for changes are –the presence of “connectors” with society – the existence of coordination bodies and projects- the availability of funding. In their study on the University of Guelph (and comparison with initiatives led in others universities), Brinkhurst, Rose, Maurice and Ackerman (2011) suggest that the traditional view regarding the dynamics of organizational change related to sustainability in HEIs, as a top-down or a bottom-up process, neglects the leadership role of the institutional “middle” (faculty and staff) acting as “intrapreneurs” working for social and environmental good from within large institutions”.

Pollock, Horn, Costanza, and Sayre, (2009) wrote “if universities are increasingly aspiring to be both models and catalysts leading to a more sustainable and desirable future, ... complex and ineffective governance, traditional disciplinary boundaries and the lack of shared vision at academic institutions often hinder progress toward this goal. Their case study research shows how, at the University of Vermont, focusing on shared values and long term goals and progress towards leadership in system thinking, ecological design and sustainability can contribute in overcoming these obstacles and in fueling the process. Summarizing their research on the University of Colorado (Boulder), Krizek, Newport, White, Townsend (2012) showed that “sustainability initiatives on campus may evolve through series of phases labeled –grassroots-, executive acceptance of the business case for sustainability- the visionary campus leader- and fully self actualized and integrated campus community.

This brief literature review on the facilitators/levers and obstacles/inhibitors relating to the adoption and development of sustainability initiatives and the change process they would necessitate or induce, led us to further investigate the role and characteristics of sustainability management systems (SMS) as enablers /facilitators in enhancing sustainability and supporting change processes in HEIs. One of the key contributions of SMS is to help reducing (or filling) the gaps that often exist in the strategic alignment and integration of sustainability in organizations.

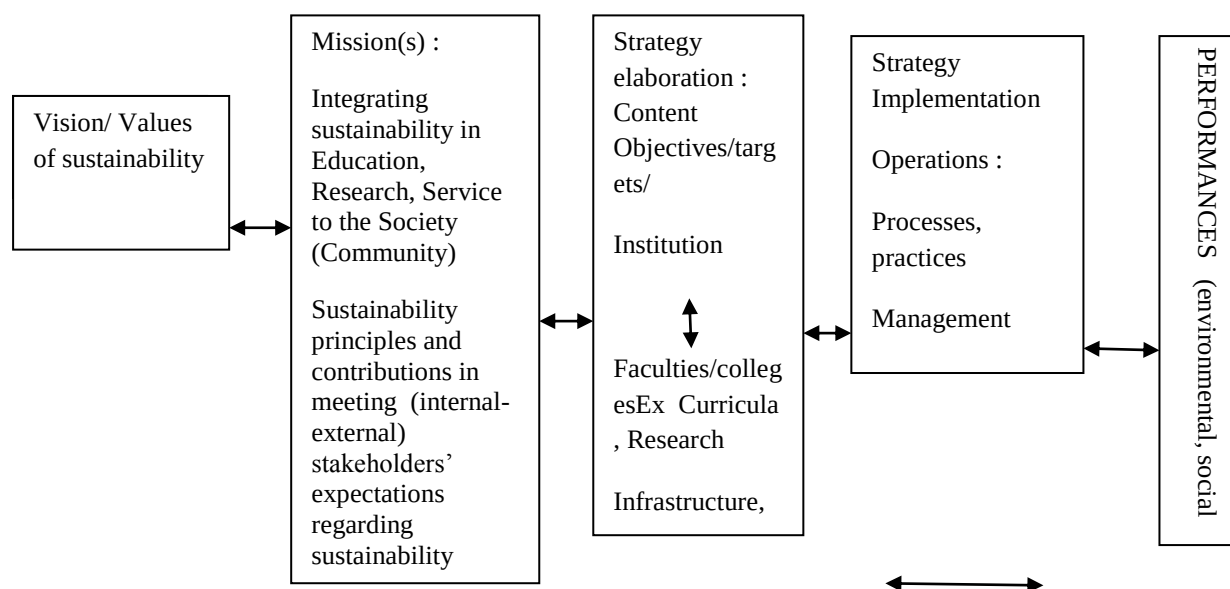
1.1.2. Strategic planning and alignment of sustainability in HEIs.

The strategic alignment of sustainability is based on a set of related dimensions. One of the main objectives of Management systems is to help filling the gaps that can exist between these dimensions. Figure 1 briefly

¹⁶¹ Articles and special issues in academic journals (ex/ the Academy of Management Learning and Education, 2004, 2010) flourish and specialized journals, such as the International Journal of Sustainability in Higher Education have been created.

sketches these dimensions and gaps¹⁶² as well as the potential contributions of sustainability management systems in filling these “gaps”.

Figure:1. Strategic alignment of sustainability: (gaps: ↔)



SMS: Examples drawn from the French Referential : **Governance and strategy** : contributing with internal and external stakeholders in building a sustainable society ‘(balanced economic, environmental. and social concerns)- formalize SD strategies and policies and integrate them in all activities (Educ, Research and Service, administration) – deploy resources and pilot SD within the institution- - **Teaching and Education**: Integrate SD in curricula, courses,- develop and support (Students’, Professors, Staff) SD competences and initiatives- **Research**: promote and value interdisciplinary research on SD at the local/national and international levels/ Relate SD research and teaching/- **Environmental Management**: Reduce gas emission, non renewable energy and material consumption/ develop pollution prevention ‘policies/ protect biodiversity/ waste management -recycling/ green campuses (including infrastructures) – **Social policy**:/Personnel: parity/diversity/quality of life/ - Students: quality of life (health),/ social policy/) **Local anchorage**:/involvement, commitment and leadership in local SD initiatives.

1.2. Characteristics and roles of Management Systems as tools to support the strategic alignment of sustainability.

This section briefly presents and discusses the characteristics and the roles of systems that can be put in place to elaborate and implement sustainability in HEIs and support its strategic alignment. An increasing number of institutions (as it is the case for companies) publish sustainability reports, profess their engagement (ex: professed sustainability Vision, values and mission) and present their initiatives in this field. This can be viewed as a signal and a first step towards sustainability. However, there can be huge gaps between what is professed and what is actually done (figure 1). One of the key issues is to reduce (fill) gaps thanks to the adoption of integrated Sustainability Management Systems.

1.2.1. From Reports.

Like companies, more and more HEI put in place policies and processes to improve their environmental performances such as the reduction of gas emissions, waste (energy, material, etc.) (Atherton, Giurco, 2011), develop “green campuses” or “eco campuses” (Finlay, Massey, 2012). An increasing number of HEIs publish sustainability reports. However, these reports greatly differ in terms of scope, topics addressed, dimensions and criteria that are used to report sustainability initiatives.

¹⁶²We are conscious that this presentation is over-simplified and based on the traditional strategic planning view

In their research on the state of sustainability reporting (from 2006-2008) at (25 largest) Canadian universities, Fonseca, Macdonald, Dandy, Valenti, 2011), (using 56 indicators based on the Global Reporting Initiative guidelines) investigate “who is reporting, how information has been reported, and what is being reported”. The study shows that “sustainability reporting is an uncommon and diverse practice”...“Primarily under the coordination of sustainability offices or students, seven universities published sustainability reports, primarily under the coordination of sustainability offices or students”. The authors conclude the summary of their findings stating that “While all reports shared a non-integrated indicators framework, a variety of approaches were used in the selection of indicators. Reports generally had limited scopes emphasizing eco-efficiency. The potential value of current documents as a tool to inform sustainability-oriented decisions is limited” (excerpts from abstract).

1.2.2. To integrated Management Systems

The adoption of environmental (quality) management systems (EMS) has been viewed as a facilitator (lever) when it comes to developing sustainability and social responsibility in companies (e.g. Delmas & Montes-Sancho, 2011, Schylander & Martinuzzi, 2006 for literature reviews). Similarly, HEIs adopt such EMS to implement and control sustainability strategies in their activities, practices, processes, infrastructures and governance. It has been argued that, due to their characteristics, HIE would provide a context which would facilitate or hinder the implementation of EMS.

In their research on environmental management systems in universities, Peris Mora and Martin (1998) identified some of these characteristics (compared to industrial companies) (pp 138-139): – (1) *environmental effects* (contamination) *and flows*: effects are of a low magnitude, not continuous but may have some levels of risks (ex: laboratories) while “material” flows are mainly related to consumption (energy and material savings/reduction) and limited production of waste (including recycling). Information and education/training should be interpreted principally as (human) flow with positive effects; universities receive students as a principal “raw material flow” and, subsequently “produces” professional experts (i.e the sum of student/education/training (p.139) - (2) the *organizational context*: (depending on their size, number of campuses (sites), culture, etc.) Universities often have complex organizational structures: in most cases their organizational designs are neither functional nor purely divisional – hierarchy (and power) depends on the educational systems (private, public /state) and traditions, etc. - (3) the *distribution of responsibilities* (*staff, management communication*) – communication and involvement in sustainability would be facilitated, (communities- orientation towards ethics) but, on the other hand, groups of participants (ex: teachers-researches) may be reluctant (chair freedom, independence) regarding standardized control systems). As a consequence, EMS (like EMAS) and quality standards (ISO) that have been primarily designed for (industrial) companies have to be adapted to the characteristics (specificities) of HEIs.

This brief literature review shows the existence of different types of sustainability assessment tools as well as different stages in their adoption by HEIs.

1.3. Stages in the adoption of Sustainability Management Systems in Higher Education Institutions.

This section briefly presents and discusses stages in the development and implementation of Sustainable Management systems in HEIs. These stages range from “awareness regarding the importance of sustainability to the “full” integration of sustainability.

1.3.1. Increasing shared awareness regarding sustainability.

A first step consists in increasing the awareness regarding the challenges associated to sustainability. Many individual and collective initiatives have been taken to increase this awareness and it may be argued that higher education institutions are (due to the characteristics presented in the previous section) receptive to sustainability.

Besides the general principles regarding sustainability as they have been defined by the UN, The European Union and States, an increasing number of actors (Ministries and associations (ex: the American College and University Presidents Commitment on Climate Change (ACUPCC) in the USA, Copernicus-Campus in the

Europe¹⁶³, etc.) contribute, through their integrated actions, in promoting sustainability and to provide HEIs with general guidelines (and checklists) to facilitate the elaboration and implementation of their sustainable development' strategies. Many universities publish reports to relate the implementation of these principles and guidelines (ex. in the USA and in the European Union) A research (Swearing White, 2009) on the early participation of universities in the ACUPCC (period December 2006-September 2007) aimed at identifying "what types of campuses (ex size, location, type of activities) might be the most likely to be climate change innovators". Drawing on the literature on organizational change, learning and innovation diffusion, this research led to the conclusion that "there is no typical signatory among the 379 charter members". Many types of institutions, public and private, small and large, located throughout the US have pledged to become climate neutral through this commitment". The increasing number and variety of European HEIs which joined Copernicus-campus, national and international networks show a similar trend. However some possible gaps between the professed principles and the actual practices can be identified. (Christensen, Thrane, Herreborg, Jørgensen, 2009) It must be stressed that direct (internal-external) and indirect stakeholders (Students, faculty-researchers- administrative staff, board members, local community, etc...) contribute in fostering this awareness among HEIs.

All these "pressures" or "incentives" increase the awareness and the shared consciousness about the opportunities and the need to (re)define and integrate sustainability strategies at the organizational level and to get the HEIs ready for change.

1.3.2. Activation: "getting the organization ready".

A second stage consists in activating the change process, in the move towards sustainability. This covers (at least) two interrelated steps: auditing the existing situation regarding SD and the elaboration of the sustainability strategy (setting a vision of sustainability, incorporating sustainability at the very center of the institution's missions (teaching/education, research and service to the society), defining (sustainability) objectives and targets, policies and priorities). The central issues to be addressed must embrace the three central missions (Education, Research and Service to the Society) but also the central core) processes (planning, administration, control) and human resource development (ex: Copernicus guidelines). HEIs are invited to conduct internal analysis and sustainability audits and to get the organization ready to prepare the ground to moving towards this stage.

Examples of these initiatives aiming at supporting change and preparing HEIs for sustainability audit can be found in the literature. Many "auditing tools" have been developed to help HEIs to perform these tasks. They range from auditing sustainability in specific fields (like sustainability in education curricula, research, environmental performances in energy use, etc.) to general and integrated audit. The validity of such tools has been evaluated. Such is the case of the STAUNCH®¹⁶⁴ (Sustainability Tool for Auditing for University Curricula in Higher-Education) in the Welsh Higher Education (Glover, Peters and Haslett, 2011). Summarizing their findings, the authors outline, (as positive aspects) that: "The audit enabled curriculum managers to identify programs of study which exhibited strengths and limitations in this area. Utilizing a common auditing tool across the Welsh higher education sector allows for future developments to be collective and collaborative "(source: drawn from abstract).

A research led on Brock University - Canada, (Mitchell, 2011) shows that: - smaller and mid-sized campuses can successfully move forward with sustainability initiatives thanks to cross professional and disciplinary synergistic partnerships – inductive methodologies should not be overlooked in this process- leading edge environmental initiatives (realized or planned) act as driving forces. " the absence of any systemic, coordinated and comprehensive approach was the main negative finding" (source: drawn from abstract).

1.3.3. Defining clear targets (metric) for auditing sustainability.

Auditing sustainability necessitates both a clear definition of targets and criteria that will be used as well as the participation of key stakeholders in the process. Depending on their characteristics and priorities, HEIs conduct internal analysis and audit based on different sets of sustainability dimensions, targets and criteria.

¹⁶³Copernicus Campus is responsible for the University Charter for Sustainable Development,. COPERNICUS was launched by CRE , the predecessor of the European Universities Association EUA, in 1988.it is an independent organization with a close link to EUA. The target is to involve committed European universities to share the knowledge and expertise in the field of sustainable development. (source UNESCO retrieved from internet, May 2012))

¹⁶⁴STAUNCH® is an assessment tool which has been developed to allow higher education institutions to measure their contributions to teaching from a sustainable development perspective. (source STAUNCH Web site, retrieved from internet May 2012)

(ex: from specific environmental issues to “green campuses”, from environmental to societal (environmental/social dimensions). A first issue is to set (long, mid and short term) objectives and targets. These objectives can be qualitative, and/or quantitative. However, in order to serve as a basis for the development of EMS, and to enable assessing the outcomes and progress made in the quest for sustainability, these targets must be (as much as possible) measurable.

Summarizing their findings on target and metrics strategies led in colleges and universities, Rauch and Newman (2009) state that “While quantitative targets may be set for sustainability metrics, these are often long-term ideals that offer no information on the path to achieve them. If a path to achieving these targets is outlined, it is often arbitrary quantitatively, if not also qualitatively” (Excerpt from abstract)

A very common approach consists in defining targets and metrics relating to environmental issues like-climate change (ex: gas emissions) , energy and material (consumption, waste management, recycling), or the protection of the biosphere. Examples of such initiatives abound. In a case study on the design of a strategy regarding campus climate change, transport and paper reduction at an Australian university, Atherton and Giurco (2011) stress “how to engage with staff and students to develop shared aspiration and how to reflect these in tangible objectives, targets and actions. These objectives and targets cover (e.g.) – reduce emissions by 11% (by 2012/2013), -double the staff/students commuting trips by walking and cycling to 35% by 2011-paper reduction (decrease paper purchase by 20% and increase recycled paper use up to 30%. The authors also insist on the evolutions in the organizational structure that are needed to implement these strategies.

The establishment of metric target strategy in HEIs is a difficult task. HEIs have to develop different strategies, depending on their characteristics (nature and scope of the activities, (ex: small and or specialized versus large/ multi-disciplinary institutions (universities) number (and diversity) of locations (campuses), etc.). As a consequence, targets and metrics must be at the same time, sufficiently standardized but adaptable (flexible). Standardization enables to assess (internally) progress in different settings, (ex faculties, locations), and to integrate sustainability at the organizational level but also to conduct comparisons among HEIs , while flexibility is necessary to take into account the specificities of each institution and its constituents.

The characteristics of such strategies have been identified. Rauch and Newman (2009) found that *“sustainability metric targets can be founded upon clearly delineated, rigorously quantified targets. At the same time, the process framework for developing sustainability metric targets is adaptable to the unique situation of a particular university. This adaptable metric target strategy reflects the ideals of sustainability to be at one time both local and global in scope. The metric target strategy is globally applicable, but the sustainability metric targets produced will be unique to each institution.”* (Excerpt drawn from abstract)

HEIs can also adopt different methods and tools as part of their SMS to support the process of data collection. The use of software is expanding in large institutions and the characteristics of such “automated” systems have been identified. Once again, it has been argued that these automated systems should be both standardized and flexible and that their design and implementation in large institutions must enable, as mentioned above, to take into account specificities. Summarizing their research Bero, Doerry, Middleton, and Meinhardt, (2012), state that - “the development of *automated EMS systems for large institutions is significantly complicated by profound heterogeneity in campus infrastructure, management policies, and limited data accessibility; legacy data are often incomplete or inaccurate*”. According to these authors: *“Successful EMS initiatives must explicitly address these challenges through realistic project planning, choice of software technologies, design of system architecture, and administrative commitment.*

The definition of such objectives/targets, their associated metrics and project planning are important steps toward the development and adoption of integrated SMS in HEIs. But it is not enough. Other challenges must be met to proactively integrate sustainability strategies in HIEs.

1.3.4. Towards integrated “Sustainability Management Systems” in Higher Education Institutions: challenges and “solutions”.

In his review of 11 cross- institutional assessment tools for sustainability in higher education, Shriberg (2002) presents the benefits associated to these tools-“identifying and benchmarking leaders and best practices-communicating common goals, experiences and methods- provide a directional tool to measure progress toward the concept of a “sustainable campus”. The author states (in the abstract of his article) that “ideal” assessment tools “ -identify the most important attributes of a sustainability campus- are comparable and measurable- measure more than eco-efficiency- assess processes and motivation and –are comprehensible to multiple stakeholders”. Drawing conclusions of his analysis, Shriberg (2002) states that they structure and content converge on the following parameters (p.267) - *Decrease throughput*: all tools reflect the need to

decrease usage of energy and other materials and inputs. – *incremental and systemic progress*: incremental (short term oriented) progress in eco-efficiency, and more systemic change (second stage – mid -long term) :incentives reward structure, mission and goals statements- , procedures- annual reports,...- *sustainability education as a core function*: sustainability integrated into curricula and courses in different disciplines (active learning)- *cross functional reach* (education, research, administration, infrastructure design,...) – *cross institutional action* : this covers cross campus comparisons, and the transfer of best practices.

This brief literature review aimed at identifying (1) the challenges of sustainability for HEIs, - (2) Their implications in terms of strategic alignment, integration and organizational change . (3) Sustainability Management Systems' roles in this alignment as well as their characteristics. We draw the conclusion that, in order to help HEIs moving toward an integrated sustainability, such systems should be 1.– general (broad) enough to embrace central SD dimensions (environmental–social) to cover central activities (teaching & education, research, service to the society) and to assess different degrees of SD integration - standardized enough to facilitate and enable comparisons: external (between institutions) and internal (between their constituents: faculties, administration functions), - flexible enough to be adaptable to the characteristics of these institutions (size, scope of activities, number of faculties, campuses,...). Such are the objectives of the "sustainable development referential" that has been developed in France.

1.4. Research issues and questions

We found interesting to trace back and to analyze key stages in the development and evolution of this innovative tool for the following reasons. From a theoretical/conceptual point of view, this analysis could help - to better understand how different "stakeholders" intervene in the collective design (process) and how the "tool" itself evolved (content). – to identify the role of contextual " external" factors (and pressures) on both process and content..From a more practical perspective, this analysis would provide insights on the key dimensions, levers and obstacles that would speed up or hinder the development of these tools by HEIs . As a consequence the research questions addressed in this paper are the following. What are the key stages that marked evolutions in the design of the sustainability referential and what were the associated change drivers (levers and obstacles)? Who were the principal actors (stakeholders) involved (interests and engagement) and how did their interactions impacted this evolution?

2. Methodology.

We applied the principles and methodology of case study research. (Yin,1984). It is important to stress that one of the authors (A) of this paper was (and is still) involved in the project since its origin as a coordinator of the project teams¹⁶⁵. From a methodological point of view, this can be viewed as an advantage (first-hand informant who has been involved at each stage of the life cycle of the project) but also as an inconvenient (risk of bias in the interpretation). For these reasons we made the decision to organize our cooperation as follow. B acted as an "interviewer" and was primarily involved in – conducting a desk research (literature review, secondary data on the project published on internet (reports, newsletters, etc.) and asking A to trace back the evolution of the project (open and semi structured interviews) and to further document the case. (collecting and structuring a great amount of secondary data). This led to a descriptive chronological presentation of the case (time line) –The second step consisted in identifying evolutions in the external and internal contexts and their impacts on the project (content and process): evolutions regarding the content of the referential, involvement of new stakeholders in the design process (teams),...) This enabled to identify "key stages" which marked the evolution in the design (content- process) and their characteristics... This part has been performed as follows: data collection (Collecting and structuring a great amount of secondary data (A).and interview (B interviewer and A respondent). Data interpretation led the two authors to engage in an "open "dialogue, (based on a comparison of their analysis and perceptions) leading to a consensus regarding the findings which emerged from this analysis. Similarities with researches on "intermediate" and "boundary" objects and "community of " arose rapidly (during the early open discussions when writing the paper proposal) and invited us to further investigate this stream of literature (Vinck, 1999, 2009) in future researches . This intuition was confirmed in the course of the analysis and reinforced when conducting the literature review on sustainability change and learning in Higher Education Institutions (Benn and Martin, 2010).

¹⁶⁵A is involved in the project since 2006, (as a CGE' team member and as a team leader/(pilot (since 2009)

3. The Context of the Study.

Higher Education in France cover two main categories of institutions; universities (most of them are state universities) and the “Grandes Ecoles” (the great majority of them are Ecoles de Commerce (Business Schools) or Ecoles d’Ingénieurs (Schools of Engineering)). In France, two associations, represent these higher education institutions: the Conférence des Présidents d’Université (CPU) and the “ Conférence des Grandes Ecoles (CGE). These associations played a central role in the design and development of the “National Referential: Green Plan”, the last version of which that has been set up and made available for French HEIs in 2012. This section presents the last version of this referential (3.1.) as well as the main stages which have marked its evolution (3.2).

3.1. The referential “Green Plan” (2012)

The final version of the referential “Green Plan” has been published in January 2012. This innovative tool aims at helping HEIs to implement the article 55 of the Law “Grenelle 1” (august 2009). Article 55, states that all HEIs have to set up an approach of sustainable development (in its economic, social and environmental dimensions) and implement initiatives in this field. The referential “Green plan”, is part of the “Green Plan for the French Higher Education Institutions” (made official in June 2010) with the Green Plan Canvas which integrated the challenges of the National Strategy for Sustainable Development 2010-2013¹⁶⁶ and -2. This referential (elaborated by the CGE, the CPU and their stakeholders) aims at helping HEIs to implement this Green Plan, following the logic and process of continuous improvements.). This referential is also designed to be used as: a pedagogical tool in Sustainable development and Social Responsibility, - a tool to communicate and share “good practices” - a guide for the elaboration and implementation of sustainability strategies (objectives for continuous improvements 1;3;5 years- priorities, etc.) that are coherent and in line with the objectives of the Canvas Green Plan and the ISO 26000,- a tool to perform the sustainability “auto-diagnosis” (strengths-weaknesses, ...), a table enabling to follow up the implementation at the operational levels and - a basis for accreditation “ (sustainability label).

The Referential 2012 is organized (structured) along five axis: - strategy and governance- education- research- environment - social policy and local (territorial) anchoring –. It contains 62variables: 18“strategic” (which are “stable” in time and relate to important issues) (3 to 5 per axis) and 44 (corresponding) “operational” ones. These operational variables are “dynamic” in the sense that they are action- oriented and defined in a context that may evolve. (ex: evolutions in the national strategy). Strategic variables have to be documented by the Head of establishment while the sustainable development “referent” appointed in each entity is expected to document the operational variables (which can be different depending on the situation/specificities of each constituent entity (site)).This last version of the referential identifies five levels of performance (assessment) and continuous improvements (with a central level (level 3) that represents the compliance to -legislations, the objectives of the “Green Plan Canvas”- or “good practices” (when and where the two previous ones do not apply).

Table 1: levels of sustainability performance (assessment and continuous improvements)

Level 1	Level 2	Level 3	Level 4	Level 5
Awareness	Initiation	Conformity	Mastery	Excellence
Awareness regarding sustainable development (SD)	Diagnosis of the present situation regarding SD	Conformity with legislation including the “green plan” and code of good practices in SD	Continuous improvement processes in place.	Excellence.
Ongoing reflections	First stages towards compliance with legislation	Formalization.	Early stages in innovation	Innovation.
Absence of formalization of the “Green plan”	Partial measures of performance, some punctual actions	Evaluation of actions undertaken	Efficiency	Excellence evaluated and recognized by Peers
				Sustainability « Labels »

¹⁶⁶The objective is to meet and integrate the challenges defined in the EU’ sustainable development strategy) into the national strategy.

3.2. Designing the referential as an innovative tool: evolutions and “revolutions”.

This section traces back the origins (2002-2006) and presents key stages in the evolution of the Referential from 2006 to 2012. It focuses on – its content (dimensions and associated variables- central actors (stakeholders) involved, - team’ members in charge of its design – external drivers.

3.2.1. Foundations (2002-2006).

Conscious of the SD challenges and the central role the Grandes Ecoles have to play in educating responsible decision makers, the CGE (Conférence des Grandes Ecoles) made the decision, in 2002 to create a “think tank” in charge of elaborating a reference document that would express the CGE’s involvement and engagement in the field of sustainable development.

In March 2003, this “think tank” (made of delegates from about 10 Schools) produced a document that became the “*Charte de la Conférence des Grandes Ecoles pour le Développement Durable*” (CGE’s Charter for Sustainable Development). This document presents the principal SD challenges and proposes ambitious sustainable development and social responsibility objectives for its members. This Charter directly inspired future works. In 2004, the CGE Board of directors, asked the same “think tank” to write a chapter dedicated to sustainable development to be included in the “Strategic White Book – 2004-2008) in progress. This chapter was finally included as an appendix. However, conscious of the importance of this subject, a decision was made to organize the annual Congress 2006 (due to be held in Brest) on this theme. To this end, new members joined the initial think tank to create the Conference 2006’ program committee. The objective was to set up a program with the aims to – increase members’ awareness regarding sustainability challenges, to insist on the Schools’ responsibilities in this field and to invite the members to make a proactive commitment and take initiatives in sustainable development. This congress, hold in Brest offered the opportunity to sign the UN Global Compact. To respond to this commitment, a decision was taken to set up, in January 2007, a “Sustainable development” team. The mission assigned to the team covered – the identification of “good practices” in France and abroad - the elaboration of a “referential guide” on sustainable development and social responsibility (global responsibility)

3.2.2. The referential: key stages of evolutions (2007-2012)

The evolution of the referential (roughly) covers three principal periods. The first one (2007-2009) consisted in designing and developing the CGE’s referential guide. The second one (2009-2010) was marked by the design and development of the CGE-CPU common referential “Green Plan” through the cooperation between the two associations. The third period consisted in redesigning a totally new Green Plan Referential. Table 2 presents a set of characteristics corresponding to each stage: design: content, actors involved, and internal/external factors.

(Insert Table 2 about here)

3.2.3. Design and content.

This section briefly describes evolutions in the referential design and content. Emphasis is put on the evolutions regarding the sustainability dimensions, items and criteria as well as changes in the referential structure.

3.2.3.1. The CGE Referential Guide (2007-2009)

It is important to stress that this guide, (that has been developed by about 20 members representative of their institutions, and in relations with “Graines de changement”) is structured along the axis defined in the CGE’s Charter for Sustainable Development adopted in 2003. Its objective is to invite members; on a voluntary basis, to produce yearly documented reports enabling the CGE to consolidate data and publish its Global Responsibility Report, and to provide these institutions with a tool that enables them to compare their situation with these consolidated data. As mentioned above, this tool is primarily designed to help institutions - to make a diagnosis of their situation, to assess and follow-up their actions (progress, indicators) – define their sustainability strategies in line with their policies, through a process of continuous improvement and progress.

– to engage in dialogues with their stakeholders and share good practices- and possibly (in the near future) to obtain sustainability labels.

About 10 team members (among the 20), all involved in sustainable development in their institution, have been very active at this stage. They cooperated under the leadership of a renowned expert in sustainable development for higher education institutions, who participated in previous stages, like the development of the SD Charter and White Book which inspired and oriented team work. Meetings (about 1 meeting hold every two months) were organized at the initiative of the team leader who set the schedules and the agenda. Delegates from Business Schools and Schools of Engineering and Sciences provided the team with complementary views and insights.

A set of levers that contributed in performing tasks and to rapidly come out with the referential guide can be identified: - the leader's role- the relatively small number of participants, all in charge of SD and working in similar institutions ('Grandes Ecoles' model). "Graines de changements" participated in the process as an "observer" rather than as a key actors, to support the development of its project "responsible campus" (source secondary data and interview A)

Content

The referential guide (version 1) contained 1. - the definition of five strategic axis presented as follows (Commitment- governance – Social policy and local (territorial) anchorage- Initial and continuous education- Research- Ecological management of the campus. (2) 35 items describing the sustainability challenges and objectives (in terms of actions to be implemented) for each entity. – 3. Four levels of performances in order to help the institution to position itself on each challenge and objective, taking into account its progress – 4. The objectives for the current year as well as a description of actions that have been undertaken to achieve them. - 5. The objectives of the entity to be achieved within 1-3-5 years (dynamic approach). This referential guide was available for CGE's member school in July 2007. It has been tested twice: in 2008 (15 schools documented it) and in 2009 (27 schools documented it).

3.2.3.2. The Sustainable Development Referential – Green Plan (2009/2010)

The cooperation between CGE and CPU was set up after the publication of the Grenelle 1 law project, and more precisely its art 55 stating that Higher Education Institutions will elaborate a "Green Plan" for their campuses. The CGE's working group has been opened and extended to interested stakeholders , such as the CPU' s sustainable development commission, the REFEDD, as well as Ministries (Higher Education and Research, -Ecology, Energy, Sustainable development and Sea,...). Others stakeholders have been associated (like the Commissariat Général au Développement Durable", the "Réseau Campus Responsables"¹⁶⁷, (Responsible Campus network), Fondaterra¹⁶⁸ and the student association "Solar Generation", ...). All these organizations have worked on the basis of the CGE's Referential Guide and collaborated in the design and development of the "Sustainable development Referential" of the "Green Plan of Higher Education Institutions" This new referential apply to all higher education institutions (Grandes Ecoles and Universities) and its implementation is compulsory since the vote of the "Grenelle 1" Law (of the 3d of August 2009).

Following the obligation (article 55 law Grenelle 1) for all HEIs to put in place a SD policy, the CGE (which had elaborated and tested its own referential) invited the CPU to work on this basis to elaborate the new common referential "Green Plan". Two groups (one for the CGE and one for the CPU) worked separately with one person (who is member of both CGE and CPU) acting as a "liaison-agent" between these teams. It is worth noting here that about 50% (4-5) of the CGE group members created in March 2010 with the objective of re-design a totally new referential participated in the previous team (2007-2009). New members were appointed after contacts A made during the annual R2D2 meeting held in Lyon in May 2010. (see section 3.2.3.3.)

Relationships between both groups rapidly became "political". While the CGE started (since October 2009) sending to its member schools the referential to be completed by July 2010, most of the universities' delegates apparently were not aware that their institutions were also requested to fill and document the referential by a "deadline". In December 2010, 70 GE and only a few universities had documented the referential. The great majority of universities just started the process and others were still wondering "what has to be done ...". This is the reason why a decision was made (in January 2011) to organize a joint group, common to the CGE and CPU with (among others) the objective -to reduce the number of items and to –re-balance the strategic axis (domains) (source: interview A.) This led to a transformation and a restructuring of the Referential in 2010-2011 (cfr. section 3.2.3.3.)

¹⁶⁷ Network of French Grandes Ecoles and Universities committed to sustainable development

¹⁶⁸ Fondation Européenne pour des Territoires Durables. (European Foundation for Sustainable territories)

Content (evolutions)

The new referential is based on the previous CGE referential guide. It keeps the 5 strategic axis (domains) which are slightly modified (names and order of presentation) – Strategy and governance- Social policy and territorial anchorage- Environmental management - Teaching and Education - Research activities - as well as the four levels of performances/assessments/ improvements.

It introduces 96 items describing the sustainable development objectives and actions (to be) performed in each institution. A correspondence was established between these items and the 9 challenges of the Preen plan – These indicators as well as the list of documents attesting actions undertaken for each level of performance (as they are assessed and declared). It is important to stress that the objectives at 1-3-5 years have been skipped from this referential.

It must also be stressed here that this increase in the number of items is notably due to the inclusion of new members from universities. This led to the addition of (a lot of) new items or (more specifically environmental items). This number also increased to take into account the context and specificities of universities (number and variety of faculties, research laboratories, (ex chemistry lab using toxic materials, etc...) that are very different from those of Grandes Ecoles (Business and/or Engineering Schools) . The increasing number of stakeholders which were directly involved in the process, more specifically the Ministry in charge of Ecology and the "Commissariat General au Développement Durable, sometimes created different interpretations (e.g.) regarding the challenges and objectives of the canvas "Green Plan".

3.2.3.3. Re-designing the referential. (2010-2011)

The analysis of the test of the referential (documented by 70 Grandes Ecoles from October 2009 to July 2010) and feedback from the respondents led the CGE's Sustainable Development Commission (in March 2010) to profoundly modify the referential to better meet the members' needs and contexts. A new working group, gathering together 8 members (from 8 Grandes Ecoles) was set up and started working on the new revisited referential in July 2010. The 8 CGE's delegates participated in the CGE's team since 2009.

Lessons drawn from the analysis (by CGE's team leader (A.) led to conclude that the previous referential was – (1) too long (to many items (96) (often too precise and/or technical) and too " heavy" (even discouraging) to be properly documented.- (2) "un balanced": lack of balance between strategic axis: Strategy and governance (14.7% of items) – Social Policy and local anchorage (28.5%), Environmental management (44.7%), Teaching and Education (7.4%) and Research activities (5.3%). This shows an "hypertrophy" of environmental issues while central dimensions of HEIs' missions; education and research are very limited. The analysis showed that (3) it is difficult for respondents to make a clear distinction between the levels (degrees) of progress/performance - (4) Lack of clarity in the distinction made between "strategic" and "operational" items. (5) Difficult to document the referential for multi-sites institutions.

This analysis conducted by the CGE's team leader (A) has been discussed within the GE team been and presented and commented in meetings with delegates from the CPU and stakeholders (from July to December 2010) and during the annual meeting hold in Lyon (May 2010) .

In September 2010, all the members of the CGE team were convinced of the necessity to - re-balance strategic axis- reduce the number of items- replace the former items related to the strategic axis (domains) by a new set of strategic variables which are in turn translated into a set of (corresponding) operational variables. - to introduce a fifth level of performance , as it is the case for SD 21000 and ISO 26000 standards.

In January 2011, the CGE and the CPU made the decision to create the "Sustainable development" working team, common to both organizations with the mission to completely review and redesign the former referential and to come out with a new and final one. The team is made of the 8 members of the previous CGE team created in 2010 and 16 members (representing 11 universities) who progressively joined it. In order to speed up the process and to meet the deadlines, the team made the decision not to involve "external" stakeholders as permanent members but to consult them, as "ad hoc" external experts. It is worth noting here that this new group was made of CGE's delegates who participated in the previous period (s).

Content: ((r)evolutions.)

This common working team has firstly confirmed the five strategic axis (domains). However, their order (of presentation) has been modified, placing Teaching- Education and Research at the second and third positions respectively. The team also defined 5 levels of performances, built around a central level (level 3) corresponding to the conformity with (compliance to) laws and regulations and the objectives of the National strategy for sustainable development "Green Plan". (cfr section 3.1). Then the team has been split into five

sub-groups, each being in charge of redesigning one strategic axis¹⁶⁹. This covers – the identification of the strategic (from 3 to a maximum of 5) and operational variables with the objective of reducing their total number. (about 60) – a (non exhaustive) list of indicators and requested documents corresponding to each variable. This led to the publication of the final version presented in section 3.1. French Higher Education Institutions are requested to document this referential by the end of July 2012¹⁷⁰.

4. Discussion and conclusions

Even if it is too early to draw conclusions from this research in progress, some lessons can be learned from our analysis. The objectives of this research (based on our literature review) were the following – What are the key stages that marked evolutions in the design of the sustainability referential to support the strategic alignment of sustainable development in Higher education Institutions?- What are their characteristics? Who were the principal actors (stakeholders) involved (interests and engagement) and how did their interactions impacted this evolution (levers/obstacles)?

Our investigation did not allowed us to (provisionally) deal with (and to provide answers to) all these questions. However, our analysis suggests that - a set of dimensions/factors can contribute to a better understanding of central issues that have been presented and discussed in the literature: The necessity to develop “Sustainable Management Tools” that are adapted to the characteristics of Higher Education Institutions and which enable them to integrate (align) sustainability in their vision, mission, strategies and operations. This pleads in favor of (and calls for) designing and developing innovative “Sustainable Management Systems (Tools)” that are 1. General (broad) enough to -embrace central SD dimensions (environmental–social-economical) and to cover HEIs’ missions and central activities: teaching & education, research, service to the society,- in the short, mid and long terms and to assess different degrees of SD’ integration – 2. Standardized enough to facilitate and enable comparisons: “externally” (between institutions) and “internally” (between their constituents: faculties, administration, functions), - 3. Flexible enough to be adaptable to the characteristics of these institutions (size, scope of activities (number (diversity) of faculties, campuses,...)).

We found interesting to further investigate initiatives led in France to develop such a “Sustainable Management System” that has been designed with the aim to supporting HEIs in their SD’ efforts and initiatives . To our knowledge, there is (still) a lack of understanding of how such enabling tools can be developed to meet these challenges and help HEIs to embark themselves in strategic and organizational changes towards sustainability. As it has been stressed, (section 1.4.) the aim of our study was to focus on the evolutions in the design and development of this innovative tool and to identify periods of (r)evolutions (relating processes and content) as well as their characteristics. A second objective was to identify stakeholders’ involvement (number and variety) their interactions as well as their influences/impacts on the referential content.

The chronological (cross-stages) analysis shows that the architectures (design /structure/content) of the successive versions of the referential are characterized by both “relatively permanent” and “dynamic” dimensions. Permanent dimensions relate to the strategic axis (domains) which have been identified and defined since its origins, even if their “order” changed in time. Dynamic dimensions cover the number and variety of variables and items that have been introduced, modified or suppressed at each major stage that marked (r)evolutions in the referential. The analysis also indicates the interplay between stability and change in teams’ membership. It is worth stressing here that the CGE teams played a central role along the whole process (cross-stage) and that about 50% of CGE team’s members have been involved at several stages. This contributed to creating “stability” in both the design process and content. Major changes in the design (architecture: structure and content) were triggered by changes in the “external” and “internal” contexts in which the project evolved. Major changes arose from the necessity and obligation to integrate the objectives of the National Strategy for Sustainable Development, the “Green Plan” canvas and to comply with the article 55 of the “Grenelle 1’ law”. The chronological view also indicates an evolution in the number and variety of key actors and “external” stakeholders involved in the processes. Key actors, specifically the delegates from the CPU joined the project at its last stages. This led to the introduction of a great number of new variables and/or items and contributed in over-emphasizing some strategic axis (domains) to the detriment of others. The increasing number of participants, with different views, can be considered as an advantage when it comes to develop a referential that can be implemented in a great variety of institutions but also as a disadvantage, because of the “heaviness” of the referential which became complicated. The increasing number of

¹⁶⁹ Governance and strategy : 6 members (2 GE, 4 university)- Teaching/education: 8 members (3 GE, 5 university) –Research : 7 members (3 GE-4 university- Environment: 5 members (2 GE-3 universities) Social policies and local anchorage: 6 members (3 GE and 3 University) It must be stressed that 3 members from GE participated in several sub groups (2 or 3 (A))

¹⁷⁰The format of the referential is an Excel file/table that has been made available for all French HEIs (Grandes Ecoles and Universities)

participants involved in the process also contributed to making relationships more political and team work less efficient. This led to the decision to split the group into five sub groups (one per strategic axis/domain). Finally the cross-stages analysis shows that the number and variety of “external” stakeholders increased and that their involvement in the process “decreased” at the last stages. This could be due to the necessity for team members to meet the deadlines that have been set up to comply with the new regulations but also to the difficulty to integrating different points of view and sharing (common) interpretations.

The analysis also showed that the whole processes evolved along periods of “evolutions” and “revolutions”. It may be argued that periods of evolutions are characterized by – stability (homogeneity) in teams and proximity among their members (delegates from Grandes Ecoles which are (rather) homogeneous (specialized in Business or in Engineering) forming “communities of practices”. This helped reaching a consensus at each stage, facilitated teamwork, and enabled building a climate of trust among team members. The referential was designed to support CGE and to invite those of its members which were interested to use it on a voluntary basis.

Periods of “instability” arose when the interplay between “external” and “internal” factors created “tenseness” in the process. Such was the case when the new regulation, (article 55) and its associated deadlines, “forced” to profoundly review and redesign the former CGE referential (which was still in process), led to integrate new team members and stakeholders (number and variety) with different expectations, points of views, involvements and commitments. The implementation of sustainability and the use of the new referential by all French Higher Education became compulsory.

These early findings invite us to pursue our research and to further investigate our case study to provide complementary or new answers to our research questions. We came to the provisional conclusion that similarities could exist between our analysis and results from researches led in sociology. It would be worth further analyzing and interpreting this case study in the light of the literature on “intermediary” and /or “boundary” objects that have been identified in design activities and “communities of practices”. These notions of intermediate and boundary objects have been developed as a research stream in the sociology of sciences, (Vinck, 1999, 2009). According to Wenger (1998 p.105 cited in Benn&Martin, 2010 p.399) “ boundary objects are “ artifacts, terms, concepts and other forms of reification around which communities of practices can organize their interconnections” Such “objects” are adaptable to different viewpoints and robust enough to maintain identity among them” (Star & Griesemer (1989 p.387) cited in Benn& Martin, 2010 p.400). Star (2010) identifies a set of characteristics of boundary objects: their - interpretive flexibility-material/organizational structure- scale and granularity. Intermediate objects have been analyzed in design activities and networks of scientific cooperation (Vinck, 1999, 2009). Different types of intermediate objects, (circulating among actors involved in these activities), have been identified. Such is the case of texts (mails, intermediary reports, technical documents, forms and formats, etc...). Successive versions of the referential (structure, content) seem to reflect the characteristics that have been attributed to these intermediate and boundary objects. They could be viewed as the outcomes of interactions in and between communities of practices.

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**MORAL REASONING AND LEARNING OUTCOMES
IN UNDERGRADUATE BUSINESS EDUCATION:
A CROSS-CULTURAL EXPLORATION**

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Summary

The paper explores findings of an assessment of moral reasoning and learning outcomes associated with undergraduate business ethics in schools from two diverse contexts, the United States and Brazil, including a required course in conceptual foundations of business ethics and optional elective courses. Findings of the longitudinal study indicate empirical support for applied curricula and a rubric based on the Four Component Model of Morality (Rest and Narvaez, 1999) is presented as one promising and productive framework. The paper explores approaches with potential for developing emerging business leaders with proclivity toward and capacity for ethical leadership, and discusses the role of institutional support for student development in the area of business ethics.

Keywords: business ethics education, moral development, undergraduate business students, ethical decision-making

INTRODUCTION

As the economy lumbers out of its global slump, scholars, business school administrations, and societal and other stakeholders at all levels continue to scrutinize business education, particularly in the area of ethical decision making and behavior. Competition for employment is fierce and corporate leaders are called to account for outcomes across the triple bottom line of financial, ethical and environmental performance.

Assessment of learning outcomes – measurable, meaningful indicators that pedagogy and content are effective in enhancing skills and influencing behavior – receives ever increasing attention as business schools around the world respond to calls for accountability. Concurrently, schools face mounting pressures: from corporate recruiters and from industry; from accreditation organizations; a climate of rankings-fever and competition; students, and parents of students, clamoring for a solid return on investment; and other demands to indicate what schools are “doing” and whether it “works”. The formative role of business schools must be considered.

Attention to ethics is critical in times of crisis and scandals often generated by greed, unconscious consumption and pleasure. It is important to notice that not only universities and families, but also enterprises act as storehouses to foster attitudes of integrity and maturity. Ethical capitalism will lead to seeking profits with a spirit of building a society driven by freedom and peace (Arruda, 2012).

The market is reacting and focusing on emerging professionals – our business students. For example, a recent study exploring the future of business asserts that “Restoring and enhancing the reputational capital of business ... has a twofold importance for today’s business leaders – first, to address the decline in trust in business among wider society [in the wake of the scandals] and secondly, to understand and realize the opportunities inherent in the new direction being shaped by the Millennial generation” (Deloitte, 2011, p. 3). These emerging professionals are primed to meet this call – “Millennials believe that business has a societal purpose... They have high expectations that business is best suited to taking a leadership role in solving some of society’s biggest challenges....” (Deloitte, 2011, p. 3). This report, presented as a resource for business leaders, reflects just one example of the recognition of this proclivity and demand for implementable skills in social impact management.

Within this context, scholars explore learning outcomes associated with various curricular interventions, with a necessary eye on measurement. The objective of this study is to explore one approach to equipping emerging business professionals with the acumen for success, and a measure of impact on students’ capacity for effective, ethical decision making. We explore a three-year longitudinal assessment of learning outcomes related to moral reasoning capacity with undergraduate business students at a premier U.S. college of business. Findings from the longitudinal study are complemented by highlights from results administering the same assessment with students at a top-tier business school in São Paulo, Brazil.

OVERVIEW & THEORY

Curricular experiences at a highly competitive university in the United States provide one example of a pedagogical approach to business ethics education. Consistent with outcomes from other studies (Rest, Narvaez, Bebeau and Thoma, 1999; Neubaum, Pagell, Drexler, McKee-Ryan and Larson, 2009; Christensen, Barnes and Rees, 2007; and Caldwell, 2010), this research indicates that students who complete a course with dedicated ethics content indicate resonance of concepts and theoretical foundations of ethical decision making, but show room for growth in translating this “knowing” to “doing” (McManus Warnell, 2010). Thus, while dedicated ethics curricula are associated with significant learning outcomes for students in the area of moral reasoning, the opportunity to translate *moral intention* to *application and behavior* in the business context remains.

Two undergraduate business schools were considered in this exploration. A longitudinal study represents data from the University of Notre Dame Mendoza College of Business (ND-MCOB) in Indiana, United States. Since its inception, ND-MCOB has explicitly included attention to values and integrity, and this ethos is clearly reflected in the business school. Three class cohorts of students participated in this study (n = 1,208), representing 70% of undergraduate business students at this university. The university’s college of business expresses its mission “to build a premier Catholic business school that fosters academic excellence, professional effectiveness and personal accountability in a context that strives to be faithful to the ideals of community, human development and individual integrity.” Further, the college is representative of top-tier business education in the United States, consistently recognized in various national rankings of business schools, for example, most recently ranked the nation’s top business schools by Bloomberg BusinessWeek (2012). Commitment to ethics in the curriculum has also been recognized, as evidenced by the top ranking in business ethics as a specialty area (Bloomberg Businessweek, 2012). Finally, the graduate program is recognized globally among top business schools addressing social and environmental management in curriculum and research (Aspen Institute Beyond Grey Pinstripes, 2011) and Corporate Social Responsibility (Financial Times, 2010). ND-MCOB is a signatory of the Principles for Responsible Management Education (PRME), the foremost global initiative aimed at fostering corporate responsibility in business education.

All undergraduate business students are required to take a 1.0-credit course, BAET 20300: Introduction to Business Ethics, which introduces the conceptual foundations of ethical theory and explores topic-based examples in multiple dimensions of business. During the survey period, the course was taught by one of four instructors. Two instructors are tenured faculty in management and marketing, and both focus their scholarship and teaching on ethical dimensions of their respective fields. A third instructor is a management teaching professor who focuses on business ethics and sustainability, and the fourth is an adjunct faculty member and priest who also serves the university in administrative capacities. Each instructor uses the same textbook and the group meets regularly to coordinate the general presentation of material. While each instructor incorporates some unique information, the topics and framework are consistent. Students are introduced to the various theoretical perspectives of ethics in business. Also included is a focus on the meaning and value of work, moral rights and responsibilities at work, and business’ environmental responsibilities. Case studies are explored through readings, video clips and review of corporate documents.

The final exam is cumulative. Each course shares a set of course objectives, below, including three sequential components aimed at moral action as the cumulative step in moral formation.

The course will:

1. Raise ethical awareness—the course will introduce and explore the ethical dimensions of business. The objective is to enhance awareness of and sensitivity to the broad range of ethical issues in business.
2. Improve ethical knowledge—the course will introduce key terms and concepts. The objective is to understand the major theoretical foundations of ethics, moral judgment and decision making.
3. Enhance ethical judgment—the course will provide and improve skills of ethical decision making. The objective is to move beyond identifying and understanding ethical issues in business to identifying and acting on the appropriate course of action.

Instructors explicitly indicate in the language of the course objectives and class lecture that the goal of successful ethics education has three parts— awareness, knowledge, and action/behavior. This framework is consistent with the Four Component Model of Morality (Rest and Narvaez 1999) and allows for ready exploration of course outcomes within this framework. Thus, in evaluating the required course, we are attempting to explore the ability of students to:

1. successfully identify ethical issues—key facts, considerations and concepts,
2. appropriately incorporate terms and theoretical concepts of business ethics into analyses of such issues, and
3. display aptitude in identifying the appropriate resolution of ethical dilemmas, and proclivity toward ethical decision making.

Given course objectives and considering the Four Component Model, we developed four measures across which we expected change pre- to post-course. Analyses will focus on student change from orientation to completion of an ethics course, specifically, change related to moral sensitivity, moral judgment, moral motivation and commitment, and moral character and competence. We expected change reflecting enhanced sensitivity to moral issues, more sophisticated analysis of key terms and concepts, increased aptitude for describing and identifying appropriate resolutions to the case dilemma, and increased proclivity toward ethical decision making.

.Second, the results of the longitudinal study at ND-MCOB are complemented with a small but compelling set of qualitative responses from a top South American business school. Fundação Getulio Vargas is a hallmark of the education field due to its excellence and quality in its undergraduate and graduate programs, applied research activities and consulting services. Today, it is composed of 11 Schools and Units, located in Rio de Janeiro, São Paulo, and Brasília. Since its creation in 1954, The School of Business Administration of São Paulo (FGV-EAESP) has stood out for its pioneering character. It was the first management school outside the United States, the first Undergraduate Program and Professional Masters Program in Business Administration in Brazil, and the first Brazilian private school to offer students reimbursable scholarships. The School's first accreditation was by AACSB (The Association to Advance Collegiate Schools of Business) in 2000. Since then, the School has continued to internationalize. In 2001, FGV-EAESP was accredited by EQUIS (European Quality Improvement System) of the European Foundation for Management Development (EFMD) and, in 2004, by the Association of MBAs (AMBA), thereby becoming the first business school in Latin America to receive the "triple crown". FGV-EAESP has maintained these accreditations and was appointed fourth best business school in Latin America for its Academic Master in Business Administration (CMAE) and Professional Master in Business Administration (MPA) programmes in a survey published by *America Economia*. Like ND-MCOB, FGV-EAESP is a signatory of the Principles for Responsible Management Education (PRME).

FGV-EAESP does not include a mandatory ethics course for business majors, however, students are able to explore these concepts in several courses, including Fundamentals of Philosophy, Sociology, Sustainability and Human Resources. Spink (2012) understands that when one goes deep into scientific work, ethical and moral issues are simultaneously assumed. Based upon a governmental requirement, all faculty members are asked to mention or discuss ethical issues in their specific classes. Selected students are exposed to three-week sustainability and social responsibility programs developed in low-income areas during school holidays. Projects include mapping the socioeconomic conditions of the local population and organizing the business inclusion of its small producers. Such an experience has brought significant awareness of social justice and responsibility, personal and business ethics, and individual and corporate citizenship to the sophomore participants.

This paper explores outcomes associated with the sophomore-level required course in business ethics theory at ND-MCOB, considers a sample of results from FGV-EAESP, and briefly compares contexts. We envision this paper as a preliminary exploration of these topics.

METHODOLOGY

The case study analysis was conducted in two diverse contexts, first, a longitudinal study at the University of Notre Dame Mendoza College of Business (ND-MCOB), comparing pre- and post-course results with three class-year cohorts, and second, a one-time assessment of responses from a small sample of students from the School of Business Administration of São Paulo (EAESP) at Fundação Getulio Vargas (FGV). Our goal was to complement findings of the longitudinal study with qualitative data from students in a different institutional context and to lay a foundation for further comparison.

University of Notre Dame Mendoza College of Business

Units of Analysis

The units of analysis of this case study are the students in the University of Notre Dame Mendoza College of Business (ND-MCOB) class of 2012 and 2013 who have taken the required ethics course, *BAET 20300: Introduction to Business Ethics*, taught by one of four different instructors, and who have completed both the pre- and post-course survey instruments.

The pre-course survey was administered at orientation to the Mendoza College of Business. The students were asked to read an article depicting a business ethical issue and input their responses via the online tool called SurveyMonkey. They were not notified that this would recur sometime later. During their sophomore year in the College the students were required to take the ethics course and at the conclusion of the course they were asked to respond to the same case they analyzed during orientation, again utilizing the SurveyMonkey tool.

553 students in the class of 2012 responded to the pre-course survey, 562 students participated at post-course, 462 took both the pre- and post-course surveys. Thus we can perform a longitudinal study of these 462 students to explore changes in their perceptions of business ethics and in their analysis of a case ($n=462$). In the class of 2013, 671 students responded to the pre-course survey, 566 students participated at post-course, and 491 took them both ($n=491$). Cohort 1 of this study, with results reported in an earlier publication (McManus Warnell, 2010), the graduating class of 2011, is comprised of 556 business students, representing 26.1% of all university undergraduates; Cohort 2, class of 2012 is comprised of 569 business students or 27.1% of all university undergraduates; and Cohort 3, class of 2013, 621 business students or 32.5% of all university undergraduate students. The study is representative of undergraduate business students, with $n=255$ (Cohort 1), $n=462$ (Cohort 2), $n=491$ (Cohort 3), representing 45.8%, 81.2% and 79.1% of the student populations, respectively.

The students were also asked to identify several demographic characteristics including gender and academic major (accounting, finance, management, marketing, or other), and questions regarding their perceptions of the influence of religion in their lives, their political views, and service/volunteer experiences. Table 1 and Table 2 show the demographic profile reflecting gender and academic majors of the two cohorts.

Table 1 Demographics of students in the ND-MCOB class of 2012

Major	Gender		Sum
	Female	Male	

Accounting	54	63	117
Finance	42	139	181
Management	37	31	68
Marketing	61	30	91
Other	2	3	5
Sum	196	266	462

Table 2 Demographics of students in the ND-MCOB class of 2013

Major	Gender		Sum
	Female	Male	
Accounting	66	73	139
Finance	44	155	199
Management	36	34	70
Marketing	52	29	81
Other	1	1	2
Sum	199	292	491

Data Collection, Processing, and Analysis

We used Survey Monkey as the data collection platform because we have a subscription available for use by faculty in the College of Business. The students' text responses are automatically recorded in the SurveyMonkey file and exported as a data file in Microsoft EXCEL 2003 format.

We used SPSS Text Analysis for Surveys (version 2.1) to conduct a content analysis of the four open-ended case study questions in each of the pre- and post-course surveys. All the text responses are imported to the software by the unique ID of each student. Items/categories are created based on the scoring rubric of each question. Key words and phrases are extracted from the text responses to define each item/category as shown in Figure 1. For example, for question 2 "Can you identify any major principles/theories that would relate to this case?" the text response is automatically classified into the "Deception" item/category if any of the following words are detected: cheat, deceive (deceiving), deceit, entice (enticing), fooling, lure (luring), scam, seduce, swindle, trap, trick, and etc., or into the "Honesty" item/category if any of the following words or phrases are detected: accurate information, all the details, all the information, symmetric information, aware of, disclosure, full knowledge of, full information, fully disclosing, honest(y), transparent (transparency), and etc. The categorization results are double checked to detect the subtlety and nuance in survey answers and some text responses are excluded from a certain item/category while others are forced into it. Figures illustrating text analyses can be found in the Appendix.

After all the text responses are categorized, a Microsoft EXCEL spreadsheet is generated for each question as shown in Figure 2. The rows are the unique IDs and the columns are all the items/categories of the question. It shows "true" if the text response is sorted into one certain item/category and "false" if it is not. According to the scoring rubric as showed in the Appendix the total point is calculated for each student in the spreadsheet. And finally all the item sums of the four open-ended questions in the pre- of post-course surveys are merged in to a single data set for each student with her/his demographic characteristics by the unique ID.

School of Business Administration of São Paulo at Fundação Getulio Vargas

Units of Analysis

A small group of students at the School of Business Administration of São Paulo at Fundação Getulio Vargas (FGV-EAESP) completed the same case study analysis. Though the number of responses precludes comparison of the student data between the two schools, it is illustrative to consider the FGV-EAESP data qualitatively, and explore some similarities and differences.

Data Collection, Processing, and Analysis

An invitation to participate in the study was sent in two mailings to 600 students registered in the first three semesters of the Undergraduate Program of Business Administration at FGV-EAESP. The students received the message from a well-liked instructor; however, no incentive or requirement was provided for participation. The students received the original invitation and two reminder emails.

Fourteen (14) students participated in the survey. Unlike the ND-MCOB cohorts, the FGV-EAESP students did not complete the survey as part of a course, nor did they complete it as a pre- and post-intervention instrument. Rather, the FGV-EAESP students took the survey one time, and did so without incentive or requirement. Rationale for this project design and implications will be discussed below. The FGV-EAESP data is included as an interesting opportunity to explore some similarities and differences, though longitudinal or comparison analyses or not included.

The survey design was identical for both the ND-MCOB and FGV-EAESP studies. Students were asked to identify the same set of demographic characteristics in both surveys; Table 3 shows the demographic profile of the FGV-EAESP respondents.

Table 3 Demographics of students in the FGV-EAESP cohort

Major	Gender		Sum
	Female	Male	
Accounting	2	3	5
Finance	0	5	5
Management	1	2	3
Marketing	1	0	1
Other	0	0	0
Sum	4	10	14

A critical difference in the units of analysis was the mechanism of obtaining participants. The ND-MCOB students participated at pre- and post- as part of a requirement for a class, or at the invitation, sent multiple times, of the Dean of the college. The FGV-EAESP student participation was entirely elective and results will be presented following the discussion of the longitudinal study at ND-MCOB.

Materials and Procedure

The instrument developed for this Case Study Analysis was used with an earlier cohort of ND-MCOB students, with results published in *the Journal of Business Ethics Education* (McManus Warnell, 2010). Discussion of materials and procedure is adapted from this preliminary report. Longitudinal comparisons of these earlier results will be included below and include only the data from ND-MCOB. Because of the small number of responses to the FGV-EAESP study and the lack of pre- and post-intervention comparison data, this discussion of materials and procedure is specific to the ND-MCOB study. FGV-EAESP data will be discussed as complementary results following this analysis.

Case Study Analysis data were coded using a standardized rubric exploring change in sophistication of analysis and incorporation of relevant terms and concepts. Two research assistants were provided a rubric of keywords by category to assign scores based on content analysis. After specific training on application of the rubric, research assistants scored twenty case study responses each and returned them to this author for review. After consistency was determined, all case studies were analyzed. The scoring rubric for this assessment, the "Case Study Response", is a four-item assessment based on the Four Component Model of Morality (4CM) (Rest and Narvaez, 1999) and exams development of moral reasoning capacity. The Four

Component Model of Morality was developed by Rest (1983) and further developed and applied by Rest and Narvaez (1995) among others. The model addresses the ways that moral behavior occurs and allows for conceptualization of successful moral functioning and the capacities it requires.

Thus, effective moral functioning requires four integrated abilities: moral sensitivity, moral judgment, moral motivation and commitment, and moral character and competence. Moral sensitivity focuses on the ability to identify and discern problematic situations with ethical dimensions. Moral judgment requires that the person move beyond recognizing that ethical dimensions are present in a given situation to explore which line of action is morally justified. Moral motivation and commitment involves the prioritization of values—moral values are prioritized over other personal values. Finally, moral character and competence acknowledges that sensitivity, judgment, and prioritization of moral values must lead to moral character and competence, or moral behavior will fail. Moral character and competence is “having the strength of your convictions, having courage, persisting, overcoming distractions and obstacles, having implementing skills, and having ego strength” (Nucci and Narvaez 2008).

The model is not linear—the components are clearly interactive. Further, Rest notes, in contrast to other models of moral function, the Four Component Model of Morality assumes co-occurrence in all areas of moral functioning of cognition and affect. Thus, moral behavior is not the result of separate processes. Rather, each of the four components involves both cognitive and affective processes. In the rubric designed for this investigation, Items 1 and 2 are associated with Moral Sensitivity, or the ability to recognize and articulate ethical dimensions of a situation. Item 3 is also associated with the Moral Sensitivity component. Here, the results were scored to determine breadth of analysis regarding perspective taking, which is a prerequisite to moral action (Nucci and Narvaez 2008). Thus, scores reflected identification of relevant stakeholders, including whether students improved their ability to recognize multiple stakeholders at three levels of analysis—micro-, mezzo- and macro-level analysis. In addition to recognizing the Four Component Model, here the approach seeks consistency with the college’s goal of fostering understanding of ethical dimensions at the individual, organizational and societal level. Finally, Item 4 (suggested resolution) is associated with the Moral Motivation component, and, broadly, to the Moral Judgment and Moral Character and Competence components of the model. While character and competence ultimately concern measuring action, which is beyond the scope of this study for reasons noted below, our goal for Item 4 was to explore identification of, and related proclivity toward, moral action. Detail on the rubric follows.

Scores for both Item 1 (*Is there an ethical issue in this case? If yes, define what you think the ethical issue(s) is/are.*) and Item 2 (*Can you identify any major principles/theories that would relate to this case?*) are thus indicators of the Moral Sensitivity measure, that is, whether students can appropriately identify and articulate ethical issues. Our rubric explored outcomes along a continuum, with zero points indicating no identification of ethical issues, and a progressive score. The score is also cumulative, that is, students received points for indicating multiple levels of analysis/more than one conceptualization of relevant concepts. Further, students were given one additional point for appropriate explanation of concepts and their relevance, beyond simply identifying relevant terms to describing interactions and relevance to the dilemma(s). One point is associated with legalistic/compliance-based notions of relevant concerns, for example, privacy law violations in the credit card marketing case. Two points were given for advanced notions, including ethical principles involved in privacy, not simply violation of legal notions. Other terms indicating a two-point score include exploitation broadly presented, i.e. “taking advantage of” students, and simple conceptions of deception, false advertising, unfavorable terms for students, dishonesty and/or conflict of interest. Three points were given for inclusion of major theoretical concepts, including duty-based or deontological ethics, responsibility, integrity, utilitarian ethics, virtue/virtue ethics, ethical obligations, the meaning and value of work, the fallacy of relativism, notions of corporate social responsibility, or models of work including human fulfillment, liberal or classical conceptions. Finally, one point was added to the score for appropriate description of these terms’ relevance, beyond simply acknowledging their relation to the case.

Item 3 scores (*Who has an interest or stake in this situation?*) correspond to sensitivity to stakeholders in the ethical dilemma. Thus, a score of two points indicates identification of primary stakeholders, including students and parents, or other, primary stakeholders immediately affected by the issue. If students indicated more than two individuals/groups of individuals affected from this primary group, they were awarded four points. Students were given four points for indication of awareness of organizational or secondary-level stakeholders, including banks, retailers, alumni associations, and the like. Five points were given for identification of societal ramifications, including contribution of credit concerns to the U.S. financial crisis, for example. Here the scores can be cumulative, so a maximum score for this item is thirteen, which indicates identification at all three levels of analysis—individual, organizational and societal.

Item 4 (*What is your suggestion for resolving this case?*) involves the components of Moral Judgment and Moral Motivation and Commitment. The component of Moral Character and Competence is more challenging to measure—action is difficult to measure without design of a social-psychological study. Our goal for item 4 was identification of, and indication of proclivity toward, moral action. Thus, identifying specific and actionable resolutions to moral dilemmas indicates judgment and motivation, which are precursors to commitment. This item is an exploration of intent, acknowledging that capacity for and proclivity toward action precedes action.

Item 4 was scored with zero points indicating no resolution, and one point a simple request for securing students' permission for use of their contact data, again reflecting fewer points for compliance-based resolutions. Two points were given for resolutions consistent with general information and disclosure themes. Three points were given for more proactive information and disclosure solutions; for example, those that involve some reduction in the marketing appeals. Four points were given for resolutions suggesting responses that require action on the part of one or more organizational stakeholders (banks, the colleges/universities). Finally, five points were given for recommendations of proactive solutions that involve policy or process changes; for example, offering financial literacy classes at the college/university, financial literacy "pre-tests" for approval, university negotiation of better terms for students, refusal of credit to students under age 21, formation of nation-wide programs with fixed rates for students, and cessation of marketing to undergraduates.

Again this item's score was cumulative, so a maximum score indicates suggested resolutions that thoroughly address each level of concern—compliance, information and disclosure, organizational change, and policy/procedural change. All students were provided the case study and response template during orientation to the college of business in August of their sophomore year. This analysis is identified as the Pre-Test/Intervention. The intervention here is defined as successful completion of the BAET 20300: Introduction to Business Ethics required, sophomore-level course. The case study presented at both pre- (taken during orientation) and post- (taken at course end) intervention concerned credit card marketing to university and college students.¹⁷¹ The four-page case included data related to industry marketing protocol, examples from real-world application, and testimony from industry experts. The case topic was selected as timely, immediately relevant to students, and one that also included industry and policy implications. At both pre- and post-test, students were asked to read the case individually. They were provided with the article and a response template via a secure online interface. Responses were entered into the web site. The template requested response to each of the four items. For each of the four items, analyses will explore change between pre- and post-course.

RESULTS

University of Notre Dame-Mendoza College of Business

In this case study we have four open-ended questions. In the rubric designed for this investigation, question 1 and 2 are associated with Moral Sensitivity, or the ability to recognize and articulate ethical dimensions of a situation, question 3 is also associated with the Moral Sensitivity component, and question 4 (suggested resolution) is associated with the Moral Motivation component, and, broadly, to the Moral Judgment and Moral Character and Competence components of the model. Our expectation was to see positive change scores on average for each question. Since we have two cohorts, first we checked the results of each class individually, and then attempted to find common traits in these two cohorts.

Results of students in the class of 2012

The descriptive statistics for item scored responses of the students in the class of 2012 are shown in Table 3.

Table 4 Descriptive statistics for item scored responses

Question	Pre		Post	
	Mean(sd)	Low - High	Mean(sd)	Low - High
1. Is there an ethical issue in this case? If yes, define what you think the ethical issue(s) is/are.	2.65(1.84)	0 - 10	6.60(.97)	3 - 7
2. Can you identify any major principles/theories	1.26(1.67)	0 - 9	6.73(.95)	0 - 7

¹⁷¹ Silver-Greenburg, Jessica and Elgin, B. (2008), "The College Credit Card Hustle", *BusinessWeek* (July 17). Available at http://www.businessweek.com/magazine/content/08_30/b4093038700850.htm.

that would relate to this case?				
3. Who has an interest or stake in this situation?	9.06(2.95)	0 - 20	9.24(2.12)	2 - 11
4. What is your suggestion for resolving this case?	2.40(2.64)	0 - 13	10.85(2.63)	0 - 13

Scores for both question 1 (*Is there an ethical issue in this case? If yes, define what you think the ethical issue(s) is/are.*) and question 2 (*Can you identify any major principles/theories that would relate to this case?*) are indicators of the Moral Sensitivity measure, that is, whether students can appropriately identify and articulate ethical issues. In the pre-course survey, 412 students (89.18%) answered "Yes" and 50 students (10.82%) answered "No." All the 462 students (100%) answered affirmatively in the post-course survey. In the post-test, we expect greater levels of identification of issues as well as increased sophistication in describing the dilemma(s). The mean score on question 1 in pre-test is 2.65 (n = 412), it increases to 6.60 in the post-test, and the mean change is 3.95 points, a statistically significant increase at 95% confidence level as shown in Table 4. The mean score on question 2 at pre-test is 1.26 (n = 412), it increases to 6.73 in the post-test, and the mean change is 5.46 points, which is also a statistically significant increase. These changes indicate that the ethics course did contribute to the development of Moral Sensitivity among the students in the class of 2012.

Table 5 Detailed t-test results

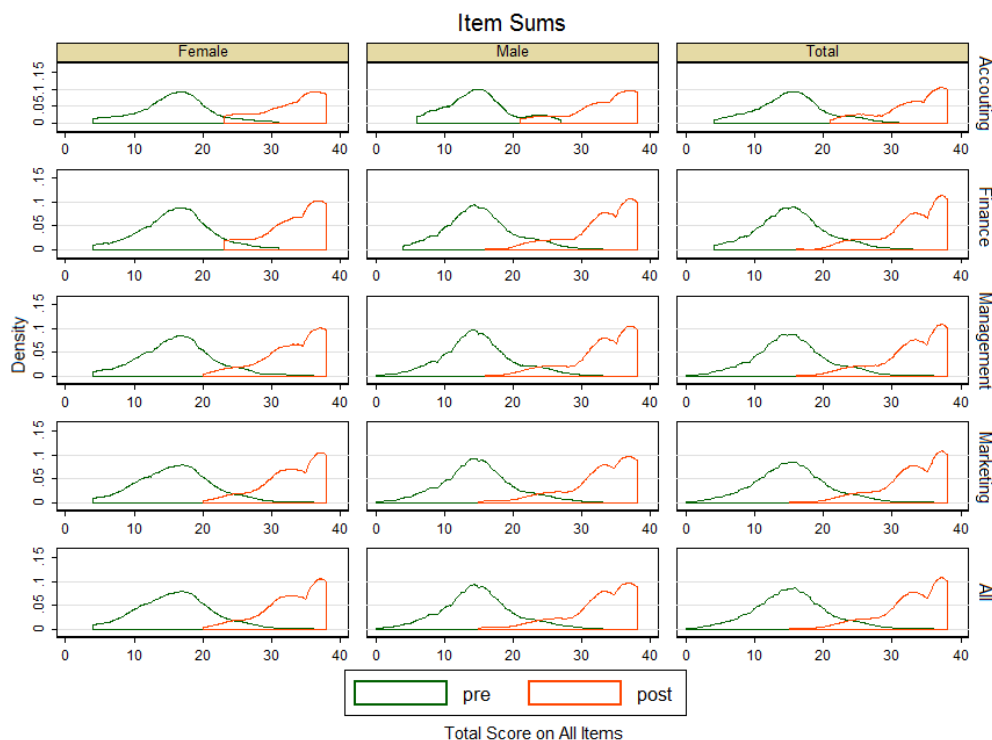
Question	Mean change	95% CI	t	p	Standardized mean gain
1	3.95	3.76, 4.13	42.19	***	2.69
2	5.46	5.29, 5.63	63.51	***	4.02
3	0.18	-0.15, 0.50	1.07		0.07
4	8.44	8.12, 8.76	52.04	***	3.21
Item sums	18.03	17.41, 18.65	57.43	***	3.52

The third question (*Who has an interest or stake in this situation?*) is also associated with the Moral Sensitivity component. Here the results are scored to determine breadth of analysis regarding relevant stakeholders, including whether students improve their ability to recognize multiple stakeholders at three levels of analysis, micro- to macro-level analysis – the individual, organizational, and societal stakeholders. The mean score for question 3 in pre-test is 9.06 (n = 462). In post-test, mean score for question 3 is 9.24, a 0.18 point increase which is statistically insignificant. We cannot reject the null hypothesis that the mean scores of pre- and post-course surveys are different. It appears that the students in this cohort did not show significant change on their identification of stakeholders after taking the course.

Question 4 (*What is your suggestion for resolving this case?*) involves the components of Moral Judgment and Moral Motivation and Commitment. And our goal for this question is identification of, and indication of proclivity toward, moral action. The mean score for question 4 in pre-test is 2.40 (n = 462), it increases to 10.85 in the post-test, and the mean change is 8.44 points which is statistically significant. This change is the greatest increase among the four measures for the students in the class of 2012, possibly indicating exploration of key terms and concepts about suggested solutions might be the major focus of the ethics course.

In sum, we detect an 18.03-point mean change in the total scores of all the four open-ended questions, which is statistically significant. Though no specific hypotheses are posited regarding difference by gender and academic majors, Figure 3 suggests the manner of change was consistent across those variables.

Figure 3 Item sums by gender and academic majors of cohort 2012



Results of students in the class of 2013

The descriptive statistics for item scored responses of the students in the class of 2013 are shown in Table 5.

Table 6 Descriptive statistics for item scored responses

Item	Pre		Post	
	Mean(sd)	Low - High	Mean(sd)	Low - High
1. Is there an ethical issue in this case? If yes, define what you think the ethical issue(s) is/are.	2.79(1.81)	0 - 13	4.00(2.54)	0 - 19
2. Can you identify any major principles/theories that would relate to this case?	1.41(2.06)	0 - 15	7.59(4.45)	0 - 21
3. Who has an interest or stake in this situation?	8.96(2.99)	0 - 21	10.23(2.91)	2 - 24
4. What is your suggestion for resolving this case?	2.21(2.43)	0 - 11	3.72(3.55)	0 - 24

In the pre-course survey, 450 students (91.65%) agreed there was an ethical issue in this case and 41 students (8.35%) answered "No." 31 more students (all together 97.96%) answered affirmatively in the post-course survey. The mean score on question 1 in pre-test is 2.79 ($n = 450$), it increases to 4.00 in the post-test, and the mean change is 1.21 points, a statistically significant increase at the 95% confidence level as shown in Table 6. The mean score on question 2 at pre-test is 1.41 ($n = 450$), it increases to 7.59 in the post-test, and the mean change is 6.18 points, which is also a statistically significant increase. This change is the greatest increase among the four measures for the students in the class of 2013 as compared to the 5.46-point increase for the students in the class of 2012. These changes suggest that the ethics course also contributes to the development of Moral Sensitivity among the students in the class of 2013.

Table 7 Detailed t-test results

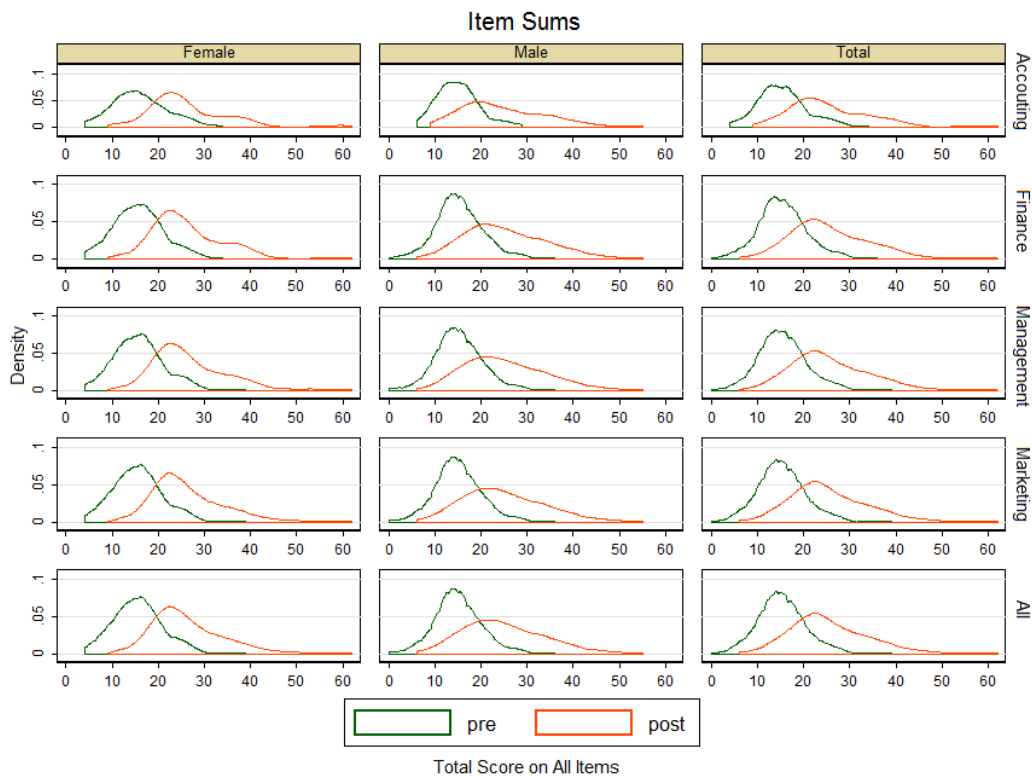
Item	Mean change	95% CI	t	p	Standardized mean gain

1	1.21	0.95, 1.48	9.11	***	0.55
2	6.18	5.75, 6.60	28.50	***	1.78
3	1.27	0.97, 1.58	8.19	***	0.43
4	1.51	1.19, 1.83	9.18	***	0.50
Item sums	10.17	9.39, 10.96	25.51	***	1.41

The mean score for question 3 in pre-test is 8.96 (n = 491). In post-test, mean score for question 3 is 10.23, a 1.27 point increase which is statistically significant. Unlike the situation of the students in the class of 2012, it seems that the ethics course did help the students in the class of 2013 to identify the stakeholder(s) in the situation.

The mean score for question 4 in pre-test is 2.21 (n = 491), it increases to 3.72 in the post-test, and the mean change is 1.51 points which is statistically significant. This change is much less than the 8.44-point increase for the students in the class of 2012.

Figure 4 Item sums by gender and academic majors of cohort 2013



In sum, we detect a 10.17-point mean change in the total scores of all the four open-ended questions, which is statistically significant. But it is less than the 18.03-point mean gain for the cohorts of 2012, indicating that the students in the class of 2013 gained more on the development of Moral Sensitivity than on the components of Moral Judgment and Moral Motivation and Commitment. And Figure 4 also suggests the manner of change is consistent across gender and academic majors of cohort 2013.

Common Traits of Cohort 2012 and 2013

First, more students realized it was an ethical issue for both cohorts of 2012 and 2013 after they took the required ethics course, suggesting a preliminary increase in sensitivity.

Second, almost all of the item score mean increases are statistically significant between the pre- and post-course surveys.

Third, as shown in Table 4 and Table 6, the standardized mean gains for question 2 are 4.02 and 1.78 for the cohort 2012 and cohort 2013 respectively which rank the first among the four open-ended questions, the standardized mean gains for question 3 are 0.07 and 0.43 which rank the last, and the standardized mean gains for question 1 and question 4 rank in the middle. Results thus indicated the greatest change in measures of Moral Sensitivity, with statistically significant change in cultivating Moral Judgment and Moral Motivation and Commitment, and in helping them identify stakeholders.

School of Business Administration of São Paulo at Fundação Getulio Vargas (FGV-EAESP)

Statistical analysis of FGV-EAESP data was not attempted due to the small number of responses (n=14) and responses may not be representative of the student body. However, the data provides interesting cross-cultural comparisons to explore several commonalities and differences, and to consider the role of institutional support in learning outcomes related to business ethics education. In this globalized business context, further cross-cultural studies will be illuminating. Included below is a sample of qualitative responses to survey items from FGV-EAESP students. In addition to the demographic information on this sample provided above, it is interesting to note that of fourteen respondents, five indicated that they have completed a course dedicated to the study of business ethics, while nine indicated they have not. The institutionalization of theories and concepts of business ethics and relation to student perspectives will be discussed below.

Fourteen students at FGV-EAESP completed the online survey, which was identical to the survey completed by students at ND-MCOB. Twelve students responded affirmatively to the question, "Is there an ethical issue in this case?" with two students indicating no. In response to Item 1, *If yes, define what you think the ethical issue(s) is/are*, students cited such concerns as privacy of the students being violated (mentioned in ten responses), the possibility of exploitative or predatory lending to inexperienced students through credit card practices (mentioned in eight responses), and the profit the universities stand to gain from these practices (mentioned in six responses).

For item 2, *Can you identify any major principles/theories that would relate to this case?*, one student noted that this case is an example of "Kant's deontology as applied to professional matters." This student was the sole respondent invoking classical ethics theory in his/her response. Other responses included, "Just a common sense of what is fair and what is not," "abusive economic interests," and "credit risk". Two students provided more substantive responses, including

"I don't believe that such a case is related to ethical issues, mostly because ethics is something really relative. I believe that the students got into debt it is their fault, because they chose to open the bank account knowing about the dangers of spending more than what they have. I'm sure the bank gave them some contracts to read and sign, but I don't believe they actually read it, just filled up the paperwork to get the credit or as the article said [the free gifts] (sic)".

and

"Being the university is a public place and an institution of the state, and a bank is a business, there is a conflict between the notion of public and private. Should the students inside an academic place be marketized in this predatory way (sic)"?

The first response above is similar to some of the ND-MCOB student responses. Many students indicated that the issue involved personal choice and that individual students' failure to investigate terms of the credit adoption was the issue at hand.

Both comments lead to the idea that, despite the orientation of different instructions, class moral orientation might not be enough to shape the future practitioner's ethical professional behavior (Bertero, 2012). Formal training helps, provides the language and concepts to articulate and support "common sense" and a deeper understanding of universal principles, but an important role can be that of business ethics courses that apply the students' ethical values into the reality of enterprises.

For item 3, *Who has an interest or stake in this situation?*, students consistently identified the banks, universities, and students as stakeholders in the case. Two students included student/alumni associations as well. No students included stakeholders at the macro or societal level, or discussed larger implications of such activities.

For item 4, *What is your suggestion for resolving this case?*, responses fell into one of two categories. First, six students indicated responses related to enhancing financial literacy/education for students, with responses such as offering "better and maybe mandatory seminars instructing students on how credit and debt cards work, how to keep track of their personal finances, and also the risks and advantages of having a

credit card.... [with such seminars] mandatory for undergraduates or first year students,” and providing “education and information for the students to enlighten them on the responsibility of having a credit card and the danger of debts”. These responses provide an interesting comparison with the ND-MCOB data. Several students at FGV-EAESP explicitly note the role of the universities in providing financial literacy training to their students, perhaps acknowledging a more comprehensive notion of the appropriate role of educational intuitions, while students at ND-MCOB generally indicated this sentiment at pos-test, after taking an ethics course, if they expressed this perspective at all.

Second, for item 4, nine students explicitly mentioned securing permissions for use of student contact information, indicating that the possibility of privacy violation or improper use of personal information was the major ethical issue. These responses from FGV-EAESP are quite consistent with the majority of responses from ND-MCOB.

Item 4 presents unique challenges, noted above, and rich opportunities for research. A natural extension of this item relates to moral behavior – the “holy grail” of business ethics education. Questions abound: How do we measure behavior/action? Can we define social or ethical impact? Can we acknowledge more explicitly the role of influence on behavior by studying narratives, role models, and reflections, thus effectively extending these “modes of discovery” (Audi, 2012) into the classroom? Can we think creatively about how to assess moral behavior (perhaps here exploration of their activities post-college, i.e. participation on not-for-profit, social service or civic boards of directors or other service orientations, active citizenship through political advocacy or other indicators of prosocial behavior, and, most compelling, analysis of decisions made in the workplace context)?

DISCUSSION

Role of Institutional Support in Student Outcomes in Business Ethics

Despite enhanced attention to business ethics in the curriculum post-financial crises of the late 1990s and 2000s, much work remains to be done. Assessment of business ethics curricula is increasingly demanded by accreditation bodies, university and college administrators, and the market. Resources continue to emerge as scholars explore outcomes (Swanson & Fisher, 2011). Regulators scramble (or amble) to meet calls for accountability in business, but regulation is only one part of creating a system peopled by effective ethical business leaders – business education must continue to rise to the challenge. Scholars provide specific examples including structures with intrinsic potential to effect positive change in the classroom like structuring self-exploration toward principled interests (Koehn, 2005), holistic approaches that incorporate resources from moral psychology by recognizing the role of developing intuition (Zhong, 2011), enhancing assessment of learning outcomes and whether integration across the business curriculum is an effective method (Assudani, Chinta, Manolis & Burns, 2011).

The Assudani et al study (2011) reflects a not uncommon finding – there is agreement that ethics should be taught; however, it is unclear on how to do so. Scholars do respond with practical suggestions as “road maps” to incorporating such topics successfully (Langmead, Sedaghat, & Unger, 2010; Cornelius, Wallace, & Tassabehji, 2007; Sims and Felton, 2006; Weber, 2006; Falkenberg & Woiceshyn, 2008; Baker & Comer, 2011; among others). These writings provide rich resources for educators. Felton and Sims (2005) have offered some of the most robust and specific suggestions on effective ethics teaching, including “targeted outputs” or specific learning goals accompanied by outcomes assessment, exploration of course values, discussion of the complexities of business ethics, acknowledgement of the interconnectedness of ethics to the functional areas of business, inclusion of cultural values in the discussion, consideration of stakeholder interests, considering sustainability and long-term outcomes, enhancing fluency and comfort around discussing ethics in the workplace, heightening notions of accountability, the need for continuous improvement (here also reinforcing an integrated approach to pedagogy – ethics education cannot be limited to a stand-alone course without reinforcement throughout the curriculum), and explicit attention to the values of the companies with whom they will be working (Felton & Sims, 2005). Additionally, particularly with undergraduates who likely lack experiences necessary to apply concepts they encounter in their course material, engagement around real-world scenarios, opportunities to apply the concepts, and highly interactive learning environments are key (Felton & Sims, 2005).

Learning from others is critical. The Principles for Responsible Management Education (PRME) initiative is an iteration of the United Nations Global Compact principles for business that recognizes internationally accepted values can inform and guide business decision-making. The PRME embody continuous improvement recognizing management education’s role in shaping “a new generation of business leaders capable of managing the complex challenges faced by business and society in the 21st century” (United Nations, 2012). With the recent crisis in the financial markets, it is clear that the sum of individual benefits does not lead to the collective benefit. It is perhaps not surprising that unethical behavior in the

corporate world by certain individuals is associated with those individuals' dishonest practices while at school (Innarelli, 2012). Attention to ethics in business schools can be readily informed by the PRME network and resources including the Sharing Information on Progress (SIP) reports. These reports, provided by PRME-member institutions, provide details on individual schools' attention to curricula, research and co-curricular activities. There are currently 435 university and college signatories of the PRME initiative, 272 of which have uploaded SIP reports (United Nations, 2012). Using SIP reports, schools can benchmark best practices, learn from others, and share what works. Manuel Escudero (2011), PRME secretariat, writes eloquently of the future of management education and notes that the financial crisis has acted "as an additional catalyst for a process of redefining business education," adding "a note of urgency" and creating a mood of "rethinking business education with a sense of imperative innovation" (p. 202). Escudero discusses globalization, the information technology revolution and governance gaps as the three primary changes effecting business today (Escudero, 2011). These three phenomena are clearly interrelated with management education and development of future business leaders. The potential for impact on the world economy and the human community is tremendous. Escudero writes:

The issue we have to address as business educators is this: if the new trend of corporate sustainability has already evolved into a new proposition for value creation in the twenty-first century, we should be reporting this to our students, and preparing them to work in this new environment.... Further, if we are supposed to train our students in business, we should change our own vision of the firm and its role vis-à-vis society in the twenty-first century, by adhering to a new paradigm or theory of the firm where companies set the limits of profit maximization in terms of the long-term sustainability of the company itself and the sustainability of society and the planet (p. 207).

Explicit attention to ethics in the curriculum, including skills-based, multidisciplinary approaches that have indicated success in action orientation toward ethical behavior such as *Giving Voice to Values*¹⁷², provides the foundation for this type of education. The PRME as a community for learning specific strategies is critical.

Like the origins of the U.S. and global financial crisis, ethical issues are not simple "yes/no" decisions. *Giving Voice to Values*, for example, allows students to explore and respond to oversimplification of ethical choices, conflicts of interests and values among the stakeholders and decision-makers, and practice actionable alternatives. The case study analysis our students completed is another useful illustration of the need for explicit attention in the curriculum. The complexity of the case, like that of the financial crisis, illustrates how even well-educated business students might struggle to make ethical decisions when facing issues in real time. These findings indicate that although significant improvement can be seen after taking a dedicated course, the engagement of these issues must continue through courses that embed ethical decision-making in practical, experiential study.

The question is often asked – should ethics be treated as a "stand alone" course in the curriculum, or "woven" throughout the core functional areas – the answer, of course, is both. Dedicated courses allow for exploration of conceptual, theoretical foundations of ethics, and, importantly, can include opportunities for both an abstract (conceptual) and narrative (cases, stories, personal experience) approaches (Audi, 2012). In his discussion of virtues, defined as praiseworthy traits of character with a far-reaching capacity to influence conduct, Audi (2012) presents a virtue orientation – clearly embedded in philosophical tradition – affects attitudes in management practices and aids in decision-making in business. Thus, "practical ethics as a set of standards for a morally good life must take account of virtue: both the evaluation of persons and the guidance of their conduct are inadequate apart from a discriminating use of virtue concepts" (Audi, 2012, p. 282),

Survey response rates may be indicative of the institutional support consideration. The ND-MCOB student response rates were much higher than those of FGV-EAESP. An optimistic observer from Notre Dame might posit that their students are more concerned with these issues than their counterparts at FGV. However, this conclusion is not supported with any comparison data. The response rates most likely reflect the reality that a "carrot" (incentive) or "stick" (threat of repercussion) must be offered to students to ensure response. Critically, the question remains – can this intention be translated into action? We conclude by asserting that intention must preclude action, and it is the role of business education to provide the foundations for development of principled intention, to provide channels of access to these issues. These include rich curricula, engaging faculty, opportunities to engage with practitioners in the field – a space and place to study and practice ethical decision-making. We find the discussion of whether to mandate a specific

¹⁷²The *Giving Voice to Values* curriculum collection is based and supported at Babson College, Wellesley, Massachusetts, USA. The University of Notre Dame was one of several pilots and the first to offer a dedicated *Giving Voice to Values* elective course. *Giving Voice to Values* was created with The Aspen Institute as Incubator, and, along with Yale School of Management, Founding Partner. It can be found at www.GivingVoiceToValues.org.

ethics course or to embed ethics throughout business education within the functional areas resolved. The answer is both. Some institutional support, providing the extrinsic motivation, a time and place, and validation of student attention to these issues, can only foster students who are intrinsically motivated toward effective ethical business decision-making.

An additional note regarding the inclusion of a U.S.-based and South American business school in this exploration concerns this forward momentum for emerging leaders. Brazil, the world's sixth-largest economy, is rich in young talent with global fluency – Brazil houses the second highest number of Facebook users after the United States, and increasingly hosts tech innovators and other investors scouring for startups (Darlington, 2012). Proclivity toward social media and information exchange illustrates that Brazil's young people, like those in the United States in and in so many of the world's economic giants, will contribute to the character of the world business economy.

This progression to an action orientation is demanded by the market and recognized by those who educate and train emerging leaders. Research supports students studying business possess explicit values considerations and are primed to contribute to values-driven organizations. These horizons are international. As business becomes necessarily global, scholars around the world explore the role and purpose of business school and advocate for business as a prosocial enterprise (Losada, Martell & Lozano, 2011; Escudero, 2011). The PRME offer a resource for global business education.

CONCLUSION

Business faces tremendous challenges and opportunities in the immediate future, including globalization, technology, climate change, emerging economies, poverty and other social challenges, and the wake of the financial crisis (Enderle, 2011). For a meticulous discussion of these challenges and their implications, which is beyond the scope of this paper, see Georges Enderle's insightful article in *Business & Professional Ethics Journal* (2011). Scholars and educators who prepare the next generation of global leaders can be hopeful. Audi (2012) offers a discussion of virtue ethics as a resource in business – for practitioners, and for students. Aspirational approaches, rooted in philosophical tradition and equipped with skills-based, relevant and robust pedagogy are key.

Teaching ethics in business administration undergraduate programs is crucial. A philosophical perspective is essential for a conceptual foundation in moral and ethical reasoning. Those who posit that this approach is too arid or complex for most undergraduate students may do well to explore the intellectual habits that may exist in the Millennial generation. It is a university's role to broaden their comprehension, supporting the development of their maturity as human beings and as professionals. It is critical to dedicate time and space to exploring business ethics explicitly, including analysis of theoretical concepts in context and in practice by building on this conceptual foundation to the business functional areas of accountancy, finance, marketing and management. We do our students a disservice if we prepare them to recognize and understand core ethical concepts but fail to equip them with the skills necessary to apply it to analysis of issues in their field and to their own personal and professional decision making. The authors see opportunities for fruitful further studies and cooperation in this regard and look at the findings as most useful.

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Figure 1. Working interface of SPSS Text Analysis for Surveys (version 2.1)

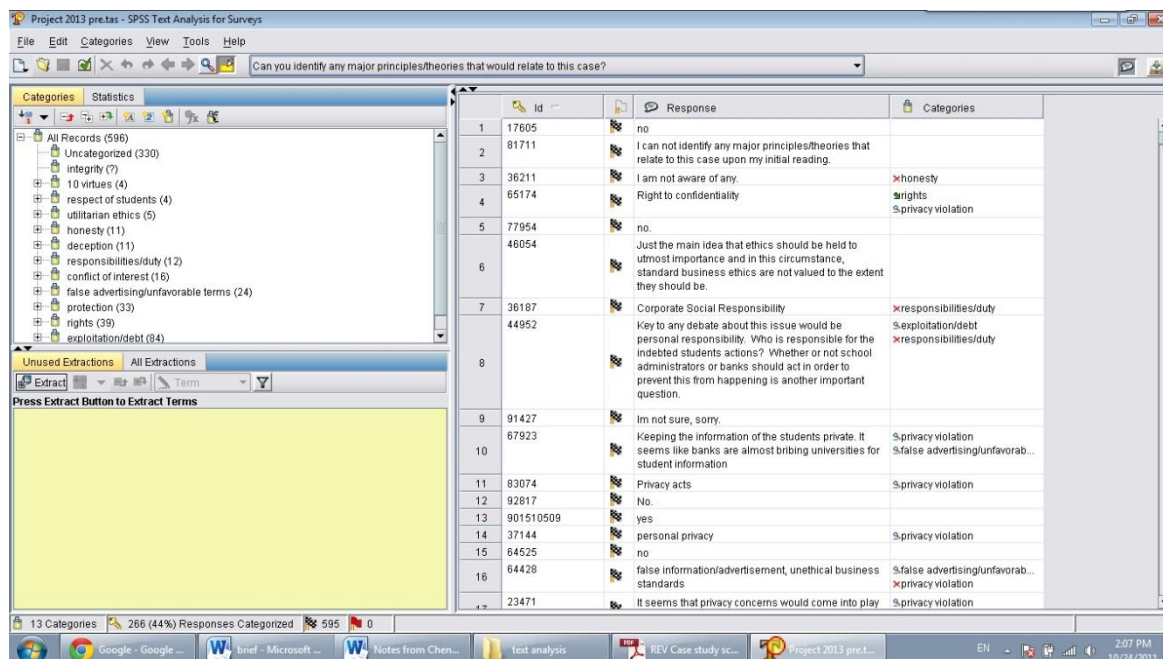
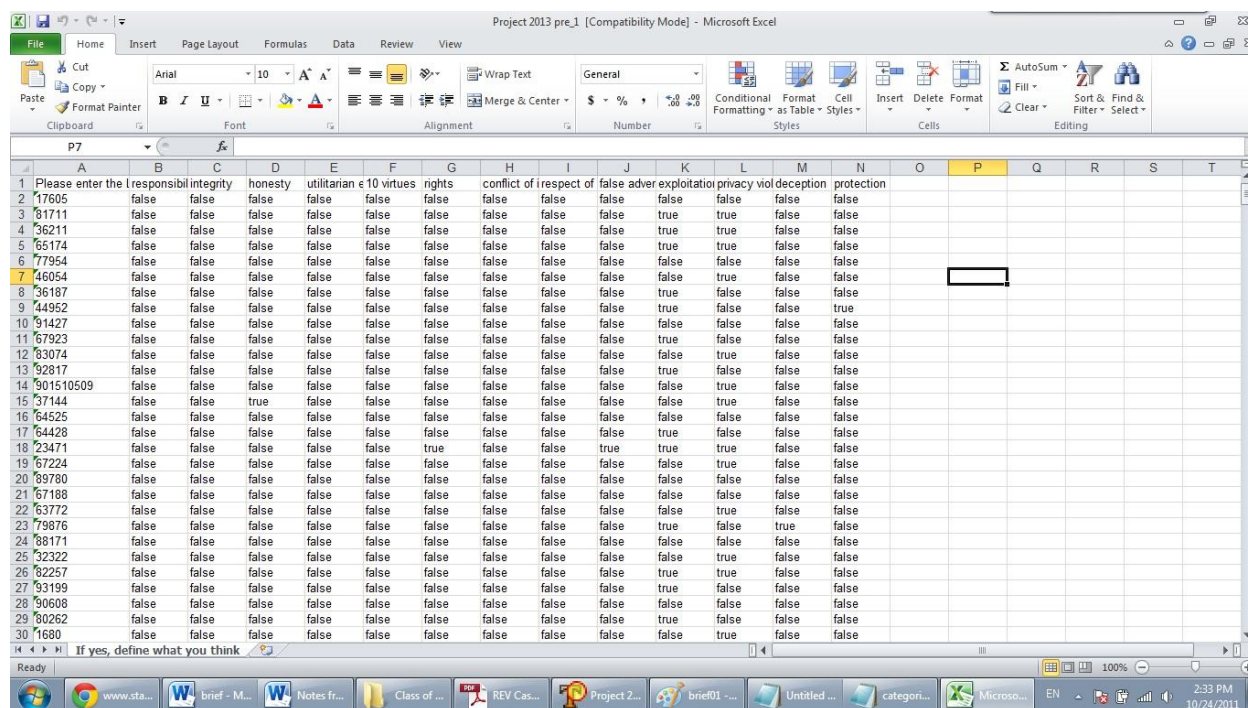


Figure 2 Microsoft EXCEL spreadsheet for question 2 of cohort 2013



LEARNING FROM THE PAST. ETHICAL CONSIDERATIONS IN MANAGEMENT LITERATURE IN THE POST-CRISIS TIME

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Summary

The last financial crisis, due to its depth and scope, received considerable attention by academics and the media. Academic reflection has been materialized in the form of dozens of books and hundreds of papers published in scientific journals.

The general goal of this paper is to identify the main streams of thought in the post-crisis management literature in respect to ethical issues. There are a considerable number of papers aimed at diagnosing direct and indirect causes of the crisis, factors influencing its speed and scope as well as its internal mechanisms. The paper tries to identify the share of research focusing on ethical issues in the management literature on the last financial crisis. The precise goal of the paper is to verify the following hypothesis: *In the post-crisis management literature ethical issues were neglected.*

The paper concludes with the argument that internal and external control procedures in large corporations – indicated in the literature both as the main cause of the financial crisis and as the main field for improvement – must be accompanied by intensive and harmonized actions aimed at implementation of ethical values of their employees.

Methodology: The paper is a desk study based upon resources available in ScienceDirect (from Elsevier) dated from 2008 until present.

Keywords: global financial crisis, causes of financial crisis, ethical considerations

Introduction

"The root cause of the global financial crisis was not a failure of regulation, but of ethics"

Simon Longstaff, executive director of Sydney's St James Ethics Centre

The 2007-2008 financial crisis was one without precedence in the post Second World War history. It was also declared as the largest of the 122 recessions recorded between 1960 and 2007 in 21 OECD countries (Classens et al. 2010), and due to its scope and depth was comparable to the Great Depression of 1930s (Trichet 2010). Bearing in mind that support by governments and central banks to the financial sector was estimated at USD 13 trillion (Huertas 2010, p.2), one may conclude that the financial crisis of 2007-2008 can be considered a turning point in the economic history worldwide. Not surprisingly, the causes, mechanisms and consequences of the financial crisis of 2007-2008 received considerable attention both from academics and businesses (Huertas 2010).

Considering the causes of the financial crisis one may refer to the exercise of poor risk controls, excessive leverage and the deliberate blindness to the bubble-like conditions of the housing market. Catastrophic decisions in the global financial crisis were largely misjudgments of risk in a financial climate that tolerated high risk. Inadequate regulations are presented as an important factor leading to serious irregularities as well (Sun et al. 2011; Post-Crisis Ethics: Shifting Mindsets or Business as Usual?). Information asymmetry and information failure accompanied by issues related to ownership structure and shareholder engagement are identified as other causes of the financial crisis (Sun et al. 2011).

These are the fundamentally economic causes for the crisis. On top of this was a rise in unemployment, liquidity crisis, inflation, high commodity prices and the collapse of trust in business, especially in the United States - where in 2009 alone, in respect to the S&P 500 corporations, trust in business had dropped by 20 percent (The 2009 Edelman Trust Barometer). In order for the financial firms to regain this trust, a series of bailouts took place in the US (Bear Stearns: \$29bl, the Federal takeover of Fannie Mae and Freddie Mac, AIG: \$85bl), accompanied by other measures such as money market funds (\$50bl), and the Emergency Economic Stabilization Act of 2008 (\$700bl). The United Kingdom was worse hit. Walker estimated the total support provided to the banks by the UK taxpayers at £1.3 trillion, or nearly 90 per cent of GDP (Walker 2009,

p.90). In October 2009 the International Monetary Fund estimated the total worldwide losses from bad loans and securities at \$3.4 trillion (IMF, 2009). It was an enormous financial effort thus the price paid for the financial crisis was unprecedented in the post Second World War history.

However, behind the economic causes and consequences of the financial crisis, one could easily detect unethical behaviors (Pomoni 2010). Curtis (2008) develops this issue further and indicates four types of ethical failures resulted in the financial crisis: 1) In subprime lending; 2) among the subprime lending banks; 3) in auction rate securities; and 4) among the Government Sponsored Entities (GSE), like Fannie Mae and Freddie Mac. He adds to these *the conspiracy of silence* attitude by the key financial policy players (such as the United States Secretary of the Treasury Henry Paulson and the Chairman of the Board of Governors of the Federal Reserve System Ben S. Bernanke), the loss of trust and the abandonment of customers. Among the three reforms in the financial sector proposed by Curtis one may find an adaptation of a laser-like focus on customers, the elimination of conflicts of interests and demanding ethical behavior across the board from its executives and employees even if it is sometimes inconsistent with short-term profits, and this behavior needs to be both exemplified and enforced by top executives (Curtis 2008).

It is unquestioned that the triggers for the crisis were the initial decisions in the US to lend money to those who were unlikely to be able to ever repay loans and then to rate these sub-prime mortgages as investment-grade assets. Such practices were unethical (Post-Crisis Ethics: Shifting Mindsets or Business as Usual?). There is anecdotal evidence that a broad ethical discussion is missing not only in diagnosing the causes of the financial crisis but also in the debate on how to fix it. (Reuters 2010).

Consequently, this may lead one to inquire on how ethical considerations are addressed in the management literature since the 2007-2008 financial crisis.

The main goal of this paper is to identify the share of research focusing on ethical issues in the management literature on financial crisis. The following hypothesis: *In the post-crisis management literature ethical issues were neglected* will be tested.

Methodology note

To proceed with a review of the literature, the ScienceDirect (from Elsevier) database was searched. The keywords of the search included: *global financial crisis*, *causes of financial crisis*, and *ethical considerations*. At that stage there were, respectively: 31 983, 37 050 and 74 640 articles found. In the second round, the search was narrowed to publications from 2008 to 2011. The results were, respectively: 11 598, 10 515 and 23 583 articles. After further narrowing the scope of the search to *Social Sciences and Humanities: Business, Management and Accounting* and using advanced search for *global financial crisis and ethical considerations* and *causes of financial crisis and ethical considerations* there were respectively 310 and 953 articles found. Then having examined the titles of these articles, a list of 117 potentially most relevant articles was created. Finally, after examination of the abstracts of these articles, a final list of 42 articles was prepared and these were read and analysed.

General causes of the financial crisis 2007-2008

A rich literature on causes of the latest financial crisis has developed. However, due to the goal and the character of this paper, it is neither necessary nor possible to offer an in-depth and systematic review of the various streams of thought regarding the causes and triggers of the global financial crisis. Consequently, positions and opinions presented below do not aspire to offer a complete and ordered review of standpoints presented in the literature. Rather, the subjectively chosen issues below are presented for the purposes of achieving the goal of the paper.

In the literature, the causes of the 2007-2008 financial crisis are analyzed from a wide and/or narrow perspective. The first attitude can be illustrated by Davies' book (Davies 2010) where the global financial crisis is seen as a political as well as an economic episode in history. As Davies demonstrates, failure occurred at the level of the individual decision-maker, the individual organization, and the individual government. Because of connections between these constituents, the disease spread like wildfire. Human greed was fed particularly by a capitalist system based on laissez-faire and grew uncontrollably because of a variety of blind eyes belonging to managers and directors overfed on bonuses and share options, shareholders satiated by dividends and capital gains, consumers duped by fictional yellow brick roads, treasurers and chancellors drowned by tax revenues, and regulators and auditors unable to comprehend the incomprehensible.

Davies points out the failure of auditors to foresee the impending financial crisis in their audit reports (the role of auditors and accountants in the crisis will be further developed in a separate section below).

He also blames credit-rating agencies and their inherent conflict of interest before considering ways in which a repeat of the financial crisis could be avoided (e.g. better ways of providing mortgage finance, limited trade in complex financial products, improved risk evaluation and management, better corporate governance and non-executive directors, and dealing with the bonus culture, fraud, hedge funds, and short-selling). He fails however, to talk about better accounting and reporting.

The narrow, subject-specific perspective on the causes of the financial crisis prevails in the literature. Two main perspectives can be distinguished in this context: 1) financial (including accounting) and 2) economic (Huertas 2010). Such a narrow perspective does not, however, result in a limited scope of the analysis.

For example Rose and Spiegel (2012) include over sixty potential causes of the crisis, covering such categories as: financial system policies and conditions; asset price appreciation in real estate and equity markets; international imbalances and foreign reserve adequacy; macroeconomic policies; and institutional and geographic features. Despite the fact that they use a wide number of possible causes in a flexible statistical framework, they are unable to link most of the commonly cited causes of the crisis to its incidence across countries. This in turn may question the accuracy of “early warning” systems of potential crises, which must also predict their timing.

Of special interest by researchers is the financial sector in general and the role of central banks in particular. Here, several attempts to evaluate proposals regarding the role of the central bank as a systemic regulator, the pros and the cons of locating financial supervision in the central bank, and the conflicts and synergies that such an arrangement entails can be identified (Cukierman 2011).

As it was introduced by Davies, greediness constitutes an important stream in the literature as to the causes of the global financial crisis. Although there is a spectrum of assessments and positions, the approaches that completely blame the greedy acts of executives for the crisis and try to hold individuals accountable for the situation are not applicable. Considering that these individuals work in a social function system with strong internal logic, it is unfair to regard them as the sole responsible party for the crisis (İçke 2011).

The analysis of the publications available on the causes of the financial crisis leads to the conclusion that ethical issues were either omitted (Huertas 2010; Davies 2010; Sun et al. 2011; Board 2010) or underrepresented, in other words only marginally considered in the literature (Young, Thyl 2011). This is to say that researchers have not considered ethical failures as direct or indirect causes of the financial crisis.

Ethical considerations are present in the literature but are introduced from other perspectives. Here accountancy and accountants represent a substantive part of the literature.

Accountants and their role in the 2007-2008 financial crisis

Although the main disastrous effects of the financial crisis in 2007-2008 were visible in the last quarter of 2008, some textbooks characterized as representing “key contribution to the accounting ethics literature” published in 2009 did not address ethical considerations in the context of the global financial crisis in an appropriate manner. This refers to McPhail and Walters (2009) book which offers nothing more than an introduction to accounting and business ethics.

Even if Gill (2009) raises the issue as to why ethics is perhaps just regarded as a consideration rather than an inherent part of the decision-making process she does not link this with the causes of the global financial crisis. Gill is right for calling on greater ethical reasoning as both a more effective way, than regulation, of averting future accounting and governance scandals and a challenge to reinvigorate professional ethics in accounting. It is argued that simply increasing regulation and the levels of compliance is counter-productive. With increased attention to technical processes rather than to wider ethical dimensions, and with more rules in place, there are more ways of seeking to manipulate the system.

Accountancy and accountants have received significantly negative PR lately and it is argued in the literature that the most recent corporate scandals have set a new low for the accounting profession. Carnegie and Napier (2010) explore how commentators have analyzed the changing activities of accountants (including the rise of consulting) and conclude that changing stereotypes of accountants are evidence of “negative signals of movement” for accounting as a profession.

The current crisis of the financial system has been linked directly or indirectly to false, misleading, or untruthful accounting. The assertion of a false or misleading financial report implies some belief that there could exist a true or not-misleading report. Accounting-standard setters have finessed this issue by agreeing that “decision usefulness,” not truth, is financial reporting’s ultimate objective. Bayou et al. (2011) provide an argument about how accounting scholars and practitioners might begin to think more cogently about what a truthful type of corporate reporting might be. They suggest that accounting-standard setters have too narrowly construed

what accounting's role in a democratic society is and how the contradictions of current standard-setting jeopardize the essential professional franchise of accountants; that is the audit function.

Nevertheless, it is, after all, the accountants who assist in financial management, prepare financial statements and audit these statements. The latter was researched by Sikka (2009) who notes that many financial enterprises seek state support within a short period of receiving an unqualified audit opinion. Auditors collected large amounts in audit and non-audit fees. The events raise questions about the value of company audits, auditor independence and the quality of audit work, economic incentives for good audits and the knowledge base of the auditors themselves.

Omurgonulsen and Omurgonulsen (2009) researching on creative accounting (based on the Imarbank case study) conclude that deficiencies in the legal frameworks for banking and accounting, inadequacies in the autonomy of governmental regulation and supervision bodies, practical difficulties in enforcing legal and ethical rules due to the slow functioning of the judicial system are significant reasons for creative accounting practices in addition to the personal greed of both owners and the top management of the bank and its customers.

As a corollary to all the above, it can be argued that accountants play a significant role in good corporate governance and ethical sustainable business practices. Taking into account the importance of reliable financial information in good corporate governance, there are calls for greater transparency and corporate governance as well as increased adoption of professional and ethical practices by businesses (Lowa et al. 2008).

Ordinary (regular) studies on business ethics

Apart from research that examines issues related to the roles of accountants and auditors in times of a financial crisis, there are others that deal with ethical issues but without direct references to the financial crisis. This category of publications can be classified as ordinary studies.

Among the several studies which fall within this category, one may find papers either dealing with the ethical perspective in management in general (Le Menestrel, Van Wassenhove 2009) or which address more specific issues such as ethical leadership, sustainable business practices or socially responsible investment.

Inquiries on ethical leadership can further be classified as general (Kalshoven et al. 2011) or more precise. For example, those studies that research the ethic of care versus ethic of justice among transformational and transactional leaders (Simola et al. 2010). Hitt et al. (2010) in his piece about strategic leadership capabilities needed in the 20th century, argues for the necessity of engaging strategic leaders in ethical practices. They maintain that effective strategic leaders are expected to place a strong emphasis on honesty, trust, and integrity in the decision-making process and in the implementation of those decisions. The core values of honesty, trust, and integrity serve as moral filters through which potential courses of actions can be evaluated. These normative values must be instilled in managers and employees throughout the organization.

As Gino and Margolis (2011) prove in their paper an effective way to proceed with such a task is the framing of ethics (e.g., through an organization's ethics code). Proper development and implementation of an ethics codes in organizations influence individuals' ethical behavior and do so differently depending on an individual's induced regulatory focus.

Gilley et al. (2010) develops this further showing that among the ways to enhance leaders' focus on stakeholder value creation is the development and executive championing of an effective code of ethics. Such "Ethics Code Commitment" (ECC) – which incorporates characteristics of the code and behaviors by top management - affects a broad number of organizational stakeholders, yielding value for them, thus increasing their psychological and/or financial commitment to the organization while strengthening the firm's corporate culture.

Bernardi and LaCross (2009) while examining the level of international website disclosures of corporate codes of ethics conclude that about two-third of researched corporations listed on the New York Stock Exchange had readily available codes. Their research also indicates that corporations headquartered in Europe were more likely to have readily available codes of ethics than corporations headquartered in the Pacific region.

This strengthens the positions of those who opt for the formalization and institutionalization of various ethics initiatives in business.

Some studies have aimed to improve contemporary business practices and its sustainable performance from the view of stakeholders and their perceived value and development of an iterative model of sustainable business practices based ethical perspective (Svensson et al. 2010; Gilley et al. 2010). It is worth to notice that – according to Kinsella and Kinsella (2012) - reflecting on the solution to the financial crisis will require a

reference point which lies outside political power and shareholder value – namely, the ‘Common Good’. Also Macintosh et al. (2009) offers a fresh perspective on ethical values expanding on Levinas’s ethics-of-being-for-the-other, an ethics that gives place of privilege to ontology rather than epistemology in contrast to much conventional Western philosophy. Their essay illustrates the potential of his ethics for mounting a critique of the use of management and control systems by global corporations.

Another interesting field of analysis focuses on socially responsible investment (SRI). Renneboog et al. (2010) study the money flows into and out of SRI funds around the world. They find that in their investment decisions, investors in SRI funds may be more concerned with ethical or social issues than with fund performance. Therefore, SRI money flows are less related to past fund returns. Ethical money is less sensitive to past negative returns than are conventional fund flows. Their results give evidence on the role of nonfinancial attributes, which induce heterogeneity of investor clienteles within SRI funds.

One may find in the literature many examples which challenge the commonly held belief in the value of honest managerial behavior. Besancenot and Vranceanu (2009) develop a simple decision model of a top executive who must choose between an honest and a dishonest communication policy and then use it to analyze the impact of a tougher sanction for fraudulent disclosure on the indirect cost of bankruptcy. They question the statement that more transparency is always better than less and challenge to some extent this conjecture as applied to corporate communication policy.

Although this concise review is far from comprehensive, it illustrates, however, that ethical considerations are considerably underrepresented in the literature. This is simply because of the absence of books and papers researching unethical behaviors in banks, financial institutions, rating agencies and other organizations, as it relates to the onset of the global financial crisis. Not only were the causes of the latest financial crisis not adequately researched, but any proposed actions aimed at curing the financial sector do not consider ethical principles.

This is despite the fact that several post-crisis decisions and actions undertaken by both financial institutions and governments pose considerable ethical controversies and urge for a much more serious debate on ethics.

Some negative consequences of the abandonment of ethical issues in diagnosing and curing the global financial crisis

While a lack of governance in big banks and financial institutions, tightly connected with the absence of ethical orientations of individuals and organizations which finally led to the global financial crisis, can be – to some extent – understood, there is no excuse for ethically highly controversial decisions taken later, during the process of recovery. This refers to corporate practices related to compensation policies. It is broadly known (thanks to reporting in the media) that some corporate practices used in the lead up to the financial crisis showed that ethical considerations were completely ignored. This can be illustrated by the way the CEOs of well established firms that collapsed overnight such as Lehman Brothers, Bear Stearns and AIG were compensated with enormous payouts (\$34ml, \$38ml and \$14ml respectively). Although U.S. President Barack Obama proposed tighter regulations on banks, he also admitted that he didn’t begrudge the \$17 million bonus awarded to JPMorgan Chase & Co Jamie Dimon or the \$9 million for Goldman Sachs Group Inc CEO Lloyd Blankfein because “they are very savvy businessmen” and some athletes earned more (Reuters 2010).

Similar practices were noticed also in Europe. For example, the Royal Bank of Scotland, 84 percent publicly owned, offered bonuses of 1 million pounds each to over 100 bankers in 2010 (Reuters 2010).

Even if these CEOs were formally (i.e. legally) eligible to these compensations (which may rise the question about the quality of appropriate regulations) one may question them on the ground of personal accountability for the loss of jobs (in respect to employees) and money (in respect to clients).

One may ask why when stakeholders—including consumers, investors, and employees—pay increasing attention to the ethical, social and environmental footprints of business, companies reengineering supply chains to make them “greener,” supporting social causes through volunteer programs for employees, or lobbying for human rights in far flung corners of the globe (Bhattacharya et al. 2011) so many individuals and organizations do not hesitate to present behaviors which apparently conflict with such a basic value as individual and organizational accountability.

Calls for greater accountability from managers and corporations are increasingly being voiced, both in the academic literature and in public discussions more generally. Specifically, it is often suggested that current financial and management accounting practices embody a rather restricted form of accountability that falls short of our mutual responsibilities as more than economic subjects. Against this backdrop, Messner (2009) raises the question of whether more accountability is always and unambiguously desirable from an ethical point of view. He does so by inquiring into the limits that the accountable self faces when giving an account.

Messner describes the accountable self as an opaque, exposed, and mediated self that is inherently limited in its ability to give an account of itself. Because of these limits, we cannot expect demands for accountability always to be fully met. This limit in turn leverages the importance of deep ethically rooted managerial attitudes and behaviors.

Acknowledging certain limitations of accountability, some authors investigate the potential for a more 'intelligent' form of accountability grounded in an ethic of humility and generosity (Roberts 2009).

Having acknowledged the importance of good legal (and internal) regulations, one may maintain, that the only antidote against inadequate laws could be: transparency, objectivity, reliability, honesty and prudence which are constitutive for business ethics (Post-Crisis Ethics: Shifting Mindsets or Business as Usual?).

Apparently, the decisions taken by the executives were based on personal compensations, while their ethical considerations were sacrificed. Once the financial industry became disconnected from its ethical base, financial firms focused on their short-term interests without considering the long-term impact on the customers, the US economy and their employees (Pomoni 2010).

The lack of personal accountability of CEOs combined with generous compensation policies they benefited from led not only toward the loss in trust in business (as indicated in the introduction) but also eroded the fundamentals of the business ethic.

This is dangerous two-fold. Firstly, any legal and internal regulations possess their limit. There will always be issues and procedures which either do not fit within the regulations or fell outside the laws. Consequently, managers will always be exposed to situations they will have to make decisions without direct reference to previously well formulated procedures. Second because the business environment is rapidly changing and the directions of these changes are less and less predictable. As some authors indicate, all that was 'normal' has now evaporated as we have entered 'postnormal' times (Sardar 2010). It is the period in-between where the old orthodoxies are dying out, but the new ones have not yet emerged, and nothing really makes sense. Such a diagnosis fits perfectly with the ongoing discussions about the necessity to implement new regulations regarding the financial sector, nationally and globally.

To have any notion of a viable future, one must grasp the significance of this period of transition which is characterized by three c's: complexity, chaos and contradictions. These forces propel and sustain postnormal times leading to uncertainty and different types of ignorance that make decision-making problematic and increase risks to individuals and society. As Sardar argues, postnormal times demands that we abandon the ideas of 'control and management', and rethink the cherished notions of progress, modernization and efficiency. This in turn speaks for a new strategic leadership since the way forward must be based on virtues of humility, modesty and accountability, the indispensable requirement of living with uncertainty, complexity and ignorance. We will have to imagine ourselves beyond the postnormal times and into a new age of normalcy—with an ethical compass and a broad spectrum of imaginations from the rich diversity of human cultures.

That is, making ethical orientation an absolute imperative and all the factors influencing this ethical orientation in a negative way must be seen as seriously threatening to the future of businesses.

Conclusions and recommendations

Having analyzed congruent publications available through ScienceDirect from 2008-2011, one may conclude that our hypothesis: *In the post-crisis management literature ethical issues were neglected* has been positively verified.

Among the conclusions we may mention the following:

- There are no publications on direct and indirect influences of unethical managerial behaviors as possible triggers of the global financial crisis 2007-2008. Although there is considerable research on corporate governance failures, the vast majority of conclusions indicate an inadequate control systems as the main reason for organization pathologies, ignoring or under valuing unethical CEOs' practices and behaviors.
- One may notice that while in the scientific literature ethical issues are either absent or underrepresented, the Internet is full of texts, positions, opinions (of various significance). This may suggest that the open public shows much more concern regarding ethical considerations for the global financial crisis.
- Not only the diagnosis of the global financial crisis can be questioned, but procedures used during the financial crisis give rise to considerable ethical concerns as well. The public was confronted with the situation where CEOs directly responsible for corporations' failures were generously

compensated. This caused not only a drop in trust in business (in general) but also questioned one of the basic ethical tenets regarding individual accountability.

- Since ethical reflection on the global financial crisis is so shallow one may maintain that we have not learned enough from one of the largest financial crises in the history of the world. It is worth noticing, that the accountant profession did a considerable effort to analyze its role and position before and during the financial crisis. It did so within the framework of business ethics. Unfortunately, such an attitude was not noticed among top managers.

- Although one may accept the notion that control processes and procedures in large financial institutions should be further improved, we must understand that due to the growing instability, complexity and unpredictability of social and economic environment, mastering the control processes is and will not be sufficient to shape effective and socially responsible corporate strategies and actions.

- There is a growing need to develop new and master existing strategies aimed at the framing of ethics.

One may conclude by suggesting actions which should be taken:

- Ethical behavior should not be presented as a trendy attitude but rather as a basic requirement for the existence and sustainable growth of corporations.

- Accountants, top managers, policy makers and other key social players should be guided, mentored and trained in business ethics. Appropriate preparations should start at the very first steps and then being continued on all levels of education.

- Legal and especially corporate internal rules and regulations should be checked for their compatibility with ethic codes.

- Media and the open public should act as ethical values guardians.

- All of us should promote the 'Common Good' as the reference point which lies outside of political power and shareholder value.

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Track 2: Values

THE CAPABILITY APPROACH AS GUIDANCE FOR CORPORATE ETHICS

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Summary

The article attempts to make the capability approach fruitful for corporate ethics (i.e., the ethics of business organizations) in two parts. The first part presents the capability approach. After a short historic overview of its development advanced by Amartya Sen and Martha Nussbaum, the question about an adequate informational basis for interpersonal comparisons is raised, and traditional answers of the utility-based and resources-based approaches are criticized. Against this backdrop, the essential elements of the capability approach, common to Sen and Nussbaum, are highlighted and some foundational implications of Sen's capability approach in particular are explained, followed by a few considerations on the limitations of the capability approach. The second part discusses the application of the capability approach to corporate ethics. Beginning with three basic assumptions on corporate ethics, the application includes a critique of "value-free" economics and other business disciplines and an enrichment of the notion of rationality. It stipulates a sensitivity to issues of poverty and distribution and elaborates on the focus on functionings and capabilities. The article ends with a few concluding remarks.

Keywords

Business ethics, capabilities, corporate ethics, ethics-related approach, functionings, human development, human rights, primary goods, inequality, informational basis, Nussbaum, Pareto criterion, poverty, rationality, Rawls, self-interest, Sen, Stiglitz-Sen-Fitoussi report, utilitarianism, wealth creation.

Introduction

If one blind person guides another, both will fall into a pit (Matthew 15:15).

Guidance without adequate informational basis is misleading and can have catastrophic consequences. This holds true for entire societies as for personal lives, for economies as for business organizations.

Over a long period of time, increasing concerns have been raised about the adequacy of current measures of economic performance, especially those based on GDP figures. Furthermore, there are broader concerns about the relevance of these figures as measures of societal well-being, as well as measures of economic, environmental, and social sustainability. Therefore, the Commission on the Measurement of Economic Performance and Social Progress, initiated by the French government, was created in early 2008 in order to address these concerns. Under the leadership of Professors Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, the Commission published its final report on September 14, 2009. There it states:

The whole Commission is convinced that the crisis is teaching us a very important lesson: *those attempting to guide the economy and our societies are like pilots trying to steering a course without a reliable compass* (emphasis G. E.). The decisions they (and we as individual citizens) make depend on what we measure, how good our measurements are and how well

our measures are understood. We are almost blind when the metrics on which action is based are ill-designed or when they are not well understood. For many purposes, we need better metrics. Fortunately, research in recent years has enabled us to improve our metrics, and it is time to incorporate in our measurement systems some of these advances. There is also consensus among the Commission members that better measures may enable us to steer our economies better through and out of crises (Report 2009, 9).

After discussing “classical GDP issues,” the Report addresses the conceptualization and measurement of “quality of life” and “sustainable development and environment.” For the purpose of this article, we focus on the capability approach that prominently figures as one of the approaches to capture quality of life, besides the approaches based on the notions of subjective well-being and fair allocations. As is well known, the capability approach has been developed by Amartya Sen and Martha Nussbaum and represents today a coherently elaborated body of knowledge, which has served as the basis for numerous public policy issues at the national and international levels. Suffice it to mention the annual *Human Development Reports* published by the United Nations Development Program since 1990.

One might, therefore, ask how the capability approach can be made fruitful for business and economic ethics. For those familiar with Sen’s work, there is no doubt that Sen has made seminal contributions to lay new foundations for business and economic ethics, ranging from opening economics to ethical considerations, to enriching motivations for economic behavior, and assessing economic and social achievements in terms of freedoms and capabilities. Throughout his professional career, Sen has paid close attention to these foundational issues, documented in numerous publications, for instance, in Sen 1977, 1982, 1984, 1985, 1987, 1999, and 2009 (see also Morris 2010). On various occasions, he also has spoken on business ethics, for example, at the International Conference on the Ethics of Business in a Global Economy, held 1992 in Columbus, Ohio (Sen 1993), and at the First World Congress of Business, Economics, and Ethics 1996 in Tokyo (Sen 1999a). Moreover, he writes extensively on capitalism and business ethics in *Development as Freedom* (Sen 1999). Thus he can rightly be called a pioneer and trailblazer of contemporary business and economic ethics.

Nevertheless, it is fair to say that until now the capability approach has been used only rarely in “business ethics” (or corporate ethics) understood as the ethics of business organizations, which differs from individual ethics and the ethics of economic systems. Therefore, it appears appropriate to explore the potential and limitations of the capability approach for corporate ethics. Thereby, Sen’s foundational work will also be considered insofar as it relates to this question.

The article includes two parts. The first part presents the capability approach. After a short historic overview of its development advanced by Amartya Sen and Martha Nussbaum, the question about an adequate informational basis for interpersonal comparisons is raised, and traditional answers of the utility-based and resources-based approaches are criticized. Against this backdrop, the essential elements of the capability approach, common to Sen and Nussbaum, are highlighted and some foundational implications of Sen’s capability approach in particular are explained, followed by a few considerations on the limitations of the capability approach. The second part discusses the application of the capability approach to corporate ethics. Beginning with three basic assumptions on corporate ethics, the application includes a critique of “value-free” economics and other business disciplines and an enrichment of the notion of rationality. It stipulates a sensitivity to issues of poverty and distribution and elaborates on the focus on functionings and capabilities. The article ends with a few concluding remarks.

The Capability Approach and Its Foundational Implications

A concise summary of the capability approach can be found in the Stiglitz-Sen-Fitoussi Report:

This approach [to measuring quality of life] conceives a person’s life as a combination of various “doings and beings” (functionings) and of his or her freedom to choose among these functionings (capabilities). Some of these capabilities may be quite elementary, such as being adequately nourished and escaping premature mortality, while others may be more complex, such as having the literacy required to participate actively in political life. The foundations of the capability approach, which has strong roots in philosophical notions of social justice, reflect a focus on human ends and on respecting the individual’s ability to pursue and realise the goals that he or she values; a rejection of the economic model of individuals acting to maximise their self-interest heedless of relationships and emotions; an emphasis on the complementarities between various capabilities; and a recognition of human diversity, which

draws attention to the role played by ethical principles in the design of the “good” society. (Report 2009, 42)

Before discussing the features, strengths and limitations of this approach in detail, a short historic overview of its development advanced by Sen and Nussbaum is presented. Sen began to focus on capability in his Tanner Lecture at Stanford University in 1979 in the specific context of evaluating equality (“Equality of What?” in Sen 1982, 353-369). In *Poverty and Famines* (Sen 1981), the term of capability is not yet mentioned (while the concepts of entitlements and the ability to command enough food play a key role). Shortly after, the notion of capability gained much attention and elaboration: in the context of development, well-being and poverty, liberty and freedom, living standards and development, gender bias and sexual divisions, and justice and social ethics. Among the numerous publications, one might mention *Commodities and Capabilities* (1985), *Inequality Reexamined* (1992), and “Capability and Well-Being” (Nussbaum and Sen 1993, 30-53). In *Development as Freedom* (1999) the capability approach takes a center stage and is, again, masterly presented in *The Idea of Justice* (2009).

Nussbaum connected the capability approach with Aristotelian ideas in the 1980s and jointly edited the book *The Quality of Life* (1993) with Sen. She has made pioneering contributions to the development of this approach and has published numerous books and articles, documented in her most recent book *Creating Capabilities* (2011), which is a lucid masterpiece on capabilities and human development.

The capability approach starts from the experience that “all over the world people are struggling for lives that are worthy of their human dignity” (Nussbaum 2011, 1). As there is an enormous diversity of lives, many plagued by poverty, disease, disabilities, and violence, the search for a better world and more just societies appears inescapable. The question then arises how these lives can be compared – or what “informational basis” is adequate – in order to reduce injustices and advance good societies.

Critique of utility-based and resource-based approaches

This question is of paramount importance for empirical and theoretical studies as well as for ethical evaluations and public policies. If one chooses an informational basis that does not allow for interpersonal comparisons, one cannot, strictly speaking, make social judgments. This outcome was famously demonstrated by Kenneth Arrow’s “Impossibility Theorem” (Arrow 1951).

Also, “the new welfare economics,” spearheaded by Lionel Robbins in the 1930s, rejects interpersonal comparisons of utility and uses only one criterion of social improvement, namely the “Pareto criterion.” This accounts only for the utilities of each person *separately*. Accordingly, the situation *x* of a group (or a country) is better than the situation *y* of this group (or country), if at least one person has more utility in *x* than in *y* and everyone has at least as much utility in *x* as in *y*. A situation is then described as “Pareto optimal” or “Pareto efficient,” if and only if there is no other feasible situation that is superior to it in terms of the Pareto criterion. This means that Pareto optimality ignores the issue of the distribution of utilities and does not account for anything other than utilities (such as freedoms, rights, or opportunities). It goes without saying that, in comparing situations of men and women, ethnic groups, and entire nations, this criterion would generate bizarre results.

Because interpersonal comparisons are necessary for investigating and assessing social states of affairs, one may ask for the appropriate informational basis of comparisons. Broadly speaking, two influential sets of approaches can be distinguished. The first set is based on subjective feelings of persons and has been advocated, historically and most prominently, by utilitarianism with its different versions: the hedonistic view of utility as pleasure, utility as desire fulfillment and utility as preference satisfaction. More recently, studies of subjective well-being (i.e., about whether people are “happy” and “satisfied” with their lives) have been undertaken, and these studies show that it can be made amenable to systematic quantification (see Report 2009, 145-151).

The second set of approaches is based on “objective” resources such as income and wealth, which are discussed as “primary goods” in John Rawls’s *A Theory of Justice* (1971). Moreover, in the economics field, the welfare economics tradition and the theory of fair allocation have developed ways to include non-market aspects of quality of life into a broader measure of well-being (Report 2009, 153-155).

While Sen acknowledges the legitimacy and usefulness of subjective and objective approaches to quality of life, presented in the Report, for certain purposes, he strongly criticizes the utility-based and the resource-based approaches. The utility-based approaches suffer from two fundamental flaws. First, they aggregate the utilities simply by summing them together (an arithmetic addition), which is called “sum-

ranking.” Therefore, the distribution of the utilities of individuals becomes irrelevant. Second, utilities are subjective, mental entities, which are shaped by the environments to which individuals have been exposed for a long time.

The utilitarian calculus based on, say, happiness can be deeply unfair to those who are persistently deprived, such as the traditional underdogs in stratified societies, oppressed minorities in intolerant communities, precarious sharecroppers living in a world of uncertainty, sweated workers in exploitative industrial arrangements, subdued housewives in deeply sexist cultures. The hopelessly deprived people may lack the courage to desire any radical change and often tend to adjust their desires and expectations to what little they see as feasible. They train themselves to take pleasure in small mercies. The practical merit of such adjustments for people in chronically adverse positions is easy to understand: this is one way of making deprived lives bearable. But the adjustments also have the incidental effect of distorting the scale of utilities. (Sen 2008, 18-19)

Sen’s critique of the resource-based approaches (particularly Rawls’s notion of primary goods) is based on a differentiated understanding of the relation between goods and persons and the fundamental value of a person’s real freedoms (for a comparison of primary goods and capabilities, see also Brighthouse et al. 2010). Sen distinguishes different categories that are involved in the relation between a good (say, a bike) and a person (see Sen 1982, 30):

goods >>>	characteristics >>>	conversion into:>>>	functioning >>>	capability
(e.g., a bike)	(e.g., transport)		(e.g., moving)	(e.g., able of moving)

“Characteristics” are qualities of goods, whereas “functioning” relates to a person’s *use* of those characteristics, e.g., *a bike* provides transport while *a person* moves and can move with it. The crucial point in this relation is that the goods with their characteristics are means to achieve the ends of the person. They are not identical with, but *converted* into the functionings and capabilities of the person. This conversion of goods in general and primary goods in particular depends on the characteristics of the person.

For example, a person who is disabled may have a larger basket of primary goods and yet have less chance to lead a normal life (or to pursue her objectives) than an able-bodied person with a smaller basket of primary goods. Similarly, an older person or a person more prone to illness can be more disadvantaged in a generally accepted sense even with a larger bundle of primary goods. (Sen 1999, 74)

Against Rawls’s use of primary goods, Sen insists that the conversion problem that affects significantly disabled people should be addressed by choosing the informational basis with the focus on functionings and capabilities. After all, “the magnitude of the global problem of disability in the world is truly gigantic. More than 600 million people – about one in ten of all human beings – live with some form of significant disability” (Sen 1999, 258).

Sen’s emphasis on finding an adequate informational basis for comparing human lives can be explained by his life-long concern for the poor and his search to engage ethics and economics into productive interdisciplinary communication. On the one hand, the informational basis must reach the lives and freedoms of people; on the other hand, it has to be objective enough to allow for interpersonal comparisons. Moreover, it must include all people and hence be globally applicable. Thereby, both commonalities and diversities of human lives have to be taken into account, avoiding ethical imperialism as well as ethical relativism. Finally, the informational basis should allow sufficient room for multiple ethical theories.

Essential elements of the capability approach

Having discussed the importance of an adequate informational basis for interpersonal comparisons and criticized different prominent approaches, we ask what can the capability approach offer? What are its essential elements? As Nussbaum writes, the key question for an adequate informational basis is, “What is each person able to do and to be?”:

The approach takes *each person as an end*, asking not just about the total or average well-being but about the opportunities available to each person. It is *focused on choice or freedom*, holding that the crucial good societies should be promoting for their people is a set of opportunities, or substantial freedoms, which people then may or may not exercise in action:

the choice is theirs. It thus commits itself to respect for people's power of self-definition. (Nussbaum 2011, 18)

The importance of each person as an end, with his and her choice or freedom, and the claim to be respected, has universal validity and holds for all people in all cultures and religions. It is noteworthy that the concentration on capabilities of persons does not imply "methodological individualism" which assumes that individuals with their thought, choice and action are detached from the society in which they exist. "The capability approach not only does not assume such detachment, its concern with people's ability to live the kind of lives they have reason to value brings in social influences both in terms of what they value (for example, 'taking part in the life of the community') and what influences operate on their values (for example, the relevance of public reasoning in individual assessment)" (Sen 2009, 244). In other words, it would be "a significant mistake" (Sen) to interpret the capability approach in an individualistic sense.

A further feature of the capability approach is a pluralist understanding of value:

The approach is resolutely *pluralist about value*: it holds that the capability achievements that are central for people are different in quality, not just in quantity: that they cannot without distortion be reduced to a single numerical scale; and that a fundamental part of understanding and producing them is understanding the specific nature of each (Nussbaum 2011, 18-19).

To illustrate, it does not make sense to curtail to one single indicator among the following capabilities: being adequately nourished, escaping premature mortality, reading, calculating and writing, doing "decent work" (that includes many substantive elements), and having leisure time. It is noteworthy that the Stiglitz-Sen-Fitoussi Report, too, emphasizes a range of features in people's lives "that are important either intrinsically, as objective expressions of a good life, or instrumentally, to achieve valuable subjective states or other objective goals. Some of these features may be conceived as referring to particular functionings (*i.e.*, descriptions of people's doings – *e.g.* working, commuting – and beings – *e.g.* being healthy or educated) while others may be conceived as freedoms in particular domains (*e.g.* political voice and participation)" (Report 2009, 156).

Finally, Nussbaum emphasizes the value perspective of the capability approach:

The approach is *concerned with entrenched social injustice and inequality*, especially capability failures that are the result of discrimination or marginalization. It ascribes an urgent *task to government and public policy* – namely, to improve the quality of life for all people, as defined by their capabilities (Nussbaum 2011, 19).

While the capability approach offers an adequate informational basis for interpersonal comparisons in general, it is particularly apt to shed light on poverty and inequalities and to guide public policies to address these issues. This does not require an all-encompassing theory and policy. But a focus on a limited set of issues – or what Sen calls a "partial ordering" – suffices (see Sen's extensive discussion of his view of how to approach justice in Sen 2009).

These essential elements of the capability approach, outlined above, are shared by Sen and Nussbaum (and many other scholars). However, there are also differences between the two authors, which may be indicated briefly, but not pursued further in this article. Nussbaum calls her approach "Capabilities Approach," pointing to the plurality and qualitative distinctness of the most important elements of people's quality of life (see Nussbaum 2011, chapter 2 and 4; also Sen 2005, 157, 160). She explicitly grounds her theory of fundamental political entitlements in human dignity and employs a specific list of ten "central capabilities." They constitute a minimal threshold level that a political order must at least secure to all citizens: life; bodily health; bodily integrity; senses, imagination, and thought; emotions; practical reason; affiliation; other species; play; and control over one's environment, politically and materially. In line with Rawls's political liberalism, her capability-based theory of justice refrains from offering a comprehensive assessment of the quality of life in a society. But it also comprehends the capabilities of nonhuman animals.

In contrast, Sen abstains from establishing a specific list of (basic) capabilities, leaving its specification to public reasoning (although he thinks some capabilities, for example, health and education, are particularly important). A main concern of his has been to identify capability as the most pertinent space of comparison for purposes of quality-of-life assessment, which can be the basis for a comprehensive quality-of-life assessment in and between nations and other groups (see Report 2009). Such a project, in turn, goes beyond the deliberately limited aims of Nussbaum's political liberalism. Sen, however, develops a theory of justice in a

very broad sense. “Its aim is to clarify how we can proceed to address questions of enhancing justice and removing injustice, rather than to offer resolutions of questions about the nature of perfect justice” (Sen 2009, ix). Moreover, Sen does not extent his theory to nonhuman animals’ capabilities.

Some foundational implications of Sen’s capability approach

In order to better understand the capability approach and its application to corporate ethics, it is helpful to explore some foundational implications of Sen’s approach. As economist and philosopher, Sen has never accepted the strict separation of both disciplines, but persistently aimed at relating ethics and economics in fruitful dialogue. This has led to a lucid critique of core neoclassical assumptions in economic theory and considerably enriched the paradigm of economics, which he calls an “ethics-related approach” as distinct from the “engineering approach” to economics (Sen 1987; also Enderle 2012b). The latter primarily focuses on logistical issues in a “value-free” manner: what means should one choose in order to achieve as efficiently as possible, under very simple behavioral assumptions, goals that are given from elsewhere? The ethics-related approach, however, going back to Aristotle, involves a broader understanding of economics and other business disciplines. It also comprehends problems of human motivation and the judgment of social achievements that cannot be disconnected from the ethical question of the good and just: how should one live and how should we foster a good and just society?

For Hilary Putnam, Sen’s approach demonstrates successfully how the false dichotomy of “facts” and “values” can be overcome. There are no “value-free facts” in juxtaposition to (subjective) value judgments because both facts and values are subject to value judgments, the first to epistemic value judgments and the second to ethical value judgments (Putnam 2002, 46-78). This means that the “engineering approach” in general and the neoclassical theory in particular are not “value-free.” For example, the choice of a particular informational basis for interpersonal comparisons (say utility or income) depends on epistemic value judgments, which, in turn, are influenced by ethical value judgments. Other examples are the notions of rationality and economic behavior, the role of self-interest and profit maximization.

Sen criticizes the economic model of individuals acting to maximize their self-interest heedless of relationships and emotions (see also Pressman et al. 2000). First, it is a bad description of how people actually behave. Second, it does not respect how individuals may value what to do and to be. Third, it disqualifies all other-regarding motivations as irrational. Fourth, it fails to motivate for the production of public goods (as distinct from private goods). Fifth, it excludes respect for and fair dealing with disabled people. Finally, as a core assumption in social contract theories based on cooperation for “mutual advantages,” it limits the people included to those who can make contributions and excludes those in need.

With regard to judging social achievement (i.e., the goodness and justice of societies), Sen’s longstanding concern for poverty and inequalities has given him a sharp heuristic perspective to examine prevailing philosophical and economic approaches. Neither purely subjective (e.g., utility) nor merely objective criteria (e.g., income) nor any single numerical scale are adequate to capture the plight of the poor in particular and the achievement (or non-achievement) of the whole society in general. The capability approach offers a way to avoid these impasses. It places the persons’ lives at the center: what matters is what they do and they are (functionings) and their freedoms to choose among these functionings (capabilities). Thus “human development” is defined as “a process of expanding the real freedoms that people enjoy” (Sen 1999, 3). The expression “the real freedoms that people enjoy” epitomizes the concepts of functioning and capability. Clearly, it is not about any freedoms, but about the freedoms (a) that people value, (b) that they have reason to value, and (c) that stand the test of public scrutiny.

Three implications are to be mentioned briefly. Poverty as capability deprivation is measurable and requires value judgments, which need to be enforced by public policies. Sensitivity for distributions of functionings and capabilities can be enhanced by statistical documentation and opened up to public reasoning. In its reach, the capability approach is global across cultures and religions and comprehends all human beings.

Limitations of the capability approach

As Sen readily admits, the capability approach also has its limitations. For instance, it cannot pay adequate attention to fairness and equity involved in procedures (i.e., the process aspect of freedom) that have relevance to the idea of justice (Sen 2009, 295-298; this point, though, is criticized by Nussbaum 2011, 67). Moreover, capabilities are not, like human rights, moral claims that involve duties (Sen 2005 and 2009, 370-376).

Another limitation – and a critique to some extent – has to do with the notion of wealth. Sen agrees with Aristotle that “wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else” (Sen 1999, 14; also Sen 2009, 253). Wealth is not something we value for its own sake. It is only an “admirable general-purpose means for having more freedom to lead the kind of lives we have reason to value” (Sen 1999, 14).

This notion of wealth seems to be understood in a narrow, material sense, reflecting a certain underestimation of the material world and the “bodiliness” of the human person. According to Jacob Viner, “Aristotle ... insisted that wealth was essential for nobility, but it must be inherited wealth. Wealth was also an essential need of the state, but it should be obtained by piracy or brigandage, and by war for the conquest of slaves, and should be maintained by slave works” (Viner 1991, 39). If the material world is considered inferior and merely instrumental, wealth cannot but share these qualities and is likely to be undervalued. If it has no intrinsic value, it is not a place where deeper meaning can be searched and found.

It is therefore suggested to enrich the notion of wealth (Enderle 2009, 2010 and 2011). This notion is consistent with the ethics-related approach, integrates the capability approach, and adds a more specific purpose of business and economics within the overall purpose of “expanding the freedoms that people enjoy.” Thus the purpose of business and economics is conceived as “wealth creation” in a comprehensive sense that goes beyond profit maximization and adding value. Wealth is more than financial capital by including physical (i.e., natural and produced), human (in terms of health and education), and “social” capital (as trust relations in Robert Putnam’s sense). Wealth encompasses not only private but also public wealth, both influencing each other in multiple ways. Because the process of wealth production inescapably involves distributive patterns, the productive and the distributive dimensions of wealth creation, strictly speaking, cannot be separated. Wealth is not merely material, but also has a spiritual side, which ennobles its creation to a truly noble human activity. By placing wealth creation in the time horizon of sustainability enriched by Sen’s capability approach, one overcomes an exclusively short-term view and integrates an intergenerational justice perspective. The emphasis on creating as distinct from possessing and acquiring highlights the need for innovation in both private and public wealth creation and requires “mixed” motivations (that is self- and other-regarding) to overcome the exclusive and thus insufficient motivations of either self-interest or collective interests.

Obviously, this rich concept of wealth creation is influenced by Sen’s work in several respects: his capability approach incorporated in human capital and the sustainability perspective; the important role of public goods; the rejection of self-interest as the only rational motivation and the indispensability of other-regarding motivations; and the concern for distribution and poverty as capability deprivation. Moreover, the Stiglitz-Sen-Fitoussi Report discusses different types of capital, namely physical, natural, human, and social capital, and emphasizes the crucial role of wealth as stock for assessing the standard of living over time.

Application of the Capability Approach to Corporate Ethics

As discussed in a previous section, the capability approach offers an informational basis for public policy, which is more adequate than utility-based and resource-based approaches. It is decidedly people-centered and provides theoretically sound and specific guidance for governments and international agencies such as the World Bank. In principle, it can be applied to any decision making situation, be it of an individual, an organization, or in a systemic context (see three-level conception of business ethics in Enderle 2003).

In the following, the focus is on the ethics of business organizations: what guidance can the capability approach provide to corporate ethics? So far this question rarely has been addressed, and also Sen has ventured on this complicated field only on a few occasions (e.g., Sen 1993 and 1999a). Therefore, what follows is an attempt to explore some important features.

When addressing issues of corporate ethics, it is important to keep in mind the enormous variety of business organizations operating in multiple industries and hugely diverse cultures and countries. In addition, there are many different definitions of the purpose of business and business organizations such as making money, maximizing profit, surviving competition, providing goods and services, and improving society. However, it does not lie within the scope of this article to discuss this diversity of organizational forms and motivational views. Suffice it to state three basic assumptions for our exploration:

- (1) Business organizations have some space of freedom to set their own goals and implement their strategies, while constrained by laws and regulations, market forces, and social and cultural

factors. Thereby, the extent of responsibility is a function of the extent of freedom: the bigger their spaces of freedom, the bigger their responsibilities.

(2) Large, formal organizations such as corporations are understood as “moral actors”: as collective entities, they act with intention (or at least exhibit intentional behavior) to achieve their goals and impact on society and nature, often to a large extent. Therefore, they can be held responsible for their acts in a moral sense. But they are not moral persons, because they are not ends in themselves and thus cannot claim the rights of human beings.

(3) The general purpose of the business organization is defined as the creation of wealth in a comprehensive sense as outlined in the previous section.

Sen’s capability approach with its foundational implications contributes to a better understanding of corporate ethics in several respects.

Critique of “value-free” economics and other business disciplines

By refusing to address the questions of human motivations and social achievements in a serious manner, the engineering approach dismisses a large part of business reality as irrelevant for understanding business challenges and conduct. Business models based on mechanistic assumptions cannot account for human agency and may have grossly negative consequences. It is not possible to search for and find meaning in business itself. Ethical values and norms are extraneous to business and can only guide its culture, policy, and behavior, at best, from outside. Therefore, the ethics-related approach that explicitly incorporates human motivations and the judgment of social achievements opens economics and other business disciplines to fruitful communication with normative-ethical perspectives of corporate ethics.

The notion of rationality

If rationality is defined exclusively as instrumental rationality, rational business aims to instrumentalize everything: the relations with customers, the treatment of employees, and the dealing with other stakeholders. Human capabilities are not respected for their intrinsic values. Similarly, if self-interest and profit maximization are supposed to be the only rational motivations in a market economy, other-regarding motivations and goals (such as service to the company and the country) are disqualified as “irrational.” Such a narrow understanding of rationality is highly questionable on theoretical grounds and fails to underpin the realities of long-term business success and the production of public goods. Thus the notion of rationality needs to be extended beyond instrumental rationality, self-interest and profit maximization, which is indispensable for sound corporate ethics. Of course, this does not mean that instrumental rationality, self-interest and the pursuit of profit are unimportant.

Sensitivity to poverty and distribution

Growing out of a deep concern for the plight of the poor and glaring injustices, the capability approach has provided a powerful perspective to better understand poverty and inequalities in and between societies. Moreover, it can guide businesses to evaluate and possibly improve their distributional structure and impact within and outside their organizations. For instance, businesses may critically assess the distribution of salaries and other benefits among employees or the distributional impact of corporate policy on different social groups. The capability approach is particularly apt at guiding companies in the global context because it provides universal standards on the one hand and great flexibility for cultural and national adjustments on the other hand. For an increasing number of global corporations, the alleviation of mass poverty has become a key corporate objective (see, for example, Werhane et al. 2010). Furthermore, businesses around the world are called upon to be part of the solution in addressing poverty and gross inequalities by joining the United Nations initiatives of the UN Millennium Development Goals (www.un.org/millenniumgoals) and the Global Compact (www.globalcompact.org). Needless to say, the capability approach can be of invaluable guidance.

The focus on functionings and capabilities

By taking each person as an end and focusing on real opportunities or substantial freedoms, the capability approach is decisively people-centered. People are not just “factors of production” or “human resources” as many theories in economics and management hold (for a critique of “human resource management,” see, for instance, Dachler et al. 1989). Because functionings and capabilities are measurable, the approach can show whether the slogans such as “putting people first,” “empowering the workforce,” “employees are our most important assets” and “the customer is king” are supported by facts or are merely lip-service.¹

In evaluating the business organization's performance in terms of functionings and capabilities, four considerations deserve particular attention. First, there are multiple and interdependent functionings and capabilities. The functioning of working in a company may generate the capabilities of connecting with other people and being well respected in the community. Moreover, it can create the capability to be loyal to the company's mission and the functioning of being promoted. Or take the example of micro-lending at the Grameen bank: micro-loans improve the capability of (mostly) women to be productive. This increases their functioning of earning a higher household income. It also expands the capabilities of the household members to be better nourished and the children's capabilities to enjoy basic education instead of working in factories. The women's capability to be self-confident increases and leads to their capability to participate in political debates and elections, which may result in the functioning of being elected.

Second, Sen refrains from establishing a special list of capabilities and accords an important role to public reasoning in order to identify context-related relevant capabilities. As the stakeholder theory stipulates for corporate ethics, the company should engage in dialogue with its stakeholders. In such a way relevant capabilities may be determined for employees in terms of health and training, for consumers in terms of safe products, for investors in terms of transparency, and for the community in terms of keeping jobs. As public reasoning is crucial for setting relevant capabilities in societies at large, so is the stakeholder dialogue crucial for fixing them in business relations.

Third, Sen and Nussbaum both see a close link between capabilities and human rights (Sen 2005 and 2009, 355-387; Nussbaum 2011, 62-68). The promotion of human development in terms of capabilities and the fulfillment of human rights share a common motivation. The combination of the two perspectives also contributes something that neither can provide alone. The human rights approach links the human development approach to the idea that others have duties to facilitate and enhance human development (human rights as entitlements to capabilities); and human development helps to augment the reach of the human rights approach (capabilities as potential contents of human rights).

Moreover, the United Nations Framework for Business and Human Rights, developed under the leadership of John Ruggie since 2005, incorporates human rights into corporate responsibility and provides guiding principles for the implementation of the Framework (UN 2011). Although the Framework does not mention the capability approach, it prominently refers to "fundamental freedoms" (General Principles [a]). It covers all human rights, civil, political, economic, social and cultural rights, including the right to development – in total 29 rights (UN 2008). These rights can easily be translated into capabilities with the claim of duties to people and institutions.

The UN-Framework is a groundbreaking and very helpful contribution to the clarification of corporate responsibility (or corporate ethics) with regard to human rights (see Enderle 2012a). This responsibility includes the following components: (1) Transnational corporations and other business enterprises have to "respect" all human rights worldwide. This means, they must not cause directly, or be involved as accomplices directly or indirectly in, human rights violations. (2) In order to perceive and fulfill these responsibilities, the companies have to exercise "due diligence" (that is, to be committed) to examine, on a regular basis, their corporate strategies and activities with regard to all potential and actual (causal) impact on human rights and to make sure that all human rights are "respected." (3) Therefore, companies are not responsible for all types of human rights violations, but "only" for "respecting" them, though in their entirety.

Based on the UN-Framework, a set of capabilities can be determined that defines the moral minimum corporations have to "respect." Beyond this minimal set, the capability approach can help identify other obligations and even ideals, depending on the particular nature, mission, and environment of the business organization. In other words, the identification of capabilities as guidance for corporate ethics draws on both the norms of human rights and the principle of stakeholder dialogue.

Fourth, in the last few years several well thought-out metrics for economic, social, and environmental performance have been developed, in particular: the sustainability performance indicators for business and other organizations by the Global Reporting Initiative (its fourth generation in the making; www.globalreporting.org); the ISO 26000 – Guidance on CSR (or corporate social responsibility) for any type of organization by the International Organization for Standardization (promulgated in 2010; www.iso.org/iso/social_responsibility); and, regarding entire societies, the Report on the Measurement of Economic Performance and Social Progress mentioned earlier (Report 2009). These metrics cover a fairly comprehensive range of issues through which business organizations may affect people. Hence the capability approach can strengthen the focus on people rather than on things and on the quality of life rather than on simple indicators of material well-being. The Stiglitz-Sen-Fitoussi Report adopts this focus and deals with this

challenge from a broad, societal perspective. It is suggested that GRI sustainability reporting and ISO 26000 may also benefit from the capability approach in their organizational perspectives. In addition, the various indicators can serve as heuristic devices in the stakeholder dialogue to identify the relevant capabilities in the specific contexts.

Concluding Remarks

As stated in the introduction, there is a serious disorientation among those attempting to guide the economy and our societies. They are “like pilots trying to steering a course without a reliable compass.” When this happens, the blind end up falling into a pit, as Matthew warns in the New Testament. Responding to this strong statement, the article attempts to provide solid guidance with the help of the capability approach. As it has been very fruitful for public policy, it can also enlighten and strengthen business and economic ethics in general and corporate ethics in particular. By focusing on real opportunities (functionings) and substantial freedoms (capabilities) the people have reason to value, the shortcomings of utility-based and resource-based approaches to interpersonal comparisons can be overcome and the people’s power of self-definition can be respected. The foundational implications of the capability approach enlarge the paradigm of economics and other business disciplines, enrich the notion of rationality and sensitize decision makers for poverty and inequalities. Based on the UN-Framework for Business and Human Rights, a minimal normative set of capabilities for corporate ethics can be determined. Beyond this minimum, the metrics of the GRI sustainability performance indicators and the ISO 26000 – Guidance on CSR provide heuristic devices for identifying, through stakeholder dialogue, context-relevant functionings and capabilities. For the question of the purpose of business and ennobling business activity, it is crucial to overcome the merely instrumental understanding of business by also placing intrinsic value in business itself as a human activity. This can be achieved by defining the purpose of business as wealth creation in a comprehensive sense. It is an innovative, interrelated process of production and distribution, aiming at the creation of not only financial, but also physical, human, and social capital.

Note

(1) While this article focuses on the capabilities of people, further research may investigate the capabilities of business organizations (such as managerial, administrative, technological, and financial capabilities) and how they can, ethically should, and actually do impact on the capabilities of people by expanding, not affecting, or reducing the people’s freedoms. These relations could be captured with a “research matrix” with the rows of corporate capabilities (what they can, should and actually do) and the columns of people’s capabilities (being enlarged, not affected, and reduced).

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VIRTUE IN BUSINESS: A CROSS-CULTURAL COMPARISON

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Abstract

This paper builds on research reported in Moore (2012a) in which the application of virtue ethics to business organisations was investigated empirically in the UK, drawing on a conceptual framework based on Alasdair

MacIntyre's work. Comparing the results from an equivalent study in Sri Lanka, the paper extends the empirical evidence in relation to applied virtue ethics, finding both similarities to and differences from the UK study. The paper also makes theoretical advances by extending the links between MacIntyre's conceptual framework and institutional theory. Thus, it provides further confirmatory empirical evidence of the general applicability of MacIntyre's conceptual framework while also extending the theory.

Keywords

Cross-culture, Institutional theory, MacIntyre, Organizational purpose, Sri Lanka, Success-excellence, Virtue ethics, United Kingdom

Introduction

Moore (2012a) provides one of the few empirical studies that underpin a conceptual framework for organisational virtue ethics based on MacIntyre's work, a framework which has been developed over a series of papers (see, for example, Beadle & Moore, 2011; Moore & Beadle, 2006). This research was conducted in the UK (though with 'European' resonances), and more broadly the body of work of which this forms a part relates mostly to organisations operating under Anglo-American capitalism. Indeed, it has been pointed out that MacIntyre's critique of capitalism is directed at the Anglo-American form and that other polities, such as the German horizontal coordinated market economy, may be more "positively conducive to a practice-like conduct of production" (Keat, 2008: 83).

Thus, it is clearly important at this stage in the empirical and theoretical development of MacIntyre's conceptual framework, to provide further empirical evidence in polities other than the UK and USA, if we are to arrive at conclusions related to the general applicability of MacIntyre's conceptual framework, and if we are to explore whether particular polities are, indeed, more (or less) conducive to the practice-like conduct of production. Thus was born the idea of repeating (though with some development) the UK study described in Moore (2012a) in a different context.

The location of the study reported in this paper is Sri Lanka, and this choice was justified on three grounds. First, the cultural and religious heritage, which is explored more fully in the discussion section, is markedly different from the UK and USA. Second, despite this, 'western' cultural influences are significant particularly on business, and thus the opportunity was open to explore the relative importance of national versus western business culture on business practice. Third, one of the two authors, while currently employed in Australia, is a Sri Lankan national with good contacts into the business world there, hence making feasible research access which might otherwise have been difficult to obtain.

The paper proceeds as follows. First, a review of the literature is provided both to locate this study within its context of applied virtue ethics (and, more specifically, within the conceptual framework developed on the basis of MacIntyre's work), and to summarise relevant aspects of institutional theory (and, in particular, developments in the study of organisational and national culture). Second, the research methods employed are described. Third, the results from the Sri Lankan study are given while at the same time making comparisons with the UK study. Fourth, a discussion ensues which seeks to explain the similarities and differences between the findings of the two studies while also developing the theoretical basis of MacIntyre's framework. Finally, conclusions relating both to the empirical evidence and to the conceptual framework are drawn. The paper thus makes further theoretical and empirical contributions to our knowledge in the area of applied virtue ethics.

Review of the literature

MacIntyre's conceptual framework and its application

MacIntyre's conceptual framework as developed for organisational application is shown in diagrammatic form in Figure 1, and has been explored in detail elsewhere (Moore & Beadle, 2006; Moore, 2008). The essence is that virtues are exercised particularly inside practices and give rise to internal goods, but that to survive practices need to be housed within institutions which are concerned with external goods. Thus organizations (practice-institution combinations) contain an inherent tension between the generation and prioritisation of internal and external goods.

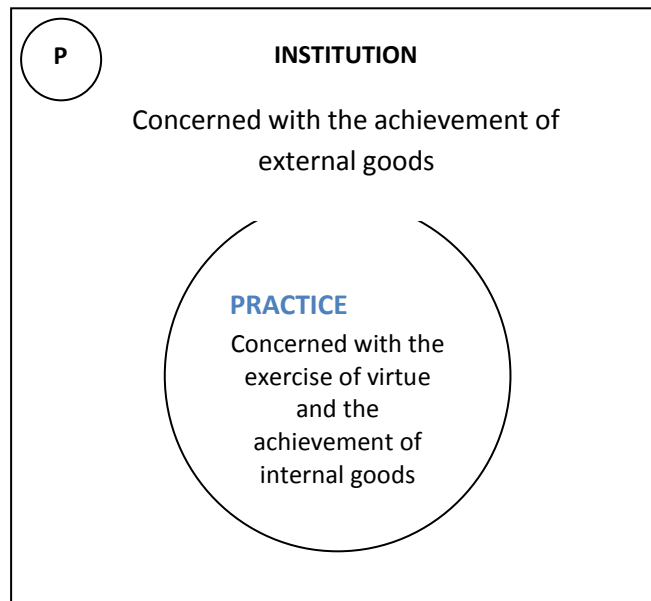


Figure 1. An organization represented as a practice-institution combination together with the secondary practice of the making and sustaining of the institution

Internal goods include both the excellence of products and the perfection of individual practitioners in the process (MacIntyre, 1994: 284, 2007: 189-90). In the context of the case study organisations that will be introduced later, the internal goods of the practice revolve in one case around the production and distribution of pharmaceutical products and in the other to the production of garments, the former having some similarities with the UK study of Alliance Boots where the internal goods revolved around the production and distribution of health and beauty products. Each of these practices has their own industry-derived standards of excellence, and each provides opportunities for flourishing that the practice offers to its practitioners. By contrast, while internal goods are specific to the practice, external goods include survival, reputation, power, profit or, more generally success and are generic.

MacIntyre's description of institutions and their relationship with practices can be applied in almost any context. As MacIntyre himself illustrates, "Chess, physics and medicine are practices; chess clubs, laboratories, universities and hospitals are institutions" (MacIntyre, 2007: 194). The argument has been made (see Moore, 2012a), against MacIntyre's own critique of (Anglo-American) capitalism and his suspicion of the institutional accrual of external at the expense of internal goods (MacIntyre, 1994: 286; 2007: 227), that we can legitimately extend what he refers to generically as "productive crafts" (MacIntyre, 1994: 284) to business organizations in general by noting that at the core of any such organization (and organizations in general) there is a practice. The particular practice may be fishing, producing beef, or retailing; the entirely common feature, however, is that all such activities fall within MacIntyre's definition of a practice. And an important part of the argument is that unless the institution sustains the core practice on which it is based, the organization will not survive.

One final element of the framework, and one of particular relevance to management (Moore, 2008), is the secondary practice of the making and sustaining of the institution – shown in Figure 1 by the smaller circle with the 'P' inside.

Moore (2012a) includes a further development of this framework in two areas that are of importance to this paper. First, it was claimed and empirically verified that a conceptual distinction exists between organisational purpose and the pursuit of success and excellence within the organisation. Success, as noted above, is related to the institutional pursuit of external goods such as survival, reputation, power or profit. Excellence, on the other hand, is related to the pursuit of internal goods – the excellence of the product or service and the perfection of the practitioners in the process. The virtuous organisation requires a correct balancing of the pursuit of success and excellence, with the emphasis just on the side of excellence. Organisational purpose, on the other hand, although often in a commercial context understood as (financial) success, may be defined,

in MacIntyrean terms, as the extent to which the internal goods of the practice at the core of the organisation contribute to the overriding good of the community. In order to ensure that this is the case there would need to be a continuing debate within the organization, and ideally between the organization and the communities of which it is a part, as to what the community's good is and how the organization's internal goods contribute to it: "In contemporary societies our common goods can only be determined in concrete and particular terms through widespread, grassroots, shared, rational deliberation" (MacIntyre, 2010).

The distinction between these concepts is conveyed in Figure 2 which shows purpose and success-excellence on different axes and locates virtuous and vicious organisations. The virtuous organisation does not occupy the top right corner of the map, as might initially be expected, but is located just on the excellence side of the success-excellence scale, though obviously with a good purpose. A vicious organisation (in the technical sense of opposing virtue), on the other hand, would clearly have a bad purpose (it would not contribute to the overriding good of the community) and, though tending to pursue success, might be located anywhere along the lower boundary of the mapping.

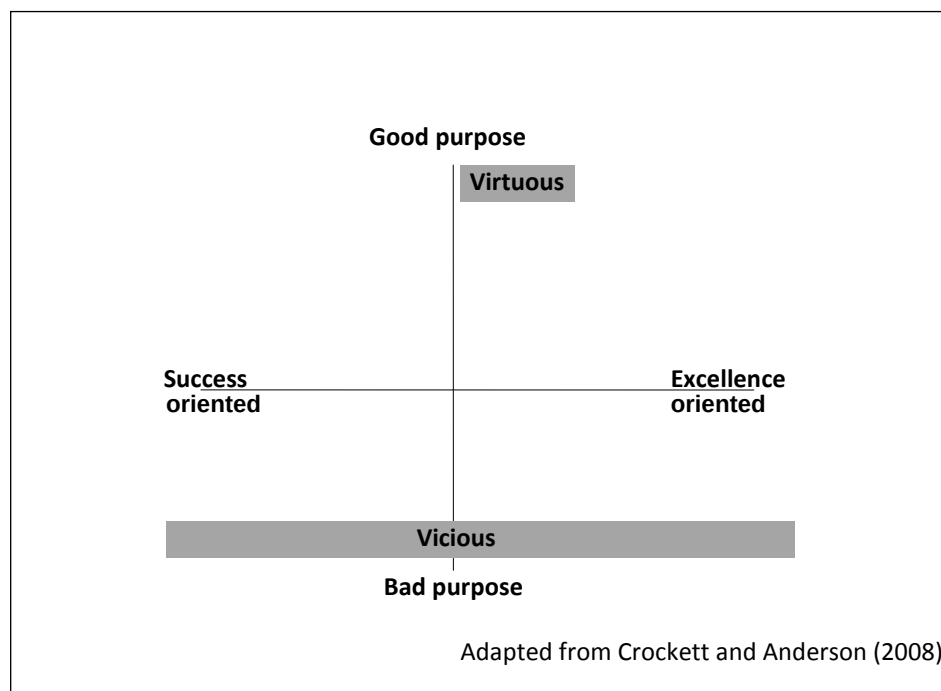


Figure 2. Mapping the virtuous organization

In the UK study of Alliance Boots this mapping was populated with empirical data resulting from the case study (see below where this is compared with the findings from this study). One advantage of the UK study was that it was able to trace the historical development of the organisation as, first, two separate organisations (Boots and Alliance Unichem), then as a merged organisation (Alliance Boots), and finally after the organisation had been taken over by a private equity firm. While such mapping over time might well be of interest to a particular organisation by way of organisational analysis (Beadle & Moore, 2011), it is clearly not essential to using the mapping to identify the current position and likely future direction of the organisation. In addition, the mapping may be used to compare the locations and directions of different organisations – a point to which we will return.

Institutional Theory

We have, at various points in previous papers, noted that Institutional Theory may have helpful resonances with MacIntyre's conceptual framework, and particularly with the need for a conducive environment if organisational virtue is to be realised (Moore & Beadle, 2006: 380; see also Beadle & Moore, 2011: 103-104; Moore 2012a). A cross-cultural study clearly opens up the possibility of exploring these linkages further and of making theoretical developments as a result.

DiMaggio and Powell's identification of the processes of institutional isomorphism, and hence of the "startling homogeneity of organizational forms and practices" (1983: 148), led them to a definition of institutional isomorphism as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (149). This would suggest, in particular, that national culture would impose itself upon organisational culture.¹⁷³

However, as Nelson and Gopalan have observed, while organisations are subject to isomorphic pressures, "they also maintain boundaries, which distinguish them from their environment and provide a separate identity" – indeed, "[w]ithout such boundary maintenance, the organization will dissolve" (2003: 1119). They also note the existence (in the sociology of religion and social movements rather than in organisation studies) of "reciprocal opposition" where organisational values and institutional forms are developed "whose features form an inverse image of each other ... [t]he oppositional group adopts symbols and social structures that are the reciprocal opposite of those used by the dominant group" (Nelson & Gopalan 2003: 1120). This suggests that national culture may not be so defining of organisational culture as DiMaggio and Powell implied. And, indeed, in Nelson & Gopalan's own study across the USA, India and Brazil, they found only 20.5% of organisational cultures to be isomorphic with national cultures, with 24% being rejective / different from national cultures and the remainder – a small majority – being ambiguous (2003: 1134-35 and see Gerhart, 2009: 250-51).

Gerhart's (2009) study, which both reviewed Nelson & Gopalan (2003) and reworked findings from the GLOBE study (House, Hanges, Javidan, Dorfman, & Gupta, 2004) of culture, leadership and organisation across 62 societies, found, in the case of the GLOBE study, that 94% of the variance in organisational culture scores was not explained by national culture scores. This, still, however gives an R^2 value of 24% (of the 6% which explained the variance). Thus, "national culture is meaningfully related to organizational culture, but not as strongly as has often been claimed and, arguably, not strongly enough for national culture to be a major constraint on organizational culture" (Gerhart, 2009: 252). He concludes that organizations "may have more discretion in choosing whether to localise or standardize organizational culture and related management practices than is suggested by conventional wisdom" (ibid.: 255). Thus, institutional theory's prediction of isomorphic tendencies may be trumped by organisational discretion and a desire for differentiation.

This may suggest that the culture of western capitalism might have relatively free rein and that, in the context of this study, the Sri Lankan companies might therefore reflect the cultures of the institutions in their immediate environment, notably western business culture, rather than their national culture. But it also suggests that there is always the opportunity for "reciprocal opposition", for organisations to adopt their own cultures drawing on, and potentially extending, any combination of the cultures to which they are subject. We will return to this in the discussion of the results.

This completes the review of the literature in so far as we need it for our purposes here. We turn now to methodological considerations and related matters.

Methodological considerations, the study context, the case study organisations and research methods

Methodological considerations and the study context

The methodological position, justification for and limitations of conducting case study research were considered in Moore (2012a) and are not repeated here. The methods were also described there and consisted principally of in-depth interviews, although additional documentary evidence was incorporated as necessary. These methods, as applied to this study, are described further below.

In the Sri Lanka study, the data were collected from participants living and working in the capital of Sri Lanka, Colombo. Coming out of nearly three decades of war, Sri Lanka's economic growth is predicted to be second only to China and according to the Economic Intelligence Unit of *The Economist*, Sri Lanka is also now among the top 10 Asian economies with the fastest growing millionaire populations (*Sunday Observer*, 2010). With a population of 21 million, the island is home to several ethnic and religious groups (see Table 1).

¹⁷³ In previous work, notably Moore (2005), we have attempted to make a distinction between organisational culture and character, the latter being appropriate in consideration of organisational virtue. For the purposes of this paper, we defer to the more conventional terminology.

Indicator	Number/%
Population	21 million
<u>Ethnicity</u> : Sinhalese	74%
Sri Lankan Tamils	13%
Indian Tamils	5%
Moors	7%
Others	1%
<u>Religion</u> : Buddhists	69%
Hindus	15%
Christians	8%
Muslims	8%

Table 1: Population in Sri Lanka by Ethnicity and Religion

(Source: Adapted from the Sri Lanka Central Bank of Sri Lanka, *Socio-Economic Data*, www.cbsl.gov.lk, retrieved March 24, 2012).

One of the key recent events that impacted business enterprise in Sri Lanka was the 2004 Boxing Day Asian tsunami in which around 32,000 people were killed, 443,000 displaced, and which caused an estimated US\$ 1 billion in damage (US Department of State, 2010). In the immediate aftermath of the tsunami, the long term consequences included an estimated 250,000 people falling below the poverty line. However, with the end of a 30-year old civil war in 2009, Sri Lanka registered economic growth of 8.3% in 2011, the highest since gaining independence from Britain in 1948 (Department of Census and Statistics, 2011). In 2011, while the per capita income was US\$ 2,836, it is estimated to grow up to US\$3,000 by 2016 (Central Bank, 2012). Thus investor and business confidence was high when the Sri Lankan interviews were conducted during December 2010 and January 2011.

The case study companies and research methods

Two companies took part in the Sri Lankan study. One required anonymity as a condition of participating and it was decided to treat both companies in the same way. Company A is the local subsidiary of a global pharmaceutical company (and hence, by operating in the healthcare industry, with some similarities to Alliance Boots), and Company B is a local garment manufacturing company operating in the highly competitive apparel industry. Interview quotes are identified with a respondent acronym (e.g. A3). The letter identifies the company and the number identifies the respondent number for that company. The choice of companies was, within the limits of obtaining access, deliberate in anticipation of similarities to and differences from the health and beauty wholesaler and retailer Alliance Boots, as well as the possibility of similarities and differences between the two Sri Lankan companies.

The results from the Alliance Boots study are reported below alongside the results from the Sri Lankan study. The Sri Lankan study effectively repeated the Alliance Boots study, the purpose being to provide a comparison with the previous findings and, given that some interesting issues had emerged over 'European' versus UK employees in the UK study (the former being much more excellence oriented), to enable cross-cultural comparisons to be made.

Crockett's (2008) work using MacIntyre's framework suggests that in order to conduct empirical research, MacIntyre's terms need not transliteration but translation. According to Moore (2012a), however, one of the terms that need little translation is to do with organisational purpose – as noted earlier, good purpose is one of the key features of a virtuous business organisation. To elicit relevant responses to this feature, questions were asked from participants on the mission and purpose of the organisation, and whether these had changed over time and, if not, what had caused them to remain constant. If there had been changes, participants were asked what had caused these and what these changes had meant in practice. Prompts to this question were

on the changes to the environment, the effect of these changes and whether significant people within the organisation had an effect. Finally, the participants' view of their organisation's purpose was examined by asking interviewees to place the organisation's purpose on a scale of -10 (e.g. a concentration camp) to +10 (e.g. a charitable organisation). (This quantitative exercise was an advance on Moore's (2012a) study, but one that was identified in the limitations therein.)

In order to tease out the issues relating to practice and institution, and internal and external goods, Crockett's (2005) exercise was employed – see Figure 3. The exercise uses terminology familiar in business but which also broadly relates to MacIntyre's notions of internal (excellence) and external (success) goods. The exercise works by first (#1) asking the interviewee to give some words or phrases that describe what it would mean for the organisation to be excellent. The terms were jotted down on a piece of paper. Secondly (#2), interviewees were asked how their organisation measures success. A list was similarly jotted down. A see-saw balance was then drawn and interviewees asked to score the present balance in the organisation on a 1-10 scale (#3). This forced interviewees to make a choice between success and excellence (e.g. 6-4 or 3-7). It could be argued that this is a zero-sum game, and an alternative would be to allow scoring of, say, up to 10 on each dimension (e.g. 9-8 or 3-10). The reason for the scoring system that was employed derived from the theoretical framework described above which speaks of achieving a balance in the pursuit of internal and external goods. The danger of a free choice was that interviewees would not focus on the issue of balance and scores approaching 10-10 might well have been a frequent outcome. Having to allocate between success and excellence (although allowing for a tied 5-5 result if appropriate) forced the issue.

Further, as per the Crockett exercise (#4), interviewees were asked what they thought the scoring for an ideal organisation (any business organisation) would be. Having completed this quantitative exercise, interviewees were asked what they thought about correlation and causation (#5) – “What is the relationship between these two? Does excellence lead to success or success to excellence or are they unrelated?”

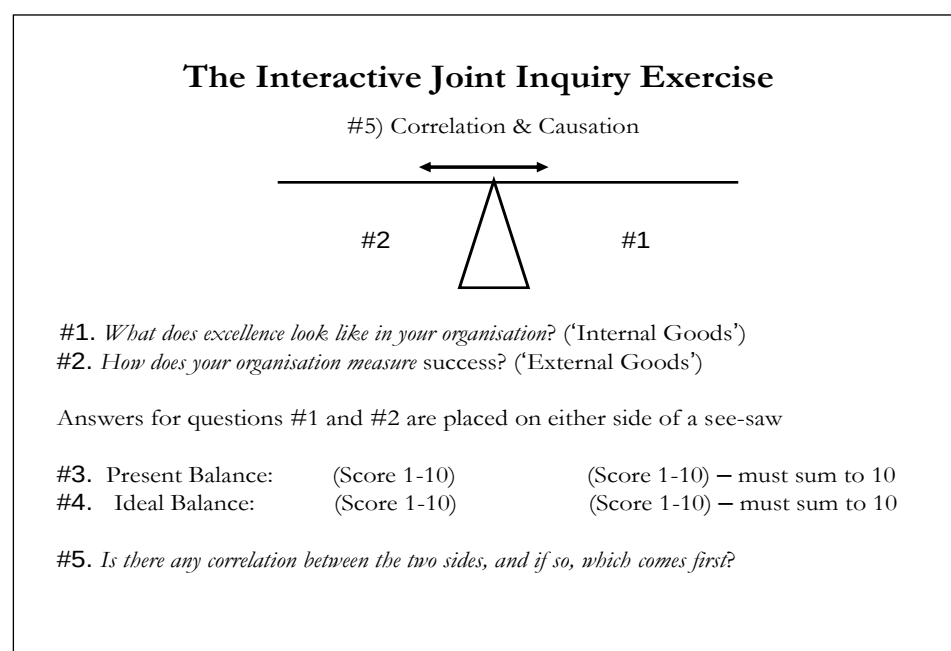


Figure 3. The success-excellence exercise (Crockett, 2005)

All Sri Lanka interviews were conducted by the second author. In Company A 11 interviews were conducted, and eight in Company B, both sets involving respondents across various hierarchical levels from managing directors / CEOs to executives and factory floor staff, as well as across the functional areas of Human Resource, Corporate Social Responsibility, Brand management, Finance, Production, Sales and Public Relations. Interviews were audio recorded and later transcribed. Two interviews were conducted in Sinhalese and responses were later translated into English by the second author who is a native of Sri Lanka.

The transcriptions were then analysed using the constant comparison method. This approach aims to inductively detect themes and patterns in the data, and develop concepts out of these patterns. The method

involves going through the data repeatedly reflecting the constant element of the method (Haig, 1996). It compares each key phrase, sentence or paragraph with others. The rigour of this data analysis is enhanced when the data collection is repeated from different sources and cases, conducts more conversations and observations, and compares the set of generated data against concepts developed from earlier observations (Glaser and Strauss, 1967). The constant comparison method generates indicators of patterns and a repetitive story line or otherwise outliers and a different story line. Questioning the data from the start to the end brings high level of validation (Eisenhardt, 1989). The second author during and after conducting the interviews in Sri Lanka communicated regularly with the lead author who had earlier conducted similar interviews with Alliance Boots employees. The results of the data analysis were checked by the two authors through several iterations. This step ensured, for example, that the resulting success-excellence terms were accurately and consistently recorded and analysed in the study.

Results, comparisons with previous findings and preliminary discussion

Organisational purpose

In the Alliance Boots' study, the primary purpose of the organisation was around healthcare, and that this led genuinely to the common good seemed to be reinforced by its potential to call forth an emotional response from employees and customers alike. But there was also some contrasting evidence that organisational purpose was focused around retailing and being customer-led. Related to this, some respondents did not see the purpose as contributing to the overriding good of the community but to the financial success of the organization – a perhaps unsurprising (because common) conflation between organizational purpose and success. And for such interviewees there was scant evidence of the critical approach to the community's good and to the way in which the internal goods of the practice contributed to it. There was also a division about whether the purpose had changed over the previous three years with some saying it had changed in the direction of being pharmacy-led (i.e. with more emphasis on healthcare), with an alternative view being that it was heading towards a combination of health and beauty.

In the Sri Lankan study, quite marked differences emerged in the understandings of organisational purpose between the two companies. These differences are borne out in the respondents' descriptions of their organisations' purposes with nearly all Company A respondents demonstrating a clear awareness of the company's mission and purpose, highlighting the benefits of pharmaceutical research and discovery. Company B respondents, while also positive about the purpose of their organisation, were less able to articulate such a high purpose perhaps due to the nature of its core business. Similar to Alliance Boots, Company B's focus is heavily reliant on a retailer and customer focus:

"We become profitable only when the customer is overjoyed. So we try to give the right solution at the right time by understanding their needs. For example, only the other day we received bouquets for changing the landscape in outsourcing. We now have the ability to deliver within seven days of receiving an order." (B1)

Company A respondents commented about the organisational purpose by describing the elements of the company's mission statement which is based on delivering a promise. Hence, building and safeguarding trust with company's key stakeholders was at the centre of most Company A responses on organisational purpose:

"We have given a promise to the people. If you take [our] purpose strategy, we want to be the best/excellent [company] in the industry. Our purpose basically revolves around that." (A4)

"We want to build trust in the community. If people don't trust us, then there is no future for us. So building trust has to be integrated into the gamut of activities we do. For example, we believe that as a healthcare company, we have a role to play in imparting value added knowledge to medical practitioners that could benefit patients who consume our products." (A10)

The timing of the interviews could be one reason for Company B respondents being less coherent and unified in their responses about the organisational purpose of their company. At the time of the interviews, Company B was in the process of revising its mission statement from simply wanting "to be the inspired solution for branded clothing" to adding the elements of "speed, innovation and passion". Fifty employees from various divisions in the company had been taken on a tour of Japanese manufacturing companies including Toyota to determine what needed to be revised in the mission statement.

“Up to now our purpose has been to be the inspired solution in the industry. In 2010, we have adjusted our mission a little; we have injected speed, innovation and passion. Those are the three elements we will be focusing on.” (B1)

However, the majority of respondents in Company B understood its organisational purpose as being centred on people, whether in the form of customers or employees:

“The foundation of the company is the machine operators. If they stop working then we don’t have a company. Our core business is done by them. They are the priority in everything; they are the ones who have to be looked after.” (B2)

“[CEO] wants us to be very close to the customer, to be able to understand the customer. He is constantly saying we have to deliver...even if the environment changes, and the speed at which it changes, he expects the company to respond to that speed, without having very rigid systems”. (B3)

In relation to the contribution to the community’s good, most Company A respondents commented further on building and safeguarding trust with its stakeholders:

“... because our purpose statement is very strong If we look at the values we have, whatever we do, we ensure that what we do is right for our patients or customers.” (A3)

Company B respondents identified how their company contributes to the community through the provision of employment at a low fixed investment capital, attraction of foreign exchange to the country and low levels of environmental pollution. For example:

“In this part of the world, this industry is a tough industry to be in. We can create a job with low fixed investment capital and when you see the trickle-down effect, we are fulfilling our purpose, as long as we conduct ourselves properly. This industry has been known for a lot of abuse. We have over 30,000 people now and we try our best to have [welfare] programmes.” (B1)

Some of the differences on organisational purpose between the Sri Lankan companies may be attributed to the varying types and levels of changes impacting each company. Since 2008, Company A’s culture has changed markedly due to the open, transparent and aggressive approach followed by the top management. This was strongly conveyed by most functional heads of the company. From a research and development perspective, prior to 2008, the company protected its research and development projects and made these public only after new products were ready for markets. Now external institutions such as universities are actively sought by the company for research and development collaborations. A key cultural change has been in the area of transparency:

“There have been drastic changes in the transparency area. Three years back, when we were audited by our company, we would tell the auditor what they should know. Now we have a total disclosure culture. We think of the Johari Window. Things I know, things the auditor will know, things both of us will not know.” (A9)

Since 2008, Company A has also been more aggressive. For example, the traditional marketing channel of working through the medical practitioners has been expanded to include direct marketing. However, not all respondents from Company A agreed that the new culture is good for the company and its people. Some held reservations on over-reporting and monitoring of processes and outcomes, and how demotivating these could be for those people who are in charge of such processes. However, these responses were more to do with how the organisation does its business and are therefore located on the success-excellence axis in Figure 2.

While Company A, operating mostly in the local Sri Lankan market, was enjoying some level of stability after going through changes in 2008, at the time of the interviews Company B was battling with rapidly changing environmental conditions to compete in the generally turbulent global apparel market:

“When I started at [Company B], the customer portfolio was quite big. We had 16 customers. [Company B] then was strategising and we looked at its best customers in terms revenue. So going narrow and deep was the first strategy—to concentrate on our six major customers.” (B3)

While Sri Lanka's local market was not affected much by the global financial crisis, due to its dependence on western markets, Company B also had to resort to austerity measures to ensure the survival of the company:

"All the senior heads took a salary cut. We took a salary cut, for about a year, so that their salary could be paid and their bonus payments could be made." (B2)

Another unexpected political factor that challenged the survival of the company's market leadership globally was the removal of the generalised system of preferences (GSP) by the European Union in August 2010 due to the alleged human rights abuses of the Sri Lankan government. With the withdrawal of GSP, Sri Lanka apparel became 10% more expensive in the global apparel market.

"We fought tooth and nail to retain the GSP which was a great benefit. Actually we felt that the wings will fall off after the GSP withdrawal. But fortunately for us, and fortunately for the country, geopolitically, lot of changes happened. Funnily, two months after the withdrawal, our export numbers are going up. China became expensive, Bangladesh became expensive and the sudden growth in Bangladesh became too much. So the overflow came here. Major new buyers like H&M are now coming to Sri Lanka because there are no factories to place orders." (B1)

While the recovery of Western markets from the effects of the global financial crisis would have also contributed to the growth of sales in Sri Lanka despite the GSP withdrawal, the cutting edge eco-friendly manufacturing processes of Company B could also have motivated western buyers to maintain their orders with the company. Again, however, respondents' comments relate to the ability of the organisation to survive, and hence to the achievement of success, rather than to any changes in organisational purpose.

What becomes clear from the interviews is that, in a similar manner to the Alliance Boots' study, there is some confusion between (or at least synonymous use of) terms like mission, purpose and vision, but most interviewees did understand the concept of organisational purpose and most were able to relate it to the good of the community. That is, they were to some extent able to distance themselves from a localised morality that might value internal goods only for the external goods they could produce, and were able to evaluate the way in which the organisation's internal goods, derived from the core practices, did contribute to the common good of the community. The primary purposes of the organisations were around healthcare (Company A), and the provision of branded clothing (Company B). These contributed to the community's good directly in the case of Company A and more indirectly in the case of Company B particularly via its focus on people (as will be demonstrated further below).

The changes that the companies were experiencing were not in relation to their purpose (unlike Alliance Boots) but to their balancing of success and excellence. Thus for Company A top management's demands over transparency and aggressive marketing were perhaps cancelling each other (transparency suggesting excellence, aggressive marketing a greater focus on success). For Company B environmental factors threatened survival and so there was an inevitable focus on success.

As noted, one addition that was made to the Alliance Boots study was to invite Sri Lankan respondents to score their organisation's purpose on a -10 to +10 scale. This was a self-report, and therefore might be expected to give high scores, and did indeed give average results of +7.7 for Company A and +6.5 for Company B – the difference between the two scores being statistically different ($p < .05$). The scoring does, however, reflect respondents' views in the interviews with Company A having the more obviously good purpose.

Success-excellence exercise – qualitative findings

In relation to the success-excellence exercise, Company A and B were first compared then their results combined into 'Sri Lanka combined' figures. Comparisons were then made with Alliance Boots. These are shown respectively in Tables 2 and 3.

	Terms	Company A	Company B	Sri Lanka combined	Alliance Boots
1	People	31.0%	35.0%	32.7%	10.1%
2	Financial	19.0%	22.5%	20.4%	43.4%
3	Trusted	6.9%	22.5%	13.3%	6.1%
4	Growth	12.1%	5.0%	9.2%	4.0%

5	Customers	8.6%	7.5%	8.2%	13.1%
6	Environment	6.9%	2.5%	5.1%	2.0%
7	Brand	1.7%	0.0%	1.0%	4.0%
8	CSR	1.7%	0.0%	1.0%	4.0%
9	Suppliers	-	-	-	2.0%
10	Other	12.1%	5.0%	9.2%	11.1%

Table 2. Success terms grouped by category and ranked by ‘Sri Lanka combined’

	Terms	Company A	Company B	Sri Lanka combined	Alliance Boots
1	People	38.0%	42.1%	39.8%	9.6%
2	Trusted	14.0%	13.2%	13.6%	12.2%
3	Customers	10.0%	7.9%	9.1%	22.6%
4	Financial	6.0%	13.2%	9.1%	5.2%
5	Innovative	6.0%	10.5%	8.0%	3.5%
6	Product	6.0%	2.6%	4.5%	12.2%
7	Visionary	6.0%	2.6%	4.5%	5.2%
8	Stakeholders	6.0%	-	3.4%	1.7%
9	Environment	-	2.6%	1.1%	5.2%
10	Suppliers	2.0%	-	1.1%	3.5%
11	CSR	-	-	-	1.7%
12	Other	6.0%	5.3%	5.7%	17.4%

Table 3. Excellence terms grouped by category and ranked by ‘Sri Lanka combined’

The first point to note is that the terms that the Sri Lankan respondents used could be categorised under the same headings as had emerged from the Alliance Boots study. This is not an insignificant finding in that it confirms that the conceptual framework is applicable in the rather different cultural setting of Sri Lanka, and therefore contributes to the generalizability claim concerning MacIntyre’s conceptual framework.

The second point to note is that some of the same terms occur in both the success and excellence tables. Some respondents looked troubled and inquired whether they were “correct” in duplicating key phrases under both excellence and success. This was also the case in the Alliance Boots’ study (and Crockett’s 2005 study) and led to a discussion as to whether success and excellence (and hence internal and external goods, and practices and institutions) were conceptually distinct, the conclusion being that they were (see Moore, 2012a: 379). The explanation for this was that, to take one example, the internal good of providing customers with excellent products and services is genuinely an internal good for which excellence may be pursued for its own sake. However, satisfied customers purchasing excellent products may well also lead to the external good of the financial success of the organisation, which in turn allows the organisation to survive and the practice to flourish. Thus, terms may appear under both success and excellence without affecting the fundamental difference between the practice and the institution, and between internal and external goods.

There, however, the similarities between the two studies end. In comparing the last two columns of each table it is noticeable that there are considerable differences between the frequency of occurrence of some of the more significant terms. However, it is also noticeable that there are similarities between the two Sri Lankan firms. An initial statistical analysis was conducted to compare the sets of results as a whole. These Chi-squared tests demonstrated that there were no statistically significant differences between Companies A and B on the distribution of either the success or excellence terms. However, when comparing Companies A and B separately and in combination with Alliance Boots, there were statistically significant differences in all cases ($p < .01$) for both the success and excellence distributions. Thus, the first significant finding is that the Sri

Lankan companies are similar to each other and that both companies are different from Alliance Boots in what success and excellence mean for them.

Given the earlier discussion of the forces imposing on organisation culture, it might initially have been thought that Company A, the subsidiary of a global pharmaceutical company, would have been different from Company B, the local garment manufacturer, and similar to Alliance Boots – in other words that business culture as dictated by global firms would trump national culture. Alternatively, it might have been thought that business culture would trump national culture so conclusively that no difference would be found between all the firms. That neither of these proved to be the case, and that national culture seems to be most influential, is worthy of note and is discussed more fully below.

Employing two-tailed Student's t-tests to conduct more detailed analysis of variations between terms revealed the results shown in Tables 4 and 5. These first confirm the similarities between the two Sri Lankan companies, the only result of note being that, in relation to the success terms, *Trusted* showed a statistical difference with Company B respondents regarding this as more important to them in measuring success than Company A respondents – a finding which seems to contrast with Company A's respondents highlighting the importance of trust in their organisational purpose.

Comparison	Terms	Level of significance	Direction
Company A vs. Company B	Trusted	**	B>A
Company A vs. Alliance Boots	People	***	A>AB
	Financial	***	AB>A
Company B vs. Alliance Boots	People	***	B>AB
	Financial	**	AB>B
	Trusted	**	B>AB
	Brand	**	AB>B
	CSR	**	AB>B
Sri Lanka combined vs. Alliance Boots	People	***	SL>AB
	Financial	***	AB>SL

Table 4. Statistically significant differences for success terms

** p<.05

*** p<.01

Comparison	Terms	Level of significance	Direction
Company A vs. Alliance Boots	People	***	A>AB
	Customers	**	AB>A
	Environment	**	AB>A
Company B vs. Alliance Boots	People	***	B>AB
	Customers	**	AB>B
	Product	**	AB>B
	Suppliers	**	AB>B
Sri Lanka combined vs. Alliance Boots	People	***	SL>AB
	Customers	***	AB>SL
	Product	**	AB>SL

Table 5. Statistically significant differences for excellence terms

** p<.05

*** p<.01

In relation to differences between the Sri Lankan companies and Alliance Boots, for success the following terms showed a statistically significant difference: respondents for the Sri Lankan companies both individually and in combination regarded *People* as more important to them in measuring success, while Alliance Boots respondents regarded *Financial* as more important. Company B respondents regarded *Trusted* as more

important than Alliance Boots respondents, while Alliance Boots respondents regarded *Brand* and *CSR* as more important than Company B respondents.

For the excellence terms, in a similar manner to success, respondents from the Sri Lankan companies, both individually and in combination, regarded *People* as more important to them. However, Alliance Boots respondents regarded *Customers* and *Product* as more important than the Sri Lankan companies. Alliance Boots respondents also regarded *Environment* as more important than Company A respondents and *Suppliers* as more important than Company B respondents.

These results suggest a fundamentally different way of 'doing business' between Sri Lanka and the UK. While Alliance Boots focuses on financial measures in relation to success, and on customers and product in relation to excellence, the Sri Lankan companies focus on people and being trusted in relation to success, and on people again in relation to excellence. Reasons for these differences are discussed further below. It should be noted, however, that Alliance Boots' focus on customers and product in relation to excellence is potentially as virtuous as the Sri Lankan companies' focus on people. This is to say that in MacIntyre's framework, as noted above, internal goods relate both to the excellence of the product or service and the perfection of practitioners in the process. But the extension of MacIntyre's work suggested by both Keat (2000) and Sayer (2007) (and discussed more fully in Moore, 2012a: 380) also includes customers. Keat, in particular, has argued that those who are the beneficiaries of the outputs of the practice – in this case the customers who purchase the goods – may well be excellent judges of such output, and that they do, in some sense at least, determine the standards of excellence in the practice (2000, p.128-9). Thus, it is not simply the case that the Sri Lankan companies appear to be more people-oriented while Alliance Boots appears to be more financially-oriented and that virtue is therefore all on one side. We will return to this point below.

In relation to the question concerning causal direction in the success-excellence exercise, most respondents felt that excellence led to success:

"I would think that excellence leads to success. If you are doing the right things, you need to get the right results. Excellence is doing the right things, having the right people. A lot is to do with doing the right thing from the business perspective. Success is meeting objectives."(A7)

"I believe excellence will lead to success. Excellence is a kind of a broader term, it is like your character, it is like roots. If you have your roots correct, then you will get your branches and everything right. I have to give more emphasis to excellence, which will anyway generate my success."(A3)

"They go hand in hand. Success depends on excellence. That is profits depend on excellence. Success is the final result, outcome." (B3)

"Excellence directly leads to success. If you are excellent in doing something you will be successful." (B2)

Some respondents were of the view that excellence is a too distant goal that organisations could only strive to achieve:

"Excellence is something that you do not achieve, but you strive for. It will keep lifting you higher and higher, to be more effective, efficient and giving better solutions, achieve greater results. It is a sense of impatience, you succeed in something and that is not the end." (A2)

One of the respondents provided the following insight.

"Success is outcome and excellence is the process. You do not compromise your process, to achieve your outcome. If you develop your process correctly, the outcome will come but you need to define your success beforehand. You cannot shoot in the dark and say I am going after market share. First defining what that market share is important before you start the process of rolling out excellence. Once you have defined what success looks like, lock that up, and then focus around executing something excellently." (A1)

There were other respondents who thought that the relationship between success and excellence was reversible, or that the relationship was rather complex:

“Excellence lead[s] to success but it can actually work the other way too.”(A5)

“I think success probably comes before excellence. Success gives you a huge motivation to take it beyond. It becomes very tough when you don’t have success first.”(A2)

“I would say excellence drives success. Excellence leads to success, vice versa as well.” (B5)

“You could be excellent at something, but you may not be successful. You may be successful but you may not have achieved it through excellence.” (B4)

These findings mirror to some extent those in the original Alliance Boots’ study. There is evidence here (*within* the same practice-institution) of an implicit understanding of a complex relationship between internal and external goods and hence between the practice and the institution. There is an acknowledgement of the priority of internal goods over external – success follows excellence – and hence of the practice over the institution, in sympathy with the theoretical position outlined above. But there is also a degree of complexity indicated by a lack of direct causality and the possibility of reverse causation. There is, therefore, further empirical evidence in support of what was previously identified theoretically as the “essential but complex circularity between internal goods and external goods” (Moore, 2012a: 380).

Success-excellence exercise – quantitative findings

The overall scoring of success and excellence for the organisations currently, and as combined for the Sri Lankan companies and in comparison with Alliance Boots, and in relation to the ideal, are shown in Table 6, which shows success scores (excellence is 10 minus success).

Success scores	Company A	Company B	Sri Lanka combined	Alliance Boots
Current	4.41	4.88	4.61	5.75***
Ideal	4.50	4.38	4.44	4.85

Table 6. Success scores showing statistically significant differences

*** $p < .01$ for Company A, Company B and Sri Lanka combined versus Alliance Boots

These results show that all companies individually recognise that the ideal is on the excellence side with success scores below 5.0, giving further confirmation of the theoretical position outlined above. For their current position an interesting difference emerges, with the Sri Lankan companies responding that they are below 5.0 and close to their ideal, while Alliance Boots respondents reckoned their score was well above 5.0 and was found in the previous study to be significantly different from their ideal ($p < .01$). Alliance Boots’ current average is also significantly different ($p < .01$) from the Sri Lankan companies’, both individually and when combined. This result provides confirmatory quantitative evidence of the difference between the firms, with Alliance Boots being significantly more success oriented than either of the Sri Lankan firms.

There is also some similarity with a particular finding in the previous study. There, a comparison of the responses from UK versus continental European interviewees found that the latter were considerably more excellence-oriented (Moore, 2012a: 381-82). This suggests support for the different-kinds-of-capitalism debate, and is discussed further below.

Based on these results, the virtue mapping for all three organisations is shown diagrammatically in Figure 4. Given the lack of a quantitative result for Alliance Boots’ purpose, this is drawn without scales. It is apparent from this that Sri Lankan companies see themselves as more virtuous than Alliance Boots, although the directions of movement suggest Alliance Boots is heading both towards a better purpose while also becoming more success oriented, whereas for the two Sri Lankan companies, their purpose was not changing while Company A appeared to be static on the success-excellence axis (transparency cancelling out aggressive marketing) and Company B moving towards a greater emphasis on success as the business environment became tougher.

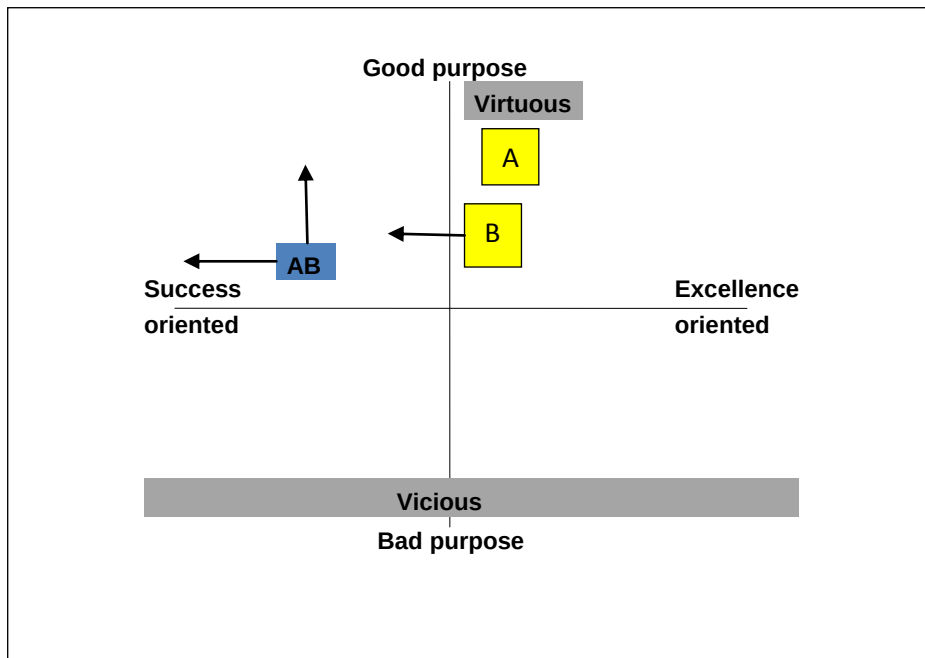


Figure 4. Organisational virtue mapping

AB = Alliance Boots

A = Sri Lankan Company A

B = Sri Lankan Company B

Arrows indicate the direction of travel on each axis (no arrow implies either no movement or countervailing forces)

Discussion

The key findings, then, relate to the difference in the way of ‘doing business’ in Sri Lanka compared with the UK. The Sri Lankan firms appear to be more excellence oriented and to get the balance about right between excellence and success. They therefore appear to offer a model for doing business that is more virtuous and more “positively conducive to a practice-like conduct of production” (Keat, 2008: 83, cited above), though we should also note the discussion above concerning the priority which Alliance Boots gives to excellence in relation to customers and product. While now, with the benefit of the broader analysis including respondents’ own assessment of the extent to which their organisations prioritised success or excellence, we may wish to give rather less weight to Alliance Boots respondents’ claims concerning their pursuit of excellence in relation to customers and product, it nonetheless remains the case that Alliance Boots appears to be more virtuous in these respects.

The differences that exist between the companies nonetheless require explanation. In particular, we need to look for explanations as to why the two Sri Lankan firms are so similar to each other and are so different from Alliance Boots. The obvious place to look for an answer is in relation to business culture in Sri Lanka and the extent to which it is influenced by national culture and so it is to this that we now turn.

Compared to the West, researchers have identified several unique attributes of the Sri Lankan business culture. These include, the dominance of ‘soft’ management aspects over ‘hard’ measures such as profit, sales or return on investment (Kumarasinghe and Hoshino, 2010); the superior-subordinate relationship resembling the father-child relationship with dependence on the former (Nanyakkara, 1992); extremely hierarchical patterns of organisation and management creating lack of individual responsibility for productivity, innovation or creativity (Carson, 1996); the importance of the affiliation need as much as the need for achievement (Ranasinghe, 1996); strong work ethic (Batten, Hettihewa and Mellor, 1999; Niles, 1994); dedication to the task, long-term business ambition, commitment to quality and personal attention to customers (Ranasinghe, 1996); belief that hard work leads to success but considered only as a means to an end (Niles, 1994); recruitment to local firms mostly from family and trusted friends (Ranasinghe, 1996); and the pervasive influence of Buddhism on national culture developing social attitudes such as philanthropy (Nanyakkara, 1997).

The key differences between the Sri Lankan companies and Alliance Boots are highlighted in the *People*, *Financial*, *Customers* and *Product* dimensions. In line with earlier findings on the cultural attributes of Sri Lankan business organisations, Companies A and B in Sri Lanka seem to prioritise the softer people-related values while Alliance Boots prioritises 'hard' values. Wijewardene and Wimalasiri (1996) argue that it took a long time for local managers to learn the meaning of 'hard' values such as achievement, profit maximisation, competition, risk taking and forcefulness. On the contrary, the local businessperson was more comfortable with such 'soft' values as loyalty, trust, co-operation, compassion, tolerance, morality and empathy (Wijewardene and Wimalasiri, 1996). This distinct feature in the business culture underscores the dominant collectivist Sri Lankan national culture.

The Sri Lankan culture is known to portray a high need for affiliation (Carter, 1979; Ranasinghe, 1996), resulting in a higher level of regard for other's welfare, and therefore, a need to accommodate others in the decision-making process. In a study involving within-culture differences between individualism and collectivism, Freeman (1997) found well educated Sri Lankan individuals with high occupational status having very low individualism scores due to the caste system. However, Carson (1996: 9) noted a "big share of group and family loyalty" within Sri Lanka but with a "touch of individualism" in Sri Lankan employees. Freeman (1997) predicted a gradual shift towards individualism of the Sri Lankan society. Freeman found that urban residence, where most of the participants of the current study were drawn from, was the best predictor of increasing individualism. Also, collectivism was markedly reduced in affluent settings, but wealth implied only a very small increase in individualism values: "Apparently, within Sri Lanka, it is not the case that affluence increases the desire to do one's own thing, but rather that affluence appears to decrease the need to 'do things with others' " (Freeman, 1997: 329).

Furthermore, according to Freeman (1997), the rapid economic development and resulting affluent life styles enjoyed by the urban population is tending to focus more on personal and immediate family goals over those of the larger collectives of extended family, caste, community and state. Lastly, the increasing levels of individualism could also have been a result of greater historical acculturation to the relatively individualistic orientation of the colonizing cultures. Thus, we can safely conclude that although the traditional Sri Lankan society can be identified with collectivist features, individualist cultural features are gradually being embraced by particularly the urbanised populace of the country. As the majority of the participants of the current study were drawn from the capital of Colombo and other urban towns, the views of these participants are likely to be influenced by some collectivist as well as individualist cultural attributes.

Another key reason for the dominance of 'soft' values in Sri Lankan management practices could be due to the influence of religiosity on the national culture (Carter, 1979; Jones, 1997). Religion impacts almost every aspect of the modern Sri Lankan society. In prominent Sri Lankan business organisations, it is common to see religious ceremonies being conducted to usher blessings on new business ventures and recruitment of key personnel and other key business events. Out of the major religions practised in the island, Buddhism deserves attention here due to its popularity and the pervasive influence on the national culture. Since its introduction, only a Buddhist had the legitimate right to be the king of the country (Rahula, 1993). Over the years, Buddhism has evolved to be the highest ethical and philosophical expression of the majority Sinhalese culture and civilization (see Table 1). The link between religion, culture, language and education and their combined influence on the national identity have been an age-old pervasive force for the Sinhalese Buddhists (Tambiah, 1992).

The Theravada Buddhism (*the doctrine of the elders*) practised in Sri Lanka includes the ideal that wealth alone should not be a life goal and thus the accumulation of wealth is negatively perceived (Kumarasinghe and Hoshino, 2010). The practise of *dana* (charity) is promoted and practised widely in Sri Lanka as an act of gaining merit. Researchers have found that this type of humanistic and collectivist practices emphasize the 'soft' values of the East over the 'hard' values of the West, and have a significant and negative direct impact on financial performance (Xenikou and Simosi, 2006; Kumarasinghe and Hoshino, 2010). Furthermore, as opposed to the Western view where outcomes of hard work is rated highly and self reliance low, in a study comparing Australians' and Sri Lankans' work ethic, Niles (1999) found that Sri Lankans scored the highest on self-reliance and lowest on outcomes, concluding that Sri Lankans endorse a work ethic defined as "respect for, admiration of, and willingness to take part in hard work" (ibid.: 865) more strongly than people from the Western cultures.

However, Niles (1994: 58) did not find a universal direct relationship between hard work and success:

"When responses to individual items, such as "People who work deserve success" or "By working hard, an individual can overcome most obstacles that life presents and make his or her own way in life," are examined, Sri Lankans endorsed such views just as strongly as did the Australians. Sri Lankans, however, had difficulty supporting the view that one must be the best at what one does or that hard work is an end in itself. Although they seemed to believe that hard work leads to success, Sri Lankans saw such work as a means to an end. Perhaps excelling in what one does and finding hard work fulfilling in itself are concepts that are relevant only to Western cultures, which are more individualistic...."

Elsewhere, Niles (1999: 866) also notes:

"What seems to be clearly supported in this study is that Sri Lankans have a strong belief in the primacy of hard work. They also seem to value self reliance and independence, which could be the influence of their religious beliefs, which emphasize individual responsibility. Buddhism emphasises individual responsibility and the laws of cause and effect. It seems that motivationally Sri Lankans have the right ingredients for economic success but unfortunately motivation and the right attitudes are only one part of the complex mosaic of factors leading to the economic development of nations."

Thus, in interpreting the Sri Lanka findings of the current study, the impact of the synthesis of various socio-cultural and religious factors extending back over 2500 years need to be considered. It may not be as simple as teasing out the collectivist attributes and impact of religion on society. How various cultural and religious factors have interacted over the years to bring about the current composition of the Sri Lankan psyche must be analysed. For example, Freeman's (1997) contention of a gradual shift towards individualism of Sri Lankan society could be less likely when one considers the strong presence of the Buddhist ideals of self reliance and individual responsibility which are also hallmarks of individualist cultures. However, this level of analysis is beyond the scope of this study, but based on the preceding, we can safely conclude that the predominance of collectivist factors and the pervasive influence of Buddhism could have contributed to the preference of softer people-related values in the Sri Lankan interview responses. These may also explain an apparent reluctance to give emphasis to the customer and product aspects of business, as being more representative of 'hard' rather than 'soft' values.

This, then, lends credence to the view that in Sri Lanka there is a distinctive business culture which is, in turn, heavily influenced by national culture. Thus, we seem to have a finding that is in line with Nelson & Gopalan's (2003) study where around one fifth of organisational cultures were isomorphic with national cultures, and one which reflects the ability of organisations to differentiate themselves from other influential actors in their institutional environment. The similarity of the two Sri Lankan companies, particularly when one is the subsidiary of a western multinational and one is local, and so one might expect differences between them, suggests instead the dominant effect of national culture.

In theoretical terms, this suggests the importance of reciprocal opposition to prevailing globalising tendencies if organisations within particular polities are to pursue organisational virtue. But it also suggests that this reciprocal opposition may be developed as much at national as at individual organisational level. This is in line with Keat's contention concerning Germany as more positively conducive to a practice-like conduct of production.

Conclusion

The contribution of this paper is in three main areas. First, in repeating a UK-based empirical study in a very different cultural and religious setting, it has largely confirmed the conceptual framework upon which the empirical work was based. Thus, on the basis that the notion of organisational purpose was clearly transferrable, that the terms used by respondents in the success-excellence exercise could be categorised in the same way as in the UK study, that discussion of causality between excellence and success confirmed the essential but complex circularity between internal and external goods, and that respondents confirmed that the ideal firm is one that prioritises excellence over success, it provides confirmatory evidence of MacIntyre's conceptual framework. It also provides some initial evidence that the framework may be generalizable to other cultures outside that of Anglo-American capitalism. Further studies, in other cultural settings, would, of course, be necessary to extend this generalisation.

Second, the findings indicate support for Keat's (2008) contention that other versions of capitalism may be more conducive to the practice-like conduct of production outside of the German example that he gives. That

the empirical findings suggest a more virtuous form of capitalism operating in Sri Lanka (though with the caveat related to customer and product discussed above), further reinforces the point that MacIntyre's critique of capitalism is directed at the Anglo-American version. Here, the marked emphasis on people suggests a different set of priorities, alien to those in the UK and USA where people still tend to be seen as 'human resources'.

Third, the paper offers a theoretical development of MacIntyre's framework by incorporating insights from institutional theory. That this is based on a counter-claim to isomorphic tendencies and instead the incorporation into the conceptual framework of the need for reciprocal opposition to dominant (Anglo-American) globalising tendencies, should perhaps not surprise us.

Further research could be carried out in other cultural settings to see whether similar confirmation of the conceptual framework emerges and to assess the extent to which other versions of capitalism exhibit, or otherwise, practice-like features. However, this study suggests that two features of the environment would be worth exploring empirically in such studies. First, as noted here, the institutional environment is a significant factor and so further links between institutional theory and MacIntyre's conceptual categories may be a fruitful area of study. Equally, it is evident from the discussion of Sri Lanka's cultural background that it is not just the immediate institutional environment but the broader history that is important. This provides a potential link with MacIntyre's notion of "tradition" (see Moore 2012b for a definition and discussion in relation to the development of Anglo-American capitalism). Empirical research that integrate these aspects may well be of more value than further repetitions of this study.

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ASSESSING THE DIVERSITY OF ETHICAL TRADITIONS IN BUSINESS

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Summary :

The business ethics literature offers a growing range of ethical traditions through which ethical issues are analyzed, reflecting the pluralistic nature of ethics. However, empirical studies on ethical decision-making, with very few exceptions, have measured subject's ethical decision making process solely from the perspective of masculine occidental ethical traditions. Many scholars have denounced the occidental and the

gender biases in the theories most often considered in empirical studies on ethical decision-making and have called for studies on ethical decision making to better reflect the diversity of ethical traditions. To overcome the gender and occidental biases of existing ethics scales, we have developed a questionnaire comprising scales for 30 ethical theories, which deliberately includes a proportion of 40% ethical theories from feminine or non-occidental traditions. This paper presents the theory and methodology to develop this questionnaire, inspired by Edgar H. Schein's work on organizational culture and Stephen E. Toulmin's method of analysis of everyday arguments.

Keywords: Business ethics, ethical theories, ethical traditions, ethical decision-making, polyphony, complexity, measurement instrument, ethics scales.

Body:

Many authors in various scientific fields, writing in different countries, suggest that the increased interest in ethics in organizations and societies is not fueled solely by the recent financial scandals. More broadly, this interest also stems from the pluralistic nature of ethics, or the very difficulty of defining and agreeing on what is right and wrong in our complex, rapidly changing environment. Put simply, far from agreeing on a set of universal normative philosophy, the reality is that people view the world through different and sometimes conflicting ethical perspectives. In recent years, the clash between different ethical views has become more evident. Whereas before, within a given society, there might have been broad agreement on the expected ethical conduct to be adopted, some have proposed that we are entering a "pluralistic world", characterized by the confrontation and blending of different ethical traditions. (Airhart, Legge, & Redcliffe, 2002; Dion, 2001; Giddens, 2003; Jones, Felps, & Bigley, 2007; Pauchant, Coulombe, Gosselin, Leunens, & Martineau, 2007; Pauchant & Mitroff, 2002; Taylor, 1989).

Challenges for managers

The pluralistic nature of ethics represents real challenges for managers. To illustrate this, consider the rise of globalization and the growing number of multi-cultural issues that managers must now face (Giddens, 2003). On the one hand, this new reality requires managers to acquire some knowledge of other cultures in order to understand the ethical issues and possible conflicts that may arise when doing business in another country. For example, now that China and India have become such economic forces, how do Western managers consider the issues involved in doing business with these countries, given that most of them have not been exposed to Confucianism or Hinduism?

At the same time, increased international mobility means differences between the ethical perspectives of multiple cultural traditions can also occur within a single organization. This is the case in some international firms, where more than half of the staff have been raised in very different cultural traditions (Brooks, 2004).

The need to recognize the pluralistic nature of ethics also increases when ethical challenges cut across international boundaries, as with issues such as economic crises, global warming, terrorism or poverty (Elfstrom, 1998; Habermas, 1996; Sen, 1991; Somerville, 2000). These international issues require parties to engage in common action, in spite of different vested interests and cultural backgrounds. The difficulty of the negotiations surrounding the extension of the Kyoto protocol during the various UN Climate Summits is a telling illustration of how hard it is to come to agreements that are perceived as fair, right and ethical by all.

Moreover, some authors warn that the values ingrained in the management tools and strategies taught in business schools around the world are actually a form of Western cultural imperialism that disrupts the established cultural values and practices of local communities (Limbs & Fort, 2000; Lutz, 2009; Ntibagwirwa, 2009; Prinsloo, 2000).

Some scholars further suggest that there are feminine ethical perspectives (Gilligan, 1982; Kujala, 2004; McDonald & Pak, 1996; Noddings, 2003; Roddick, 2000). While feminine or masculine ethical perspectives reflect conceptual attributes that are not exclusive to any gender, many wonder if the increased presence of women in managerial positions may lead to different ethical values being promoted in the corporate world.

Each of these issues illustrates that the pluralistic nature of ethics is not just an abstract concept, but a reality with which managers are required to deal in everyday decisions. What is new to our postmodern era is the mixing and blending of these ethical perspectives in the same environments. We believe that a key requirement for better ethical clarity and purpose in management is, first of all, to recognize the pluralistic nature of ethics.

The aim of this research is to develop a questionnaire which will be used as a pedagogical tool to help managers and people in organizations better communicate and understand each other regarding their ways of perceiving and acting upon ethical matters. This questionnaire aims to distinguish between various ethical theories through which people may perceive, interpret and judge ethical matters.

Challenges for the field of business ethics

Meanwhile, although the field of business ethics has developed greatly in the last twenty years, most empirical studies on ethical decision-making rely on measurement instruments that don't even acknowledge the pluralistic nature of ethics. Indeed, the most widely used instrument is Rest's (1984) DIT scale, which measures ethical judgment through the lens of a single ethical philosophy (O'Fallon & Butterfield, 2005). Rest's scale is based on Kohlberg's cognitive moral development theory (Kohlberg, 1981, 1984). The problem with Kohlberg's theory is that it is based on a Kantian perspective of ethics, and ignores the possibility that people may use ethical foundations other than Kant's. A few pluralistic ethical measurement instruments have been developed, which test respondents' preferences within ranges of between 3 and 8 different ethical conceptions. However, we observe that the ethical conceptions measured by these instruments are all derived from occidental ethical theories, primarily developed by classical authors on political or moral philosophy. Ethical theories developed by women or arising from non-occidental traditions are glaringly absent from all current measurement instruments, and several authors have suggested that the field of organizational ethics needs to incorporate more ethical theories to overcome this gender and cultural bias (Canto-Sperber, 2004; O'Fallon & Butterfield, 2005; Shanahan & Wang, 2003). Indeed, current ethical decision making scales are based on a few occidental ethical theories, which were developed by men such as Aristotle, Kant, Machiavelli, Locke, Bentham, Mill, Marx, or Rawls, to name a few (Becker & Fritzsche, 1987; Hunt & Vitell, 1986; McDonald & Pak, 1996; S. R. Premeaux, 2004; Reidenbach & Robin, 1988; Rest, 1984). Table I presents the authors that are typically studied in classical moral philosophy, revealing how women and non-occidental thinkers are underrepresented.

Table I. Classical authors in moral philosophy

Occidental Men	Occidental Women	Non- Occidental Authors
Thomas of Aquinas	Martha C. Nussbaum	
Aristotle	Elizabeth Cady Stanton	
Saint Augustine		
Jeremy Bentham		
Cicero		
John Dewey		
Friedrich Engels		
Epicurus		
Michel Foucault		
Jürgen Habermas		
Alexander Hamilton		
G.W.F. Hegel		
Thomas Hobbes		
David Hume		
Immanuel Kant		
Abraham Lincoln		
John Locke		
Martin Luther King, Jr.		
Niccolò Machiavelli		
James Madison		
Karl Marx		
Thomas Nagel		
Friedrich Nietzsche		
Robert Nozick		
Pericles		
Plato		
John Rawls		
Jean-Jacques Rousseau		
Adam Smith		
Baruch Spinoza		
John Stuart Mill		

The two most pluralistic ethics scales to date are Reidenbach and Robin's Multidimensional Ethics Scale (Reidenbach & Robin, 1988), designed with five ethical theories, and McDonald and Pak's cognitive philosophies scale (McDonald & Pak, 1996), comprising eight ethical theories. Still, these two instruments rely exclusively upon occidental ethical traditions. Table II presents the ethical theories and frameworks included in the questionnaires developed by Reidenbach and Robin (1988) and McDonald and Pak (1996), which are currently the most comprehensive validated ethics scales.

Table II. Ethical theories/frameworks in the ethics scales developed by Reidenbach and Robin (1988) and McDonald and Pak (1996).

Theory/ Framework	Related Authors/ Philosophers	Reidenbach and Robin (1988)	McDonald and Pak (1996)
1. Utilitarianism	Jeremy Bentham, John Stuart Mill	(Utilitarian scales) • Efficient / Not efficient • OK / Not OK if actions can be justified by their consequences • Compromises / Does not compromise an important rule by which I live • On balance, tends to be good/bad • Produces the greatest utility / the least utility • Maximizes/Minimizes benefits while minimizes/maximizes harm • Leads to the greatest/least good for the greatest number • Results in a positive/negative cost-benefit ratio • Maximizes/minimizes pleasure	(Utilitarianism) • That sacrifices are often needed in order to secure the greatest good for the greatest number. • Whether the outcome of my decision produces the greatest net value to all parties involved. • Whether any inherent harm in an action is outweighed by the good. • That as long as the consequences of the decision affect the majority in a positive way.
2. Categorical Imperative	Immanuel Kant	(Deontology scales) • Does not violate an unwritten contract / Violates an unwritten contract • Does not violate an unspoken promise / Violates an unspoken promise • Morally right / Not morally right • Obligated / Not obligated to act this way • Does not violate/ Violates my ideas of fairness	(Categorical imperative) • Not to treat people as means to an end. • Some things in life are inherently right or wrong regardless of the consequences of the decision. • Do unto others as you would have them do unto you. • It is important that discriminatory practices be avoided.
3. Justice	John Rawls	(Justice scales) • Fair/Unfair • Just/Unjust • Results / Does not result in an equal	(Justice) • That it is important that justice is seen to be done. • How would I feel if

		distribution of good and bad	someone did that to me. • That people must be treated fairly. • What would be the most equitable decision.
4.Ethical egoism	Ayn Rand	(Egoism scales) • Self-promoting / Not self-promoting • Selfish / Not selfish • Self-sacrificing / Not self-sacrificing • Prudent / Not prudent • Under no moral obligation / Morally obligated to act otherwise • Personally satisfying / Not personally satisfying • In the best interest of the company / Not in the best interest of the company	(Self-interest) • (I generally considered) what was best either for myself or my company. • In today's business world one must look after oneself and one's interests. • What effect the action might have on my personal reputation and career. • That one cannot be expected to be responsible for everyone and everything.
5. Social norms	Emile Durkheim	(Relativist scales) • Culturally acceptable / Culturally unacceptable • Individually acceptable/unacceptable • Acceptable/Unacceptable to people I most admire • Traditionally acceptable / Traditionally unacceptable • Acceptable to my family / Unacceptable to my family	(Light of day) • I would feel embarrassed if people found out what I had decided to do. • What would be the reaction I would get from my family and friends if the details relating to this action were revealed. • Would I lose face if my involvement in this decision was publicized. • I would not want my actions to be known by others.
6.Religious Ethics	(general)		(Religious convictions) • What my spiritual advisor might do or recommend. • What is the right thing to do in light of my religious beliefs. • What advice is available from a religious or philosophical source. • My religious beliefs would not permit such an action.
7. Neoliberal ethics	Milton Friedman		(Duty) • That as a manager my first responsibility and ultimate duty is to my company and its shareholders. • My first priority and

			duty should be fulfilling my company obligations. • What would be the most efficient and effective outcome in the long run. • That ultimately one should ask whether actions are consistent with organizational goals and do what is good for the organization.
8. Defense mechanisms	(Unspecified)		(Neutralization) • As long as no one gets hurt, an action is ok. • That an unethical action is ok if it is directed at some individual or organization that also acts unethically. • That many actions that are described as unethical are in reality common business practices. • It is wasted energy worrying about the effect that an action may have, one should just get on with what one has to do. • That one can't be expected to be responsible for everyone and everything.

Many scholars have denounced the occidental and also the gender bias in the traditions most often considered in empirical studies on ethical decision making (Canto-Sperber, 2004; O'Fallon & Butterfield, 2005; Shanahan & Wang, 2003). These biases lead researchers not only to exclude important ethical traditions from Asia, India, Africa, and Latin America, for example, but also to systematically ignore the views of influential women thinkers.

Contrasting with "classical" moral and political philosophy, several authors such as the French moral philosopher Monique Canto-Sperber (2004), have recently edited comprehensive dictionaries of ethical traditions (300 articles, 260 international authors, more than 2,000 pages) which give a large place to women philosophers, include non-occidental philosophers, and incorporate authors who are not professional philosophers but have influenced our moral views of the world, such as Mahatma Gandhi, Eleanor Roosevelt or Gro Harlem Brundtland. In the last ten years, the scientific literature on business ethics has also offered a growing range of ethical traditions through which ethical issues are analyzed at the individual and organizational levels.

Indeed, we conducted a literature review and identified different ethical theories from various traditions in the articles published in the business literature between 2000 and 2010. Issues of business ethics have been described from the perspective of ethical traditions promoted by women (Gro Harlem Brundtland, Eleanor Roosevelt, Ayn Rand) and stemming from Africa (Ubuntu ethics), Asia (Confucius, Lao Tzu), India (Amartya Sen's capabilities ethics), and Latin America (Fair Trade ethics, an idea that was first developed in a coffee cooperative in Mexico).

The aim of this literature review was to depart from classical moral philosophy and construct a measurement instrument that would overcome the gender and occidental biases of existing ethics scales by deliberately including a proportion of 40% ethical theories from feminine or non-occidental traditions. We started out with a guiding list of 50 diverse ethical theories, from every region of the world (Europe, North America, South America, Africa, India, China). We took care to include not only classical moral theories but also such popular contemporary theories in business ethics as sustainable development, an ethical framework that arose in a context of environmental, social and economical crisis, and which we associated with Gro Harlem Brundtland. We also considered as ethical theories some normative theories developed specifically for organizations, such as corporate social responsibility, which we linked to Archie Carroll, over other possible authors and interpretations, and stakeholder theory, in its normative form established by Edward Freeman. We did not consider as ethical theories descriptive theories which do not have a normative core. While our original list included ethical theories representing the main religions of the world, we finally opted to group all religious ethical traditions under one approach, which we attributed to Hans Kung's ecumenical theory, reducing the number of theories to 42.

As a first step, we reviewed the articles published between 1 January 2000 and 31 December 2010 in the *Journal of Business Ethics*, a top journal in the field. This first step involved a qualitative content analysis of the abstracts of a total of 2828 articles. Half of this ten-year review was performed by a graduate student as part of her research for her Master's thesis (Mourot, 2009). The same person was hired as an assistant for this research and asked to complete the review for the remaining years of the ten-year period, using the same methodology. This work was supervised and validated by the Ph.D. candidate. Out of these articles, some 1438 abstracts, representing 50.8% of the total of 2828 articles, could not be linked to an ethical theory from the list. Only four theories from the list could not be linked to any article published in the *Journal of Business Ethics* in that period. This fact alone reflects the plurality of ethical perspectives that have been voiced in this journal.

As a second step, we performed a content analysis in the ProQuest database, using keywords corresponding to each of the 42 ethical theories. The goal was to determine the relative importance of each theory in the general business literature, including professional journals and newspapers. Table III presents the ranking of these 42 ethical theories, from the most cited to the least cited, according to the keywords search in the ProQuest database.

Table III. Ranking of 42 ethical theories in the business literature

Ra nk	Ethical Theories	Key words	Frequenc y in Proquest	Frequenc y in JBE	Women/N on- occident al
1	Freeman- Stakeholder Ethics	Stakeholder* + ethic*	1090	398	
2	J. Bentham- Legalistic Deontology	Legislation + ethic*	500	46	
3	Carroll- Corporate Social Responsibility	CSR + ethic*	476	264	
4	Kung- global ethics	Religion* + ethic*	327	65	
5	Brundtland- Sustainable Development	Sustainable development + ethic*	307	58	woman
6	Eleanor Roosevelt- Human Rights Charter	"human rights" + ethic*	304	59	woman
7	Mills-Utilitarianism	Utilitaria* + ethic*	227	57	
8	Kant- Personal Deontology	Kant* + ethic*	147	26	
9	UCIRI/ Van der Hoff- Fair Trade Ethics	fair trade + ethic*	121	48	Latin America
10	Kohlberg- Moral Development	moral development + ethic*	106	43	
11	Durkheim- Social Norms	"social norms" + ethic*	104	13	
12	Confucius- Mutual Moral Obligations	Confuci* + ethic*	96	40	China
13	Ayn Rand- Ethical Egoism	Ego* + Ethic*	86	35	Woman
14	Rawls- Distributive Justice	Rawls* + ethic*	79	17	
15	Friedman- Neoliberalism	free market + ethic*	75	19	
16	Donaldson and Dunfee- integrative social contracts theory	"integrative social contracts theory" + ethic*	53	32	
17	Machiavelli- Political Realism	Machiavelli* + ethic*	51	17	

18	Adam Smith- Evolutionary ethics	Adam Smith + ethic*	51	10	
19	Ford- Corporate Paternalism	paternal* + ethic*	46	10	
20	Gilligan- Ethics of Care	"Ethics of Care"	46	8	woman
21	Habermas- Ethics of Discussion	discourse ethic*	43	9	
22	de Beauvoir- Existential Ethics	existentia* + Ethic*	40	5	
23	Marx- Egalitarianism	Marx* + Ethic*	39	5	
24	Sen- Ethics of Capabilities	Capabilities approach OR Amartya Sen + ethic*	38	4	India
25	J.M. Burns- Transformational Leadership	"transformational leadership" + ethic*	37	8	
26	Ricoeur- Narrative ethics	narrative ethic* OR Ricoeur	30	1	
27	Buddha- Buddhism	Buddhi* + ethic*	27	2	
28	Jung- Moral Archetypes	Jung + ethic*	25	6	
29	Plato- the Beautiful, the Good and the True	Plato* + Ethic*	24	6	
30	Hobbes-éthique de la survie	Hobbes + totalitari* Ethic*	24	6	
31	Aristotle- Virtue Ethics	Virtue ethic* + Aristo*	21	7	
32	Darwin- Darwinism	Darwin* + ethic*	21	3	
33	Rochdale Society- Co-operative Ethics	co-operatives OR Robert Owen + ethic*	18	6	
34	Hanna Arendt- Anti-Totalitarianism	Arendt + ethic*	13	1	woman
35	Gandhi - non-violence ethics	Gandhi OR non-violence + ethic*	12	0	India
36	Nietzches- Superman Ethics	Nietzsche + ethic*	8	2	
37	Carson- Ecocentric Ethics	ecocentric* + ethic*	8	1	woman
38	John Dewey- pragmatism	John Dewey + ethic*	7	0	
39	Jonas- Precaution Principle	Hans Jonas + ethic*	6	0	
40	Maathai- Ubuntu ethics	Ubuntu* + ethic*	5	3	Africa
41	Lao-Tseu- the Natural Way	Lao-tzu OR Daoi* + ethic*	5	1	China
42	R. Tagore- World Citizen	Tagore + ethic*	1	0	India

These findings underscore that the existing ethics scales intended to measure the ethical decision making process are overwhelmingly simplistic in our globalized economies, since they systematically and arbitrarily exclude a whole range of ethical traditions that have direct impact on business practices. This need to include more diversity and address the pluralistic nature of ethics is not just an abstract concept, but a reality with which managers are required to deal in everyday decisions.

Theoretical Framework

Most empirical research on ethical decision-making collects data based on respondents' answers to short vignettes describing fictional situations that involve ethical issues (Hunt & Vitell, 2006; Kohlberg, 1984; McDonald & Pak, 1996; S. Premeaux, 2009; Reidenbach & Robin, 1988; Rest, 1984). Using vignettes as a research strategy implies that the response to a particular scenario is in some way generalizable to other situations and characteristic of the person's general ethical decision-making pattern. To overcome this strict assumption, some scholars have attempted to generate maximum variety by including up to fourteen different vignettes (McDonald & Pak, 1996). In this research, however, we hold that ethical decision-making is heavily dependent on context, and even a small difference in a scenario can generate a totally different ethical evaluation.

Most of the time, ethical issues arise in complex situations where not all of the information is available. Even when, through careful reflection, one attempts to think through all possible alternatives, these in no way correspond to the universe of alternative responses to the situation (Hunt & Vitell, 1986).

Our approach in this research is nested in systems and contingency theory (Child, 1977; Frederick, 2004). Accordingly, this research is not conducted from a positivist epistemological position, but rather from a constructivist position. Contingency theory postulates that organizations adopt structures that are appropriate to their environment. Organizations and the environment in which they evolve are described as complex systems. It is through the decision-making process that managers adjust the organization's structure to its

environment (Child, 1977). In this sense, ethical decision-making is also a process by which the members of an organization adjust the organization's structure in response to its environment.

While the overwhelming majority of empirical studies on ethical decision-making use short vignettes describing fictional scenarios that involve ethical issues (O'Fallon & Butterfield, 2005), we argue that vignettes are not an appropriate methodology. A respondent's answer to any vignette cannot be generalized to assess his or her general reasoning approach on ethical issues, since even a small change in the context can lead to very different ethical evaluations and judgments. We have thus decided to forego the use of vignettes altogether and explore a context-free method for measuring people's ethical decision-making frameworks.

Frederick (2004) has put forward an interesting theory of the role value systems play in an organization's ability to adapt to its environment. This scholar presents organizations as complex adaptive systems which must adjust to their social and natural environments, which are themselves higher-order complex adaptive systems. Frederick presents value systems as problem-solving and sense-making procedures. As the environment changes or gets more complex, an organization with a more complex value system, one that presents a greater degree of diversity in the patterns of response to the environment, will adapt—and fare—better. In this sense, the ethical decision-making process in an organization involves *selecting* an ethical guideline in order to adapt to the environment of the organization. In today's rapidly changing environment, this adaptation skill is more crucial than ever. Some authors have suggested that companies will not survive in the long run unless they create social as well as economic value. On the one hand, people are angry about the greed and blatant lack of ethics in business, while on the other hand research has shown that good people may act in uncharacteristically unethical fashion when they are in organizations or groups (Nonaka & Takeuchi, 2011):

The world needs leaders who will make judgments knowing that everything is contextual, make decisions knowing that everything is changing, and take actions knowing that everything depends on doing so in a timely fashion. They will have to see what is good, right, and just for society while being grounded in the details of the ever-changing front line. Thus they must pair micromanagement with big-picture aspirations about the future. (Nonaka & Takeuchi, 2011, p. 60)

We consider value systems to be social structures which serve to adapt to the social and natural environment. These value systems are socially constructed and institutionalized in society and within organizations, taking the form of explicit, but primarily tacit, knowledge (Nonaka & Takeuchi, 2011; Saives, Ebrahimi, Desmarteau, & Garnier, 2005). In the next section, we will introduce the concept of ethical traditions as a useful way to express ethical theories as value systems that are culturally transmitted.

Ethical theories as reflections of ethical traditions

Following Dacin and Dacin (2008), we define ethical traditions as institutionalized practices and ways of thinking about ethics that are culturally transmitted. Our choice of the ethical tradition concept rests on three arguments: ethical traditions are collectively selected; they involve both intellectual arguments and emotional intensity; and they are a form of tacit knowledge that is not easily accessible.

Ethical traditions convey the idea that ethical preferences are selected collectively, at a social level, contrary to the idea of ethical frameworks as “personal moral philosophies”, as suggested by Forsyth (Forsyth, 1992). Traditions refer to something that is passed on, transmitted from generation to generation, within a group of people (Giddens, 2003; Taylor, 1989).

Pauchant et al. (2007) also use the concept of ethical tradition because traditions do not only contain intellectual and rational elements, they are also charged with a strong emotional and existential content. Because traditions play a role in forming a person's identity (Taylor, 1989), embracing a new ethical tradition implies a redefinition of a person's sense of self, which may spark great existential anxiety. For this reason, one's preferences in terms of ethical traditions may be very hard to change. Because of this existential anchoring, intellectual arguments alone will not change a person's preferred patterns of ethical reasoning, as one would expect with a scientific or philosophical theory.

Finally, since traditions need not be formally taught but are culturally transmitted by the mere fact of interacting in a particular community, ethical traditions convey a form of tacit rather than explicit knowledge. This implies that people are often unable to explain their ethical reasoning in a straightforward way, although they may express deep emotions in defending their views on ethical matters. This also implies that formal ethical theories may be transmitted by social structures and influence people's ethical decision-making process, without their knowledge of any of these theories.

Likewise, and on another level, the French epistemologist Edgar Morin (1991) insists it is impossible to distinguish between knowledge and the culture and society from which it stems (Morin, 1991, p. 16). He therefore defines a system of thought as a complex sociocultural product that:

“comprises not only a deep paradigmatic organizational core that commands/controls the use of logic, the articulation of concepts, the order of discourse, but also models, schemas, strategic principles, heuristic rules, intellectual pre-constructions, doctrinal structuring.”¹⁷⁴ (Morin, 1991, p. 19)

As such, ethical theories can be defined as belief systems that can be traced back to particular ethical traditions. It is thus possible to relate an ethical theory to a particular person (or group of individuals) who championed these beliefs and this way of reasoning, in response to the context of a particular time and place. The person may have been especially instrumental in transmitting this form of ethical reasoning, either by his or her writings or by his or her special way of living and embodying the beliefs and logics of that theory. Table IV presents how different ethical theories can be traced back to particular people, from particular times and places.

Table IV. Correspondence between various ethical theories, people, times and places.

Ethical theory	People	Lifetime	Place
1. Utilitarianism	John Stuart Mill	1806-1873	England
2. Fair Trade	Frans Van der Hoff/UCIRI	1939-	Netherlands/Mexico
3. Categorical imperative	Immanuel Kant	1724-1804	Germany
4. Distributive justice	John Rawls	1921-2002	United States
5. Ethical egoism	Ayn Rand	1905-1982	Russia/ United States
6. Social norms	Emile Durkheim	1858-1917	France
7. Ethics of care	Carole Gilligan	1936-	United States
8. Political realism	Niccolò Machiavelli	1469-1527	Italy
9. Stakeholder ethics	Edward Freeman	1951-	United States
10. Mutual moral obligation	Confucius	551-479 B.C.	China

This concept of ethical theories representing ethical traditions, and being embodied by particular individuals who transmitted these beliefs also has the advantage of avoiding the trap of idiosyncratic, abstract frameworks. The concept of ethical theories as related to particular persons is also helpful to distinguish the framework at hand from the different variations offered by other individuals belonging to the same broad tradition. At the very least, it is a transparent method that will enable other researchers to challenge the content validity of the statements associated with a particular theory.

This conception of ethical theory as linked with ethical beliefs is consistent with the findings of many studies on cultural values. In the next section, we will discuss in more detail how our theory on ethical traditions compares with other research on cultural value systems.

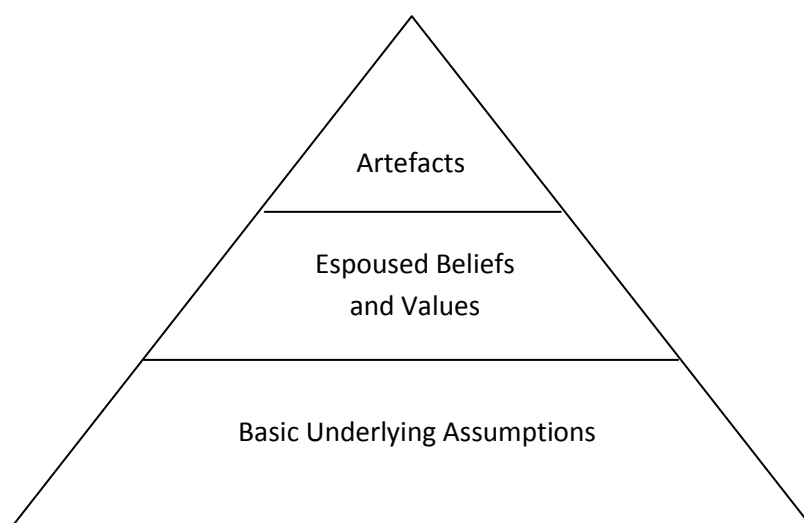
Link with Edgar H. Schein's work on cultural values

In this research, we link ethical theories to the concept of ethical traditions and consider ethical traditions as an element of culture. Edgar Schein (Schein, 2010) has offered a very useful model for understanding the cultural foundation of managerial beliefs and practices, according to three levels of analysis. In this research, we use Schein's model as a basis for understanding the foundation of ethical beliefs and practices in organizations.

This conceptualization of ethical beliefs resting on even more fundamental beliefs about how the world works is reminiscent of Schein's three-level model of organizational culture (Schein, 2010). Figure 1 presents Schein's idea of the cultural foundation of organizational practices and behaviour as based on shared values and taken-for-granted assumptions about how the world works.

¹⁷⁴ Free translation from the French: «comporte non seulement un noyau organisationnel profond (paradigmatique) qui commande/contrôle l'usage de la logique, l'articulation des concepts, l'ordre des discours, mais aussi des modèles, des schèmes, principes stratégiques, règles heuristiques, pré-constructions intellectuelles, structurations doctrinaires.»

Figure 1. Three levels of organizational culture



Source: Schein, 2010, p. 24.

Schein (2010) suggested that organizational culture can be partly understood on a superficial level by analyzing the organization's artefacts, such as goods, services, explicit policies or directly observable behaviour. The culture can be further understood at a second level by analyzing the shared values which explicitly inform how one *ought* to behave. However, for Schein, one can really grasp and understand the organizational culture only at the third and deepest level, by discovering the organizational basic assumptions, which are shared taken for granted concepts of reality, human nature and how the world 'works' (Schein, 2010).

To explain the actual behaviour of people in organizations, Schein stresses that it is often misleading and confusing to rely on what people say they value (espoused values). Rather, to really understand the effective values that guide people's behaviour in an organization, one has to discover the shared, basic assumptions that are taken for granted in that organization.

The importance of basic assumptions as the foundation of values and beliefs has been noted by many authors. Schneider and Shrivastava link these organizational basic assumptions—the shared systems of meaning that give significance to events—to organizational frames of reference that influence strategy formulation and decision-making (Schneider & Shrivastava, 1988; Shrivastava, 1985a, 1985b). Furthermore, these authors suggest that since they are taken for granted and rarely questioned, these basic assumptions must be brought to the surface in order to help organizations interpret and plan their adaptive strategies more effectively (Schneider & Shrivastava, 1988).

The idea of organizational frames of reference developed by these authors leads us to consider ethical frames of reference, too, as being grounded in basic assumptions. For Shrivastava, Mitroff and Alversson (1987), organizational frames of reference "consist of cognitive elements, cognitive maps and reality tests, and are characterized by the degree to which they are articulated and codified and by the domain of inquiry that they legitimize." (Shrivastava et al., 1987, p. 90)

We suggest that ethical traditions are these different combinations and patterns of ethical beliefs and basic assumptions. Other scholars have also described ethical traditions similarly, as belief systems comprising existential beliefs about the nature of reality, as well as values, which are prescriptive beliefs (Narasimhan, Bhaskar, & Prakhya, 2010).

Our theory suggests that individuals select within a personal repertoire of ethical traditions the one they find most relevant to resolve the ethical problem at hand. In *Sources of the Self*, Canadian philosopher Charles Taylor explains how modern humanity is influenced by a multitude of ethical traditions that form our identity (Taylor, 1989). Not only are ethical traditions embedded in external structures, but the polyphonic nature of ethics is also manifest within each individual. To be in touch with the variety of ethical traditions within oneself offers the opportunity to facilitate communication with others. Openness to influence by other traditions increases the richness of the ethical decision-making process (Pauchant et al., 2007).

Operationalization of the ethical tradition concept

The operationalization of a large number of ethical traditions poses a methodological challenge. The items measuring each tradition must be subtle enough to discriminate between different ethical traditions. However, in order to build a questionnaire that can be answered in a reasonable amount of time, the total number of items must be reduced to a minimum. The minimum number of items needed to measure a latent variable is three.

We innovate by operationalizing the concept of ethical traditions according to general beliefs about reality and how the world works (basic assumptions), and general beliefs about ethical norms and consequences that are desirable from an ethical perspective (Hunt & Vitell, 2006; Schein, 2010).

We further innovate in the operationalization of the concept of ethical traditions by using a systematic method developed by British-American philosopher Stephen Toulmin in his landmark book, *The Uses of Argument* (Toulmin, 1958). Stephen Toulmin has explored in depth what makes for a good and valid argument and has offered a method to analyze any argument from any field of knowledge, including ethics. An argument, he explains, is constructed using four main categories of information: the claim, the data, the warrant and the backing. Using our concept of ethical traditions, we deconstruct the general argument presented by an ethical tradition to support an ethical judgment.

Here, we propose that each normative theory defends a particular ethical guideline of how one should behave (claim), in the name of an ethical ideal to be pursued (warrant), based on a set of basic assumptions on how the world is/works (data). These three components form the core of an ethical argument: To be ethical, one has to . . . (claim), since the world is . . . (data) and the ethical ideal to strive for is . . . (warrant). This structure is homologous with Schein's three levels of culture, with his "basic assumptions" corresponding to the data, his "value" to the warrant, and his "artefact" to the claim.

The backing, the fourth component introduced by Toulmin, is considered to be provided by the body of knowledge from which this interpretation of the ethical tradition is extracted. As an example, this could be "according to Bentham's *Deontology or the Science of Morality*". We do not mean to imply that each ethical tradition is grounded in a single backing, or that other authors have not contributed to the creation and codification of a particular ethical tradition. Nor do we claim to render the reflections of any author, which would entail studying his or her complete body of work—and we are fully aware that every scholar borrows concepts from other thinkers who have gone before. Rather, we use Toulmin's concept of backing with a pedagogical intent to provide material for those who want to know more about the central ideas of the ethical traditions we discuss.

We will begin by presenting definitions of these four main components of any logical argument, as developed by Toulmin (1958). Then we will give examples of the application of this systematic approach to deconstruct the ethical arguments that typify the decision-making patterns underlying various ethical traditions.

Toulmin's framework of analysis: claim, data, warrant and backing

The claim, data, warrant and backing are the main components of the structure of an argument. These concepts developed by Toulmin constitute the "basic pattern of analysis . . . suitable for application to arguments of all types and in all fields." (Toulmin, 1978, p. v). The definitions of these concepts are presented in Table VI.

Table VI. Definitions of Toulmin's elements of any logical argument

Element of a logical argument	Definition
Claim	The proposition that is defended in the argument
Data	The reasons invoked to support the claim.
Warrant	The warrant indicates how the facts on which we agree are connected to the claim that is being defended. The warrant determines what is the rule of the game, what are to be considered as worthy and relevant arguments to support the claim at hand. The warrant authorizes a mode of reasoning; it establishes that the argument used is trustworthy and produces all the support needed to accept the claim.
Backing	The backing is used when it is necessary to "spell out the underlying theories and hypotheses on which (the) warrants rely

	for their deeper foundations.” A backing is a body of pre-existing knowledge and is more general than a warrant, which is more case-specific: many warrants can be based on the same backing (Toulmin et al., 1984, p. 65). It can take the form of a body of scientific evidence, a corpus of laws, a set of supporting records, etc. A backing will establish that the warrant itself is trustworthy and also relevant to the present claim.

Source: Toulmin et al., 1984, p. 63

Data (fact), warrants (rules), claims (conclusion) and backing (theory) are structural elements and the difference between them is a functional difference (Toulmin et al., 1984, p. 47). For example, the grounds of an argument can themselves be questioned and conceived as claims that need to be supported. In this sense, all of these elements form a coherent system. In this research, we are analyzing different types of value systems.

Toulmin also recommends a procedure to follow in establishing the claim, data, warrant and backing of a given argument (Toulmin et al., 1984) :

1. Start by identifying the claim: What is the idea defended in this text?
2. Identify the data: What are the reasons invoked to justify the claim?
3. Identify the warrant: Suppose all the reasons invoked are true. How are these reasons linked to the claim? What is the criterion used to justify the use of these reasons?
4. Identify the backing: What general theory or body of knowledge supports the use of this kind of criterion?

Thus, the ethical criterion promoted by an ethical tradition is a “claim” stating that “this is the right thing to do, the right way to analyze the problem, the right rule to apply to situations.” This in turn refers to a range of perceptions that we use to construct what we consider to be a fact, which constitutes the data. Finally, we will consider the warrant as being the Higher Good, or the Ethical Ideal, that is pursued in the name of ethics. As for the backing, we ground these elements of the ethical argument in the works of the authors that establish the tradition.

In Table V, we present how this method can be used to characterize five ethical theories, in a way that captures both the essence and the subtleties of contrasting ethical traditions.

Table V. Examples of statements describing five ethical theories

Ethical theories	Statements
Survival ethics (Hobbes)	Claim: An organization or a society must give itself a central authority that watches closely and punishes people in an exemplary way. Data: By nature, people are violent and dangerous. Warrant: The most important ethical considerations are people’s survival and the protection of their possessions. Backing: Hobbes, Thomas (1651). <i>The Leviathan</i>

Stakeholder ethics (Freeman)	Claim: An organization must respond to the interests of all its stakeholders. Data: An organization cannot survive in the long term by taking into consideration only the interests of its investors. Warrant: An organization must care for all its stakeholders because they are all affected by its activities. Backing: Freeman, Edward (1985). <i>Strategic Management: A Stakeholder Approach</i>.
Utilitarianism (Mill)	Claim: To be ethical, a decision must be based on an objective calculation of its consequences. Data: One can calculate, in an objective manner, the positive and negative consequences of any policy. Warrant: To be ethical, the well-being of the greatest number of people must be maximized. Backing: Mill, John Stuart (1863). <i>Utilitarianism</i>.
Personal deontology (Kant)	Claim: To be ethical, each person must restrain his/her own behaviour by following rational principles that apply to everyone. Data: Ethical judgment requires rational thinking that is not biased by emotions. Warrant: Rational principles must be followed in order to guarantee an absolute respect towards each human being, regardless of the circumstances. Backing: Kant, Immanuel (1745). <i>Groundwork of the Metaphysics of Morals</i>
Neoliberalism (Friedman)	Claim: The only responsibility of an organization is to maximize the interests of its investors, while following the rules of the game. Data: Thanks to market mechanisms, any activity that benefits the interest of one actor will also be beneficial for the common interest. Warrant: Only a market that is free from all intervention by the State gives everyone a chance to increase their wealth. Backing: Friedman, Milton (1980). <i>Free to Choose</i>.
Fair Trade (Van der Hoff / members of UCIRI Cooperative, Mexico)	Claim: In order to ensure the ethics of an organization, it is necessary to be certified by an independent international organization. Data: The current economic market often generates conditions of exploitation for small producers without power. Warrant: It is essential that customers be made more aware of their consumption that is fair for small producers. Backing: Van der Hoff (2005). <i>Nous ferons un monde équitable</i>.

Methodology

Based on the results of previous studies which suggest that individuals use multiple ethical frameworks (Carlson & Kacmar, 1997; Reidenbach & Robin, 1990), and on our theory that people use a repertoire of ethical traditions, our general research question is: "What are the ethical traditions that are most widely used by members of organizations?"

In order to answer that, we need to measure a diverse range of contrasting ethical theories from various traditions. The measurement instrument that we want to develop in this research aims to discriminate between the belief patterns of contrasting ethical traditions. An adequate instrument must include a range of theories from different traditions in order to overcome the two biases noted in the business ethics literature, namely the masculine and occidental biases, and include ethical theories developed and promoted by feminine and non-occidental traditions.

To do so, we have found we need to include a minimum of 30 ethical theories. We included the 20 most cited ethical theories in the academic business ethics literature and handpicked 10 theories among the rest of our list of 42 in order to reach our quota of 40% feminine and non-occidental theories. We are aware that this is a very ambitious endeavour. Indeed, no other study has ever approached that number, as the most pluralistic ethics scale to date was developed by McDonald and Pak (1996) and measures eight ethical theories/frameworks.

We thus created a 90 items scale, with three items describing each of the 30 ethical theories. These three items per theory reflect an essential claim, data and warrant of the theory. The construct validity of the scale has been evaluated by having 6 independent experts review the soundness and accuracy of the three statements describing each tradition. The statements were then mixed and built into a questionnaire, which asks the respondents to rate their agreement or disagreement with each of the item statements on a 5 points Likert scale (1= "strongly disagree"; 5= "strongly agree";). The questionnaire also includes background questions such as age, gender, educational background, specific occupation, type of organization, industry, etc.

The focus of this research will be on the psychometric properties of the measurement instrument. Indeed, the first step is to test its reliability and validity. The reliability of the measurement instrument will depend on the internal consistency of the scales identifying the various ethical theories.

We hypothesize that groups of ethical theories will present different patterns of ethical beliefs and basic assumptions about the nature of reality and how the world works. The types of possible patterns or combinations of ethical beliefs and basic assumptions may be anticipated based on research on cultural value types (Schwartz, 1994, 1999). Schwartz (1999) has developed a theory predicting how cultures can be compared on the basis of seven types of values. The study reveals patterns of distance between the value types, based on whether the values are conflictual or compatible with each other.

The questionnaire is presently being administered to 500 managers and employees from a group of Canadian companies. Using exploratory factor analysis and split sampling procedure, the idea is to create a typology of ethical profiles. The reliability of the scale and the validity of the typology of ethical profiles will be evaluated using Cronbach alpha between the split sample. The construct validity will be further evaluated by comparing the results of the exploratory factor analysis with the original item construct of the 30 traditions. If applicable, further structural equation modeling will be conducted to see if a type of ethical profile is composed of a group of particular ethical traditions.

Practical contribution

We believe that a better understanding of the pluralistic nature of ethics will help managers better navigate through the complexities, controversies and misunderstanding that ethical issues invariably bring. Our instrument integrates a wide range of ethical traditions, including feminine and non-occidental moral theories that are not included in other scales, and will permit managers to identify the ethical traditions that inspire them, while at the same time alerting them to other ethical traditions they might be least familiar with. Following a developmental approach, our goal is for this questionnaire to be used as a pedagogical tool to increase managers' self-knowledge and understanding of the perspectives of others. This instrument may even help them broaden their personal repertoire of valid and relevant ethical traditions to use for guidance in their complex environment, according to the particularities of the situation.

Certainly, this has profound implications for management, as the repertoire of traditions that one identifies with may influence the choice of management practices one would prefer to use. Many authors in the field of business ethics have emphasized that better ethical activities will emerge only if organizational members do challenge their "moral basic assumptions", "ethical traditions", "moral frameworks", or "worldviews". The questionnaire being developed by this research is designed in the hope of facilitating this needed critical reflection.

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BUSINESS ETHICS: WHY A PERSON-CENTERED APPROACH?

A CONTRIBUTION FROM CATHOLIC SOCIAL TRADITION TO THE FOUNDATIONS OF BUSINESS ETHICS

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ABSTRACT

Drawing from Catholic social tradition, and particularly, from some writings of Pope Benedict XVI, we discuss the essentials of his approach, which can be interpreted as person-centered ethics. This is neither relativist nor rationalistic, but based on metaphysic realism. It is a “first person ethics”, in which personal conscience and virtues play an important role; it leads to the awareness of justice in every phase of economic activity and orients this to the common good. We conclude by affirming that “person-centered ethics” overcomes some shortcomings of conventional approaches which currently we find in the mainstream of business ethics thought.

KEY WORDS: Person-Centered Ethics, First-Third Person Ethics, the common good, rationalism, relativism, justice

Introduction

An emerging perspective in economic and business ethics stresses the centrality of the person through personalistic philosophy and other related approaches. Several authors (Gronbacher, 1998; O'Boyle, 1998, 2001, 2003, 2007; Zúñiga, 2001; Beabout et al., 2002; Donohue-White et al., 2002; Grabill, 2003; Finn, 2003)

have argued in favor of economic personalism. Whetstone (2002) related personalism with leadership theories finding it fits with servant-leadership satisfactorily. Fontrodona and Sison (2006) stressed the notion of common good, closely related to human good, as the main reference for business ethics. Melé (2009a) supports the personalist and the common good principles as ethical postulates for business ethics. On his part, Sandelands (2009) describes a person-centered ethic of business based upon eight social principles taken from Catholic Social Tradition (CST), Melé (2009b, Chap 4) proposed a systematic person-centered approach to business ethics in which virtues are central, but which also includes values and norms. Alford (2010) suggests that personalism is a particularly good source on which to draw in order to design new foundations for ethical business practices. Acevedo (2012) drew from Maritain in deciding that personalism is a relevant approach to business ethics.

These perspectives are not far from CST, and may even have taken certain inspiration from it. CST sees service to the person as the beacon for economic activity. Thus, *Gaudium et spes*, an important document of the Vatican Council II, stated that “man is the source, the center, and the purpose of all economic and social life” (1965, # 63) and, as regards activities of production, added that “the fundamental finality of this production is not the mere increase of products nor profit or control but rather the service of man.” (# 64) On his part, John Paul II clearly stated that the Catholic Church’s teaching on social and economic matters has as guiding principle “a correct view of the human person and of his unique value.” (1991, # 11, italics in original)

Continuing in this line of thought, more recently, Pope Benedict XVI, in his encyclical-letter *Caritas in veritate* (CV, hereafter followed by #) (2009), stated that “striving to meet the deepest moral needs of the person also has important and beneficial repercussions at the level of economics”, and adds: “*The economy needs ethics in order to function correctly*” (# 45, italics in original), but immediately he adds that this is not just any ethics, “but an ethics which is “people centered” (CV 45) In accordance with the official Latin text, could be more literally translated as an ethics which is “friend of the person” or “person-centered ethics”. He applauds certain initiatives in business ethics and corporate social responsibility and encourages them (CV 40, 45, 66) but, at the same time, shows concern for certain systems of morality which underlie some business ethics approaches (CV 45) and considers it advisable to develop a sound criterion of discernment, since the adjective “ethical” can be abused (CV 45). Similarly, the encyclical points out that not all the ethical considerations that currently inform debate on the social responsibility of the corporate world are acceptable from the perspective of the Church’s social doctrine (CV 40).

From this position certain questions arise. First, what current approaches to business ethics might be unacceptable from a Catholic perspective and why? Second, what does Benedict understand by a people or person-centered ethics? Thirdly, could a person-centered ethics be a sound foundation for business ethics? This paper tries to answer these questions and its structure is consistent with this purpose. Firstly, we analyze some current business ethics approaches which seem incompatible with CST. Namely, those based on relativism and rationalism. Secondly, we discuss what Benedict XVI may understand by an ethics which is “person-centered”. Thirdly, we reflect on whether a “person-centered” approach can be a sound foundation of business ethics and on whether it overcomes the shortcomings of conventional approaches which we currently find in the mainstream of business ethics thought.

Neither relativism nor rationalism

For many years ethical relativism has been dominant in business. In response rationalistic normative theories have been introduced in business, especially from the business ethics movement.

In the early years of this movement, at the end of the 1970s and beginning of the 1980s, there appeared proposals mainly based on Deontology (Kantianism, Moral Rights Theories), Utilitarianism, and Contractualism (De George 1982, Velazquez 1982, Donaldson 1982). These rationalistic approaches are not substantially different to those theories dominant in the 19th century.

Some years later, the development of virtue ethics also made itself felt in business ethics (Solomon 1992, Koehn 1995, Hartman 1998, and Sison 2003, among others). In contrast with the rationalist self-legislation and freedom of Kantian deontology, and the calculation of happiness employed by Utilitarianism, virtue ethics proposes the cultivation of virtues as the basis for business ethics. Virtue ethics can be understood as rooted in the human nature (eudemonistic virtue ethics) or culturally based (contextual virtue ethics); the latter falls within relativism.

Some approaches based on natural law, realistic personalism and the human virtues can also be found in the literature of business ethics (Whetstone 2002, Alford and Naughton 2001, Melé 2009a) but, for the present, these are still in the minority. Nevertheless Benedict XVI seems to tend toward this latter focus, as noted above.

In certain cases, procedural theories are also employed in BE; in them substantive ethical norms are replaced by procedural norms to determine when an action is correct. Other theories, with a postmodern character, have also tried to establish themselves in the field of business ethics. Thus, ethics of care (Held 2006), and the ethics approach of Lévinas based on intersubjective responsibility (Aasland, 2007), although certain limitations of these approaches have been identified, for example Koehn (1998), regarding ethics of care, and Bevan and Corvellec (2007), in the case of the approach inspired by Levinas.

Benedict XVI's reservations refer to both relativism and rationalism, as we will discuss in this section, but first let us review briefly these two streams of thought.

Ethical Relativism

Traditional relativism understands that the individual or the society is the source of morality (subjectivism and cultural relativism, respectively). Offering models which integrate several theories or proposing pragmatic approaches by using a variety of normative theories are also forms of relativism. When there is no objective reference it is not difficult to arrive at a relativist posture and even to positions of scepticism as regards business ethics - any theory will serve.

The integration of different theories of ethics into stakeholder management introduces a variety of interpretations and the consequent ethical relativism. As Hummels pointed out, "each interpretation provides us with a different set of stakeholders and stresses the importance of specific values, rights and interests. Hence, different stakeholder interpretations lead to different distribution of benefits and burden, of pleasures and pain, of values, rights and interests." (1998, p. 1404) This could be a more serious problem if stakeholder theory did not adopt a sound ethical theory and if the manager did not act uprightly. He or she could then simply seek the theory which best "justifies" or provides the reasons that best serve his or her interests.

Ethical relativism can be even more pronounced in some Corporate Social Responsibility (CSR) approaches in which ethics is substituted by social or cultural values. This approach was present at the very beginning of CSR movement, in the mid-1950s, when Howard R. Bowen wrote his book *Social Responsibility of the Businessman*. He assumed that social responsibility of businessmen "it refers to the obligation of businessmen to pursue those policies, to make decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (1953, p. 6). Nowadays, theories of ethics may support CSR, but often such responsibility is based on values and norms provided by each society. Sometimes, ethics is put aside and what really matters is the satisfaction perceived in the stakeholders of the firm. Both social values and stakeholder satisfaction are certainly important, but do not alone guarantee an ethics-based CSR.

Ethical Rationalism

Rationalism emerged from the eighteenth-century "Enlightenment" movement. According to ethical rationalism, ethics should be based on aprioristic principles of morality provided by human reason. These principles are considered knowable *a priori*, without any sensorial contribution. Typically, the figurehead of this ethical rationalism is Immanuel Kant, with his Categorical Imperative. Utilitarianism, in spite of the empirical evaluation of consequences of an action generally in terms of satisfaction, is also founded on an aprioristic principle ("the greater happiness for the greater number"). Similarly, "Integrative Social Contract Theory" also has ethical rationalism as a founding principle in assuming that morality derives of social consent, but it also includes an empirically-based acceptance of empirical norms – termed hyper-norms and authentic norms. These theories are focused on determining whether or not an action is ethically acceptable and on solving ethical dilemmas. They operate, however, without any reference to how morality contributes to the human flourishing of the moral agent or to the role of character in making moral judgments.

Rejection of both relativism and rationalism

In a speech given just a few weeks after the publication of *Caritas in veritate*, Benedict XVI (2009b) said that 150 years ago there was a "dictatorship of rationalism" while in the current epoch a sort of "dictatorship of relativism" is evident in many contexts. According to the Pope, both rationalism and relativism seem inadequate responses to the human being's justified request to use his or her reason as a distinctive and constitutive element of his or her own identity. "Rationalism was inadequate because it failed to take into account human limitations and claims to make reason alone the criterion of all things, transforming it into a goddess; contemporary relativism humiliates reason because it arrives de facto at affirming that the human being can know nothing with certainty outside the positive scientific field. Today however, as in that time, man, "a beggar for meaning and fulfillment", is "constantly in quest of exhaustive answers to the basic questions that he never ceases to ask himself." (2009b)

Benedict XVI is not alone in his reservations over Rationalism. In the second half of the 20th century, ethical rationalism was severely criticized, among others by Elisabeth Anscombe (1958), Philippa Foot (1978), and

Alasdair MacIntyre (2008 [1981]) for the failure to consider the agent and his or her moral character and how the action shapes virtues and vices of the agent. MacIntyre suggested as an alternative an ethical approach which considers the Aristotelian concept of teleology, focused on the human ends that human reason can discover from the innate human tendencies. According to MacIntyre (2008 [1981]), the philosophers of the Enlightenment, because their theories were shorn of teleological elements, used an incomplete framework for the moral foundation of ethics, and so did their successors. MacIntyre is also opposed to Emotivism, a meta-ethical view that claims that ethical sentences do not express propositions but only emotional attitudes. Emotivism is aligned with the thought of David Hume (see, especially in *A Treatise of Human Nature*, Book 3 and in *An Enquiry Concerning the Principles of Morals*), who proposed a morality based on sentiments, and consequently opposed ethical rationalism. The position of Anscombe, Foot, and Alasdair MacIntyre brought about a great development of “virtue ethics”, which stresses the relevance of the decision-maker’s moral character. This development then entered business ethics, as noted above.

The integration of normative theories in managerial thought could be considered an advance if you compare them with the view of value-free business. However, when normative theory comes from rationalistic ethics, ethics appears exclusively as a constraint of economic activity: “you should avoid actions which are not ethically right”. But, what is right? The answer is not other than any action which is in accordance with the rationalistic ethical principle adopted.

If Pope Benedict rejects both relativism and rationalism, what alternative proposal does he make?

Understanding Benedict’s position on “person-centered” ethics

Benedict XVI stresses “striving to meet the deepest moral needs of the person” (CV 45), and consequently responds to the true good of the human being, and to an authentic human growth. As noted by Mauri, this “is an ethic that helps the personal growth that accompanies the human being in his individual and shared life path, which indicates the way that mediates between the possibility and excellence.” (2010, p. 95)

The good of the person consists of the goods which reason discovers from trends inherent in human nature. Therefore, as noted Mauri, “any attempt to govern human life by rules that are contrary to human nature or dispense with it, either in part or in whole” can not be called an ethics of the person, nor can “an ethic whose rules only aspire to regulate the coexistence of humans putting aside personal moral and social development.”(2010, p. 95)

Human dignity and the transcendental value of natural moral norms

In Catholic Theology, faith meets reason and reason meets faith: what Benedict XVI does is assert the need for an ethics that includes norms derived from the biblical reference of the Creation of man as *imago Dei*, “image of God”, which involves “the inviolable dignity of the human person, as well as the transcendental value of natural moral norms.” (CV 45) Benedict XVI emphasizes the unique value and dignity of the human being in several passages of *Caritas in veritate* (CV 15, 18, 25, 41, 45). “Christian vision –he affirms– has the particular characteristic of asserting and justifying the unconditional value of the human person and the meaning of his growth (CV 18). It is just on this growth where the encyclical puts a special emphasis talking in terms of “human development”.

In the context of CST the dignity of the human person and natural moral norms, although they can be discovered by reason, have their ultimate value in the authority of God-the-Creator, the author of human nature. For believers, the Creation of man “in the image of God” is a solid foundation for the dignity and rights of the human being. Nevertheless, respect for human dignity, natural moral norms and human rights are a quite reasonable disposition in and of itself. These are respected by many non-Christians, be it due to arguments of reason or to the wide consensus reached around these matters. Although not everyone will come to accept the transcendent rationale indicated by the Pope, sharing the recognition and respect for every person and for natural moral norms is a crucial reference for ethics.

In Benedict XVI’s writings the reference to growth or perfection as a human being appears always related to human nature. For example, by saying in the encyclical *Caritas in veritate* that the human being “cannot prescind from his nature” (CV 21). A nature, which is not static but dynamic: it is equipped with operational principles which present to each a call to perform well to become a better person.

Benedict XVI defends the necessity of “authentic development of every person and of all people” (CV 1). Encyclical *Caritas in veritate* sees such development as a calling, or an innate orientation to develop one’s own humanity. In this sense, we can read: “the human being is constitutionally oriented towards a ‘being more’” (CV 14).

The question is posed, what does “being more” mean in practice, and what reference we can find for this end? According to the encyclical human development “*concerns the whole of the person in every single dimension*” (CV 11) and must *include both material and spiritual growth* (CV 76). Regarding the latter, love and truth are seen as primordial. These two crucial values appear as an interior impulse, which in some way, is made evident in everybody. The encyclical stresses this, adding that “love and truth never abandon them completely, because these are the vocation planted by God in the heart and mind of every human person.” (CV 1) Seeking the truth and loving in accordance with that truth leads one to discover moral norms in human nature.

Natural Moral Law

This approach is related to natural moral law based on philosophical realism, different from the rationalist natural law, as proposed, among others, by John Locke. The fundamental assumption of the first true man's rational ability is to discern between good and evil. A capability that captures the moral message of human nature, together with the imperative to act accordingly. In this sense, Thomas Aquinas says: “seek and do good, and avoid evil”. This is the first principle of natural moral law. Unlike the rationalist ethical theories of nature, natural law is not a rule imposed from outside of man but lies in his being.

This approach is not new. In fact, the whole Christian tradition affirms the human capacity to know the moral order, at least at its most elemental. Human reason did not invent them but discovered them as something received as part of the creative plan of God. It also makes explicit the inviolable dignity of every human being.

The existence and universality of natural law is set as shown by Paul, who, referring to the Gentiles, says that they “show they have recorded in their hearts what the law prescribes, as witnessed by his own conscience and according and according to the accusing or else excusing arguments that are made for one another.” (Rom 2:15).

Not only Christian tradition defends the existence of natural moral norms of transcendent value. In the pre-Christian world too certain leading authors referred to an unwritten law that is above positive law. This is expressed, by Sophocles, among others, who in his famous tragedy *Antigone*, puts into the mouth of the protagonist the reproach of the tyrant Creon who refused to bury the dead body of Antigone's brother by invoking the “the immutable unwritten laws of Heaven.” (*Antigone*, vv. 563 ff.) Cicero, for his part, says: “There is a true law, right reason, conformable to nature, present in all, unchanging, eternal, so that it appeals to men with their mandates to do his duty or to prevent them from doing evil. This law is no different in Rome or in Athens, nor different now to tomorrow. It is an immutable and eternal law whose sole author, performer and lawgiver is God.” (*De republica* III, 22, 33)

Another manifestation of the existence of natural law is the existence of the Golden Rule, to avoid doing the evil to others that one would not want to receive, and in some form, found in all the great world religions. As Benedict XVI (2008), in addressing the General assembly of the United Nations, remembered Augustine of Hippo (fifth century), one of the masters of our intellectual heritage. He taught that the saying: *Do not do to others what you would not want done to you* “cannot in any way vary according to the different understandings that have arisen in the world” (*De Doctrina Christiana*, III, 14).

Related with the Golden Rule we find human rights; since “respect for human rights is principally rooted in unchanging justice” and remembering that these “rights and the resulting duties follow naturally from human interaction, it is easy to forget that they are the fruit of a commonly held sense of justice built primarily upon solidarity among the members of society, and hence valid at all times and for all peoples.” (Benedict XVI, 2008) Consequently, “human rights must be respected as an expression of justice, and not merely because they are enforceable through the will of the legislators. “

Benedict XVI speaks of the “overall moral tenor of society” and points out the necessity to look at “the book of nature”, which is “one and indivisible” (CV 51). This can be interpreted as a call to restore the natural law as common ethics. Earlier, the Pope had expressed the urgent need to reflect on the issue of natural law and to rediscover its truth common to all men. (2007a) Advancing in this direction, in a meeting with the International Theological Commission, Benedict XVI invited its members to work on the fundamentals of natural moral law (2007b). The International Theological Commission (ITC) itself later published an important paper on natural moral law (ITC, 2009) that opens new horizons of their understanding and implementation, including for business ethics.

Being more specific, Benedict reminds us that the first and general principle of natural law (“do good and avoid evil”), stands out immediately to everyone. From this first principle, other particular principles flow. The latter regulate ethical justice on the rights and duties of each, including respect for human life, the duty to seek the truth, freedom shared with others, and respect for the truth of the human being with justice and

solidarity (Benedict XVI, 2007b). “In these values –concluded the Roman Pontiff – are expressed unbreakable and contingent norms that do not depend on the will of the legislator and not even on the consensus that the State can and must give. They are, in fact, norms that precede any human law: as such, they are not subject to modification by anyone.” (Benedict XVI, 2007a).

Virtues: love in the truth

A person-centered ethics includes not only goods, principles and standards, but also, and above all, virtues. The virtues are expressions of inner growth. Human virtues, as Thomas Aquinas observed, are linked to natural moral law, so its moral norms are intended to be acts of virtue (1981[1273], II-II, q. 44, a. 2, ad 1). Thus, it is not surprising that natural moral law is also a virtue-based ethics.

Consequently, the social doctrine of the Church includes both principles and virtues, and regarding the latter, insists especially in the virtue of charity, which should be done in truth. This is the central subject of the Encyclical *Caritas in veritate* (#2), which affirms: “Charity is at the heart of the Church's social doctrine. Every responsibility and every commitment spelt out by that doctrine is derived from charity which, according to the teaching of Jesus, is the synthesis of the entire Law (cf. Mt 22:36- 40).”

According to Benedict XVI, love is closely united to the truth. In his own words, love in the truth, that is, *Caritas in veritate*, “is the principle around which the Church's social doctrine turns, a principle that takes on practical form in the criteria that govern moral action.” (CV 6)

Prudence or practical wisdom is central in a person-centred ethics. Benedict refers to this virtue (CV 41) which is so important in Christian Tradition. Practical wisdom makes natural law operative in practice and allows one to evaluate each situation in search of the true moral good as a dimension inherent in reality. This brings about acting with love and justice in accordance with the truth.

To conclude, a person-centered ethics is the one that is oriented to the good of the person and focuses on virtues rooted in love in the truth.

“Person-Centered” approach for business ethics

Business ethics posits as the first problem the nature of the relationship between ethics and business, but an even more crucial problem is what perspective should be adopted in considering ethics. As regards the latter, the “First-Third Person” question emerged, and the encyclical has a clear position on both topics. We will analyze these, beginning with the second.

A “First-Person” Ethics

Abbà (1995, 1996) has pointed out these two different perspectives in considering the point of view of the observer who makes moral judgments, which lead to two different manners of understanding ethics. In the “first person” perspective it is the decision-maker or the acting subject who seeks the “good” in deciding or performing an action. In doing so he or she is aware that this action contributes to a virtuous life, or detracts from it. In the “third person” ethics the perspective moves to an external and impartial observer who tries to determine whether an action is “right” and to this end seeks principles and norms. This is the case of most Modern ethics, including the above-mentioned rationalist ethics. In this way, the internal effects of the action on the person acting and its contribution to human flourishing are ignored. Under this perspective this latter concept would make no sense. Managing one's own life is a matter of personal preferences, a purely private and subjective question in which regard ethics has nothing to say. A set of rules or principles provide some constraints to human activity, but guarantee the satisfaction of individual wishes if these are within the limits of the rules. Abbà stresses this point by adding that the aim of “third person” ethics is “creating a social order where man as a being of desires or as autonomous subject can do what he wants, but without hurting others, or hurting them only with a better end in mind, but silence reigns concerning the meaning of the life of these free subjects. But then a question emerges: “Why be moral? Why should the utilitarian rules of justice, for example, be observed?” These questions remain without an answer in third person ethics. Abbà concludes by saying: “The principle of the intelligibility of a normative ethics of the third person must be located in the ethics of the first person. Human conduct, in fact, in as much as it is constructed and produced by the acting subject, contains an original, practical knowledge that is not reducible to the knowledge of the legislator, the judge, or the critic; an operative knowledge that has its own logic.” (1995, p. 105)

We should recognize that the “third person” perspective is quite common in moral systems employed in business ethics, and the answer to the motivation for a moral behavior is only based on utilitarian motives (ethics is profitable) or on moral duty without further justifications: “You should act rightly because this is your duty!” or “you have to do this because this is the right thing!” In contrast, the person-entered approach takes a “first person” position. This is evident in the central theme of the encyclical: the integral human development

which is achieved through love in truth, and the role of the personal conscience (CV 34, 36, 68). Definitively, this focuss on the first person and gives a definitive response to the question about the need to be moral.

It is logical to think that flourishing as a human being requires discovering what we are and what is the end of the tendencies inherent to human nature, and who are others. In *Caritas in veritate*, we read: “we all build our own ‘I’ on the basis of a ‘self’, which is given to us.” (...) “we must fortify our love for a freedom that is not merely arbitrary, but is rendered truly human by acknowledgment of the good that underlies it.” (CV 68) In other words: you should act well because this contributes to integral human development: the development of the acting person and the others; or because this is the answer to your human vocation to become better as a human being, and ultimately to respond to the will of God. That is why moral norms should be coherent with this end, and each person “needs to look inside himself in order to recognize the fundamental norms of the natural moral law which God has written on our hearts.” (CV 68)

Justice in every phase of economic activity

Love in truth has in the first place a demand for justice, as the encyclical itself makes clear. Justice is inseparable from love, intrinsic to it, and the primary way of love (CV 6). Justice entails “recognition and respect for the legitimate rights of individuals and peoples.” (CV 6) Business, as the whole society should be built, first of all, according to law and justice; and justice, which leads us to give each his or her what is due (rights) should be applied to every decision and in *every phase of economic activity*, including locating resources, financing, production, and consumption (CV 37).

Along with justice, “traditional principles of social ethics like transparency, honesty and responsibility cannot be ignored or attenuated, but also that in *commercial relationships* the *principle of gratuitousness* and the logic of gift as an expression of fraternity can and must *find their place within normal economic activity*.” (CV 36) Following this idea, the logic of gift and the principle of gratuitousness, as an expression of fraternity, need a space within normal economic activity, and within BE. Without excluding justice, logic of gift and the principle of gratuitousness are necessary to make authentically human economic, social and political development (CV 34-36). Seeing others – employees, colleagues, clients - as persons worthy of respect, deserving of reciprocal treatment and even of gratuity, overcomes a purely transactional vision or a consideration of others as mere resources or means to economic or power-objectives.

The common good as the crucial reference for organizational e societal ethics

On the moral foundations of business ethics there is the concern and effective orientation and strive toward the *common good* as a requirement of justice and charity. (CV 7) It is just to contribute to the common good of the communities to which one belongs. One receives from the community and in reciprocity one should contribute. But such contribution is not only a matter of justice but also of charity (love). In this sense, the Pope explains that charity (love) must not be limited to these *micro-relations*, but also be extended to *macro-relations*, “like social, economic and political relations.” In the firm there are both micro- and macro-relations. The first in small work-groups or in professional relations from which fellowship and even genuine friendship can appear. Macro-relations exist at all levels in the firm and in its various divisions too if the firm is sizeable, and also in the relations between the firm and society. (CV 2)

The consideration of the common good should be a permanent and crucial reference for economic activity, and therefore in organizational and societal business ethics. According to Benedict XVI, the application of *commercial logic* “needs to be *directed towards the pursuit of the common good*.” (CV 36) Likewise, the common good should be the ultimate end in business. This contrasts with the approaches in which profit becomes the exclusive goal of business. “Once profit becomes the exclusive goal – the encyclical notes –, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty.” (CV 21) Economic and business activity with real growth, which benefit everybody, and genuinely sustainable is highly desirable (CV 21). On the contrary, management should avoid favoring short-term profits which in the long term impedes reciprocal enrichment and the dynamics of cooperation (CV 33).

Conclusion

Drawing from Catholic social tradition, and particularly, from some writings of Pope Benedict XVI, we have discussed the essentials of his approach, which we interpreted as person-centered ethics. It is neither relativist nor rationalistic, but based on metaphysic realism.

“Person-centered ethics” does not see ethics as a set of principles or norms extrinsic to the human action, but as morality inherent to the human action and, therefore, at the core of economic activity. In addition, his proposal is far from a “third person ethics”, in which morality comes exclusively from the application of principles and norms set by experts in ethics who determine the moral acceptability of certain types of action or to solve dilemmas. Instead, it is a “first person ethics”, in which personal conscience and virtues play an

important role; it leads to the awareness of justice in every phase of economic activity and orients this to the common good.

We showed that “person-centered ethics” overcomes some shortcomings of conventional approaches currently found in the mainstream of business ethics thought. Consequently, it seems quite promising although further work should be carried out for the full development of an alternative theory for business ethics and, what is more, for a sound integration of ethics in business management.

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AXIOLOGICAL BASE OF THE CONCEPT OF *HOMO OECONOMICUS*

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Introduction

The article is an attempt to search wider and deeper ways of interpreting the concept of economic man including axiological dimension. The aim of the paper is to analyze the contemporary relevance of the

theoretical interpretations of the concept of *homo oeconomicus* and to seek for main values hidden in these interpretations.

Homo oeconomicus is an interesting concept formulated within classical economics, also applied in institutional economics and other scientific disciplines. The elaboration emphasizes the beauty of this concept, resulting from the most significant values included therein, as presented in various expressions of the issue of an economic human. For the purpose of this elaboration, the term of *value* will be defined as:

The principal category of axiology, determining all that is valuable, desirable or worth selecting, constituting the final goal of human pursuit [Jedynak 1990, 258],

The object of relatively permanent desires, constituting the good in itself [Stoner, Freeman, Gilbert, Jr. 2001: 122].

The main exploratory objective of the elaboration is to seek – within the wide concept of *homo oeconomicus* and other models describing the behaviour of economic beings – the values, and criteria supporting the development of the resources of the organization in a special manner, more appropriate, more perfect than others. The conclusions are to constitute the method for seeking desirable values within the concepts of an economizing human actions. The lack of indication of the negative aspects of a human being functioning within an economy, and the lack of emphasizing the defects of particular concepts, are purposeful – the studies concentrated on seeking the values, which best contribute to the growth of organizational resources, in particular human resources. The research is conducted to find a special “peak values”, most perfect values, between average, less perfect or no values at all. Such approach prevents finding the presented position as complete, and requires deeper research in this scope in the future.

In the elaboration there is a suggestion of applying the research method proposed by G. Morgan in *Images of Organization* [Morgan 1997]. A motive often returning during the discussions on the concept of *homo oeconomicus* is the issue of selecting the paradigm serving for concept analysis. For example, an economizing being may be treated – within the conducted economic analyses – as an abstract, fictional, theoretical construction, or a description or characteristics of an actually existing actor, serving for forecasting and designing future human behaviour on the market. This elaboration adopts a method, within which those and other research issues analysed in the wide scope of the *homo oeconomicus* concept – similarly to particular organization metamorphoses presented by G. Morgan – constitute the different “faces” of the economizing human. They comprise stories – perhaps in a schematic and fragmentary but a special manner touching on the essence of the *homo oeconomicus* concept – the use of which allows reading the organizational situations. These stories may also constitute the starting point for conducting analyses of the action of people in the organization. The analysis of the different “faces” of the economizing man is extremely needed since due to the diversity of organizational circumstances, and also to the need to formulate the description of the different manners of operation of organization people. They also demonstrate the beauty and diversity of the organization, various concepts and possibilities of choices of the organization human [see Morgan 1997: 9-16].

Around the traditional concept of *homo oeconomicus*

The concept of *homo oeconomicus* may be analysed in account of diverse research criteria. One of the longest and most often used criterion of the definition of the essence of *homo oeconomicus*, helpful in the study of the concept in the axiological dimension, is the motivation of the acting being. In this case, the crucial question is about the specific comprehension of the role of economic motivation, which constitutes the most significant element of the functioning of the actor in the economy. The great value, that must be noted in this area, is the constitutive nature of a man discussed in detail by A. Smith, that is:

Inclination for exchange, trade and replacement of one thing with another (...). This tendency is common for all humans and not visible in any type of animals (...). No one ever saw one dog exchanging bones with another dog out of its own will and on purpose [Smith 1954: 20].

A man motivated by the „exchange need”, driven by the motive of individual interest, and egoistic benefit, was not, however, described as one lacking the instinct of self-preservation, mind, or conscience, which would tell him what is allowed and what is not, what is decent and what isn't. Thus, it seems, that in the essence of *homo oeconomicus*, there is no planned room for dishonest behaviour; no one is forcing, or encouraging the economic man to act unfairly. A. Smith did not support the human egoism theory, and underlined in a particular manner the characteristics of human nature:

However selfish is the man, undoubtedly there are certain elements in his nature resulting in his interest in the faith of others, and making happiness indispensable for him [Smith 1989: 5].

Moreover, A. Smith justified human behaviour expressed in trading and exchange, which as a consequence offered useful resources to all of the society. The author also emphasized the function of multiplying the values in the action of the economizing being – not only of capital but also of society wealth. The behaviour of *homo oeconomicus* can be beneficial not only for himself but also for all market actors [Bittner 2009: 14]. In accordance with the consideration for the criterion of economic motivation analysis, the concept of *homo oeconomicus* can be defined as:

Homo oeconomicus is a concept, according to which economic motivation is the basic determinant of the productive activity of a man. (...) The basic goal of action of an owner of production means is maximizing profits, and of a labourer – obtaining the means to satisfy the basic physiological needs of his own and his family [Kwiatkowski 1982: 157-8].

The economic actor is realizing his economic motivation in the process of decision-making in the conditions of economic freedom, accounting for various selection criteria (freedom is another great value of the *homo oeconomicus* concept stated shortly below). The concept of *homo oeconomicus* can also be interpreted emphasizing another value, constituting the attribute determining the activity of the economizing human, i.e. rationality:

Homo oeconomicus is a term used to define rational use of work and market resources by the given person, in order to systematically realize its own interest [Świeboda 2006: 120].

The concept of rationality of an economizing provides that:

Homo oeconomicus can adjust the means to the intended goal, and to the conditions of its realization, applying cognition and reasoning [Gabara 1982: 430].

The rationality of an economic man constitutes the value of the economic process and may be expressed in the form of tangible rationality – where the action is adjusted to the objective truth (value), to the actual circumstances, and in the form of methodological rationality – when the action is adjusted to the knowledge of such reality deemed as objective truth (value) and serving as the basis for the analysis [Gabara 1982: 430].

Upon the analysis of the concept of *homo oeconomicus* one should touch on the criticism of the model, presented within the scope of sociology science. Sociologists are interested in an actor, whose behaviour, economic amongst others, are described and explained through the prism of his participation in a group. Special role in sociological analyses is played by the values accounted for in organizational activity. *Homo sociologicus* applies such assessment criteria as: good-bad, positive-negative. The subject of interest of a sociologist, in regard to the sociological man functioning in the economy, is the materialization of defined values in economic situations, amongst others solidarity, equality, freedom, patriotism. Sociological studies, along economic rationales, also take account of axiological prerequisites, which support maintaining a social group [Morawski 2001: 30-1].

The literature of the science also presents mixed models, e.g. a social-economic human, which constitute a form of a synthesis of the elements of various concepts and interpretations relating to studies of economizing humans [Morawski 2001: 34].

***Homo oeconomicus* in the context of business ethics**

Business activity constitutes one of many areas of the human activity consisting in making choices by free people. The analysis of the axiological dimension of business activity is conducted within the business ethics discipline.

Business ethics constitutes a study of moral issues (beliefs, norms, value etc.) occurring in the business, industry, banking, and related types of activity, institutions and – in general – human behaviour practices [Gasparski 2007: 27].

The basis for explaining the behaviour of an economizing human, consisting in exchanges and formulated in a quantitative manner in monetary units, provides praxeology.

Praxeology (<gr. praxis, prakseos = action; logos = talk, speech) is a general theory of efficient action, an area of scientific studies concerning the methods of all purposeful human activity, in particular the rationality, efficiency and effectiveness [Jedynak 1990, 194].

However, the analysis of the behaviour of the economizing human within this discipline notes that economics should not be reduced to the function of a mechanism processing invested resources, without accounting for the methods of valuation, other than in monetary units. According to W. Gasparski, a significant feature of praxeology is the analysis of the relations between the goals and economic means. Effective execution of intended goals requires using appropriate means. This element is of significance in the analysis of the *homo oeconomicus* concept; regardless of the selection of the value criterion, an economic human, to realize his goal, should apply appropriate means (which do not cause a loss for anyone). The practicality concerns selecting the means to realize the goal. The actions and motives of the economizing human being, in the classical economy concept, are assessed from the point of view of losses and benefits, and then assessments will be utilitarian. In the actions of an economizing human, however, one may take a liking or feel aversion; we assess the given act as respectful or contemptible, we see positive or negative attributes, we assess using a different kind of value [Kotarbiński 1999: 137-138]. As noted by W. Gasparski, business activity, similarly to any other human activity, should realize the praxeological aspect which has two dimensions: effectiveness (efficiency) and economics. The effectiveness dimension depends on the level of reaching the goal of the activity, and the economics – on the level of resources consumption. The author underlines, that the activity of an economizing human, consists in ethical valuation, reflecting the framework of the social permission for setting goals and applying means to reach such goals [Gasparski 2007: 538]. The author states, that a condition for success of a knowledge-based economy, is deepening the knowledge of what constitutes the core of economy, i.e. economic knowledge, by the knowledge on the axiological context of economy [Gasparski 2007: 539].

Moral values of acts are supported by the intellectual argument, provided by ethical theories which indicate, what and why is good/ bad, and, which formulate the norms of behaviour serving the good and preventing the bad. The dimension of this assessment is the ethics, which comprises the “triple E” triad along with the praxeological dimensions of effectiveness and economics, i.e. the dimensions in terms of which all acts of an economizing human are assessed. All assessments within the “triple E” triad in regard to the action of an economizing human comprise the axiological context of such act. This concerns the choices made in the exchange processes, which constitute the essence of business activity [Gasparski 2007: 543-4].

Studies on the concept of *homo oeconomicus* include a significant representations or researchers, who in the analysis suggest not to deal with the axiological context in the three dimensions. It seems however, that they are depriving the study from its content, depth and value.

Activities may and should be analyzed from the praxeological point of view. Whereas, activities cannot be projected or synthesized without accounting for all dimensions determining the quality of the activity [Gasparski 2007: 544].

Re-interpretation of the traditional paradigm of *homo oeconomicus*

The application of the „triple E” triad to the analysis of the concept of an economizing man means each and simultaneous application of the criterion of effectiveness, economic and ethics in the analysis and assessment in the activity of the economizing man. In the effort to formulate an approach, which would include the values indicated in the classical models of *homo oeconomicus* and *homo sociologicus* and the “triple E” triad, one can distinguish four main standpoints describing the relation between the indicated utilitarian, social and ethical values occurring in the economic life.

In the beginning, attention should be paid to the extreme approaches which postulate a definite separation in the analysis and in the use of utilitarian, social and ethical values in the economy. The followers of the *homo oeconomicus* concept underline the legitimacy and the superior role of using utilitarian values (in the scope of goals and means), all analyses here are conducted from the economical point of view; either the primacy of utilitarian values over social and ethical values is indicated, or social and ethical values are not considered by definition. Analogically, the followers of the *homo sociologicus* concept are conducting analyses in account of the superior role of the social factor, and social and ethical values over utilitarian values.

Centre standpoints, which do not postulate restrictive separation of utilitarian, social and ethical values, where all types of values are simultaneously accounted for by the economic actor, seem to be solutions, which more

fully reflect the various aspects of human nature and the different styles of functioning of the organization in the economic theory and practice. Within mixed models, a standpoint can be distinguished within the organization man uses utilitarian, social and ethical values upon making each decision, whereas the selection of the dominant value depends on the assessment of the given situation and its conditionings. Another approach accounting for simultaneous consideration of utilitarian, social and ethical criteria, is the standpoint, according to which all values are completely accounted for in the business activity, pursuant to the general adopted goal and value. In such approach, using the values in decision-making analysis of the economizing man, is to be accounted for both: in regard to the goals and to the means of activity, and which is to serve the improvement and development of the organization resources in a long-term perspective. The comparison of the chosen criteria of the presented standpoints in regard to the presence of values in various approaches of the economizing man is presented in Table 1.

Table 1. Values in various approaches of the economizing man

Attribute expression	Standpoint I	Standpoint II	Standpoint III	Standpoint IV
Values	Utilitarian	Social	Selection among utilitarian, social and ethical depending on the situation	Simultaneous and utterly "triple E" triad, utilitarian, social and ethical
Actor	Individual	Social, entity in the society	Individual or social, depending on the situation	Fair
Concept	<i>Homo oeconomicus</i>	<i>Homo sociologicus</i>	Mixed model, selection depending on the situation	Mixed model, selection depending on the criterion of max utilitarian, social and ethical values

Source: own elaboration.

There are various possibilities to use utilitarian, social and ethical values in mixed models. The literature provides many ready decision-making models, which include detailed instructions connected with their use in regard to individual economic situations [Sokołowska 2011: 506-529]. For example, their description could use the four approaches in regard to the consideration of relations between the values in business activity. The first level – obstructionistic approach, means approach to the values where the economizing man concentrates mainly on one type of values, e.g. utilitarian values, and for solving different problems, e.g.: social, ethical or ecological problems, he does as little as possible. Another, defensive approach, means that the economic man only protects such values as e.g. required by the law, but does nothing more. An adjusting approach means, that the economizing man fulfils his basic obligations e.g.: legal and ethical, and in selected cases does more than results from his duties. An active approach means, that the man is aware of his significant role in the economy, and is actively seeking possibilities to contribute to the social well-being in account of all three types of values [Griffin 2006: 122-125; Stoner, Freeman, Gilbert, Jr. 1997: 117]. The criteria accounted for in all models and the argumentation of the followers of individual approaches, have their value and are applied in relevant situations, as needed for theory and practice. Creating one model accounting for all selection criteria in every situation maybe hardly possible and very complicated. However, for the needs of the considerations conducted in this elaboration, it is not required. Regardless of the selection of the standpoints in regard to the value serving for decision-making purposes, the economizing man should act honestly (in the scope of relevant goals, means, measures). In theoretical models, the actor is not assumed or forced to make unethical choices. Unethical behaviour of an organization man are the effect of his free choice, not the essence, criterion of selection, goal or manner of proceeding of a man functioning in the economic life. And therefore, the value of freedom is so important in the economizing man analysis in the theory and practice; both ways there are opportunities and threats that means many interesting possibilities.

Conclusion

In various approaches to the *homo oeconomicus* concept, the authors underline the different aspects of this issue and indicate numerous interpretations. Adopting the chosen factor as the basis for the analysis, e.g.: economic motivation, criterion of rationality, individualism, determines the formulation of conclusions and designing future solutions. On the basis of the conducted considerations it seems, that the common attribute of the various approaches to the man functioning in the economy, is seeking the main idea, pattern, value,

serving as the criterion for selection of goals and tools for the analysis. This central criterion constitutes the main value selected by the author of the concept, thus the axiological dimension is of key significance in the above considerations, and the recognition of this value should commence the process of the analysis of the selected interpretation of the concept of *homo oeconomicus*.

Referring to the discussion among the followers of separating utilitarian values (*homo oeconomicus* model) and social values (*homo sociologicus* model) one may note, that in both extreme cases, there are threats connected with both: the dysfunction of the concept in the theoretical dimension and with incorrect functioning and practical abuse in real economic life. Regardless of adopting a criterion close to the extreme variants of the values, amongst others utilitarian, social or ethical, the economic man model does not assume unethical economic or social humans, no one is encouraging a man functioning in the economy to behave unethically. Actors have a free choice of the goals and relevant measures in every dimension. Before making the free choice by the economic and social man, one should determine the level of probability of obtaining a positive result both: for the economizing man and for its surroundings, in short and long perspective. Realization of own interest does not mean the need to damage the values of others; own interest may just as well – or even better – be reached using ethical means and goals. Just like striving for common well-being is not connected with financial bankruptcy. In such situations, moderation should be kept in mind.

Accounting for the axiological dimension in the analysis and activities of economizing man is extremely significant. Regardless of the selection of the research method to solve organization problem: whether it is the *homo oeconomicus* concept as one of the “faces” of the economizing man, or an abstract theoretical construction, or an actually functioning economic actor, the characteristics of which should be reflected at the stage of designing organizational rules, one should remember, that the concept will remain only a tool serving for better analysis and actions, not a goal in itself. The *homo oeconomicus* model exists for the man, not the man for the model. Ideal definition of the economizing man, its perfect subordination to the given scientific area, detailed description of the attributes of the economizing man, or indicating the main criterion of the concept analysis, do not constitute the principal justification of the presence of the model neither in theory nor in economic practice. Everything is possible, but not everything is good, effective. When an economic man-manager is acting unfairly, reaching his economic goals will be threatened. Similarly, in case of a social man, excessively sensitive conscience of the actor, not accounting for economic factors in the analysis and economic activity, may adversely affect the functioning and development of the organization, and lead to a situation when its operation is threatened. In theoretical analyses, and in organizational situations, moderation is a must. In the global economic system, various organizations and people may find their fine place; they all function making free choices relevant to their values, all according to their own plans, capabilities, and every one bears the consequences of their choices. Going to extremes does not bring desired results in the long term. Never ending disputes and discussions concerning the concept should be carried out in the light of this conclusion, with constantly bearing in mind the supreme goal and values in the analyses.

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COGNITIVE PERCEPTUAL DISSONANCE THEORY ON THE MORAL RELATIVISM FIELD

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ABSTRACT

This presentation is based on an research that it intends to verify the work hypothesis that supposes that the people emit judgments about facts and circumstances with an ethical relativismo, showing a "cognitive dissonance" in the perception of the consequences of the human conduct on social life

The research must be considered provisory. It is will continued analyzing and still obtaining conclusions. Have been found ranks of measurement in the ethical relativism. This relativism is it in the judgments that the people emit and we denominated "Sanctionary Judgments", because they are truly sanctions or penalties that people applies over the subjects that carry out the reproachable facts.

In order to make possible to obtain "Sanctionary Judgments", we has resorted to 1000 (thousands) "Critical Incidents". This C. I. were extracted of many news of several newspapers referred to divers fields; family, education, government, police, etc. This C. I. were grouped in lists on forms distributed in groups of 50 (fifty) separated: 25 (twenty-five) "SLIGHTS" and 25 (twenty-five) "SERIOUS". This qualification was done by the investigator previously by other processes of universal measurement.

This research, has allowed to establish an inconsistency between the sanctionaries judgments of people and the universal qualifications that could the facts deserve. The judgments of people always are precarious, emotional and irrational. They are due to a perception problem, for that reason we denominated to this end "PERCEPTIVE CONGITIVA DISSONANCE; ". Also we has detected the people behave with two degrees of ethics; a LAX ETHICS and a STRICT ETHICS, which, combined with the previous qualification of SLIGHT EFFECT and SERIOUS EFFECT; it produces four types of conduct in which it is possible classify the people

"Levels of Evidence"

The concept of "EVIDENCE LEVELS"¹⁷⁵; new in the scientific field, appeared in Medicine and forces the investigators to display the results of their own verifications based on concrete cases, that corroborate their conclusions by "evidence levels". The Statistic Science, for example, reinforces the theoretical affirmations, but, how many cases and types of experiments can confirm an asseveration in Medicine?. Several medical institutions have made tables with categories and levels of scientific evidence. One of the definitions of Medicine based on evidences, says "*it is the conscious, explicit and judicious concern of the best available evidence when taking decisions on the care of a particular patient.*"¹⁷⁶

As it refers to medical decisions on the treatment of patients it is necessary to make sure that the experience of the professionals offered in their scientific works and papers, assures certain trustworthiness degree. On the Business Management case, the great majority of the applications, either to individuals or to groups and organizations, are based on theoretical assumptions that, according to whom formulate them, can be constituted in credible affirmations, as the case of Peter Drucker, or even more; be applied in policies and programs and be fashionable in the corporate world.¹⁷⁷

¹⁷⁵ The Medicine based on evidences concept (MBE), was developed by a group of clinical epidemiologists led by Gordon Guyatt. of the MedicineSchool of the Canadian Mc Masters University and after continued there by David Sackett.

¹⁷⁶ Miguel Pascual Gonzalez Carbajal and Ludmila Martinez Leyva, both specialists in Gastroenterology of the Institute of this specialty of Habana-Cuba. Published in Internet (Wikipedia)

¹⁷⁷ Two authors have treated the subject Management based on evidences: PFEFFER, Jeffrey/SUTTON, Robert: in your book: Hard Facts; Dangerous Half - Truths and total non sense. Ed. Harvard University Press. Boston. Mass. 2006. Also they have published on several articles in magazines; "*Management based on evidences*". Harvard Business Review - N° 84. January, "*a question in fact*". (28-9-06) and "the real puzzle "(20-4-06), both in Management of People Review, "the dangers to imitate to the best practices. Canada HR-Reporter (10-4-06) and other so many.

LEVELS OF EVIDENCE OF THIS COMMUNICATION	
E.L.-I	Statistical tests based on a mathematical sampling, taking into account the total population to consider; its stratification, the quality of his opinion and repeated later verifications that reinforce the theoretical affirmation.
E.L.-II	Random controls without mathematical application to the design of experiments, but with a noticeable empirical verification applied to certain typology of individuals, which does not prevent to investigate a greater statistical population.
E.L.-III	Customized controls to different types from cohorts, Provisory conclusions that serve as experience to perfect the planning of the investigation before continuing it until obtaining more reliable results..
E.L.-IV	Empirical theoretical essay of the authors waiting for later investigations. It leaves the other authors adhesion of those who would share the affirmations of the author.

LEVEL OF EVIDENCE OF THIS COMMUNICATION

This work has arrived until now at a LEVEL OF EVIDENCE III. (LE-III) Therefore one warns readers that this investigation, will continue until reaching to greater level of evidence. The author presents/displays the conclusions which corroborates the work hypothesis. Therefore it appears a certain optimism about arriving to the end, having verified the primary conjectures that motivated the investigation, Still more, during the development of this work, interesting discoveries have arisen, as the case of the detected that the people act and think with ethical relativism, also that they can be classified in a typology of four categories of incongruities, according to their express judgment: A). Strict ethics for a slight effect. B). Strict ethics for a serious effect. C). Lax ethics for a slight effect and D). Lax ethics for a serious effect. All of this is developed in this communication.

PRELIMINARY CONSIDERATIONS

This communication, has the purpose to offer the results provided by the pilot test, carried out to try to test the planning designed for this research. This test has allowed to verify the work hypothesis that gave rise to him. This hypothesis says the people express judgments about facts and circumstances with a certain degree of ethical relativism, revealing a *cognitive dissonance* in the consequences perception of the human conduct about the others.

The work hypothesis that has given beginning to this investigation, has considered the following three situations within the called "moral relativism".

- a) Ethical relativism degrees of the express judgment of people referring to facts and blameworthy conducts (including the criminal ones). This communication is based on this assumption. It has allowed us to formulate the "*Theory of the perceptive cognitive dissonance*"
- b) Incongruity between the express judgment of an individual on a certain situation observed in the others and the conduct that really he would adopt in a similar situation.
- c) c. The difference of opinion between the judgment referring to the conduct of others deserves and the own conduct when it has been involved.

This work concentrates in the case a). Situations b). and c). they will be investigated in the future.

Commentary on case b).

From the ideal point of view, a judgment on a reprovable conduct, should express that it is generally accepted in the culture where the individual that emits the judgment is inserted. As a rule, people know the prevailing morality. It could be applied the well-known apothegm with which are qualified at popular level the awareness admonishers, "*you do what I say, but not what I do*".

If it is asked to a citizen about the conduct of another one who has transgressed a traffic light in red, surely he will judge it like illicit and reprovable, nevertheless, it is possible that he himself has transgressed sometimes too or it will transgress it in the future. The incongruity is placed between those people who judge as unacceptable in others although their conduct is the same. On the unethical conducts nobody is free, it can

be serious or slight, frequent or sporadic, systematic or timeless, forced or self determined; all of us sometimes we will be involved.

In this case, the expressed judgments of people, are in an ideal level. They are independent of the likely conducts that the individuals could assume when they are in similar situations.

A government official - for example - could express a severe judgment on an act of corruption committed by third parties, but it does not assure that he would not act in the same way. Emotional factors could influence as the *ambition* and the *greed* before maintaining its principles intact.

Commentary on case c).

This situation appears when judging others severely and not accept that our conduct may be dependent to the same judging of value. Here prevails another popular affirmation: *"to see the straw in the other people's eye and not the beam in own's one"*.

THEORY OF THE PERCEPTIVE COGNITIVE DISSONANCE ¹⁷⁸

In this investigation, it has been detected a variant of the well-known Theory of the *Cognitive Dissonance* (Festinger-1957) that it is not referring to the taking of consciousness on the part of an individual; of a state of mix-up with a situation which affects its principles, as it is the case of the theory of Festinger but an incongruity between what the individual says and what it does, between which judges like conduct impropria in the others but that surely he also would adopt. Of course, that this occurs in an unconscious and irrational level. It does not meditate and it does not submit the questions of the form-survey to a reflection. Not even this individual considers dilemmas.

It has become evident that the people perceive the morals values and the own conduct and the one of the others with a noticeable relativism. When emitting a sanctionary judgment ¹⁷⁹ on the conduct of others, not only it differs and is incoherent with his same opinion before similar facts, but also the one of the others and also, of a rational logical judgment before simple facts that society maintains in level of censorship.

The perception about the reality of the facts, is subject to judgement sometimes simple and others very strict. But the incongruity of its opinion, is founded in which its sensorial perception indicates a degree of *cognitive dissonance* that modifies the right judgment and relativizes the qualification that is asked to him in this investigation. Some times he judges with a strict ethics and others with a lax ethics. This relativism is in the dissonance between the judgment not always congruent with the effects or consequences that the human conduct produces on third parties.

This investigation has as methodology to ask for somewhat immediate answers. It is appealed to his spontaneity. This places us before the presumption of which the results could no be absolutely reliable. But even then, it reveals a probable human behavior to us before unexpected situations, and to the taking decisions without the filter of the .reason.

Herbert Simon, Economy Nobel Prize (1978) ¹⁸⁰, said "... *It is impossible that the behavior of an individual, alone and isolated reaches a high degree of rationality. The number of alternatives is so great that needs to explore and the information is so vast that it would have to value, that is difficult to at least conceive an approach to the objective rationality...*". And ahead it adds: *"the rationality demands an election between all the possible alternative behaviors. In the real behavior we can only think about a few of them"*.

In a case of ordinary *Cognitive Dissonance*, it could happen that a person who has carried out a purchase thinking that he chose well, later falls in the doubt. He will ask himself: *Have I chosen well? Will there be another better product?*. No person in a purchase decision composes a matrix of decisions to compare

¹⁷⁸ El concept of "Cognitive Dissonance" must to the Psychologist of EE.UU. Leon Festinger in its theory of Cognitive Dissonance. StanfordUniversity Press. U.S.A. 1957. The concept makes reference to the internal tension or disharmony perceived of the system of ideas, beliefs and emotions (cognition) of a person when maintaining at the same time two thoughts that are in conflict, or by a behavior that enters conflict with its beliefs. Also the perception of the mutual incompatibility of two simultaneous cognitions, everything what surely it will hit in his future attitudes. An aspect of the Cognitive Dissonance is the conscious mix-up with values and morals beliefs that a person has been instilled from his childhood, which they have been incorporated in his familiar educative development. In this state of dissonance, it is takes place a "tension" and search of change. That is to say, an attempt to reduce the Cognitive Dissonance.

¹⁷⁹We have denominated "sanctionary Judgment" to the qualifications that the individual subject of the investigation expresses when it is requiring him its opinion through the "form-survey". Its Judgment is a qualification, whose graduation is really a type of moral sanction.

¹⁸⁰SIMON, Herbert. The administrative Behavior. Ed. Aguilar Argentina S.A. Buenos Aires. 1984.

prices, quality, durability, after sale services, etc. We give another example; an applicant for a job has hoped to get a certain one and then when he performs it he realized that isn't what he had expected.

Ethics Relativism

Ethical relativism argues that there is no absolute truth but provisional or relative ones, given the inability of man to achieve ultimate or absolute truth it is somehow, is a skeptical concept. They are truths for some and not others. If we value the judgments that people give off it is because we are at a leading position over the truth. But if we doubt the value of the ideas of others is because we ourselves are relativistic. To give legitimacy to an unanimous thought we should create a measurement system, that is to say a pattern that is based on universal grounds, which are accepted by all within a culture or within a particular social stratum.

Relativism posits the legitimacy of positive and negative moral evaluations of those who share the same ideologies. What's more, a community's people live according to these shared values; it is the case of the religions.

The affirmations about which the people are in such a way lack of certain superficiality. In this instance in which the emitted judgments are emotional and therefore irrational, they could ask us; Where is the legitimacy of this substantial work and all their argumentation?. We answer; the people always act this way emotionally, without assess the reason of the human acts. Its ethical judgment is not only a slight thought; it is his customary propensity to act always like this.

In the rite of the Christian mass, We can read "I confess before all-powerful God and before you brother that I have much sinned of thought, word, acts and omission"¹⁸¹. It is saying to us that our reprovable conduct is polymorphous. Having a bad thought is inevitable. It comes to us and it is difficult to dissipate it. However, it is a Christian obligation to avoid it. As far as the word, yes; it can be subjected to one of two attitudes; a) *spontaneous* (emotional) and b) *studied* (brain). The spontaneity takes rationality, it is submitted to emotionality, for that reason when judging a fact the sudden thought prevails. But how much legitimate is that decision? If by legitimacy we understand a definitive and absolute decision; this decision will not have it.

Herbert Simon (mentioned up supra), was invited to visit Argentina in 1971 by SADOI (ex--Society Argentina of Industrial Organization), occasion in which he anticipated to Jorge Luis Borges¹⁸² his desire to maintain an interview with him¹⁸³. When they met in Buenos Aires, they maintained an intelligent colloquy of which we extract the following dialogue:

Borges: "... If my right hand is leaning in my left hand it is because it necessary had to be that way. I think that there are many things that we do in a certain way, would say unthinkable.

Simon: Things that happen in the subconscious mind. If it is true. If it wasn't this way we could not tie cords of the shoes. The majority of the things happen like this. But that is because we have many programmed things.

Borges: But the things are inevitable also in that sense?

Simon: They could be different, but always based on their programs. It could have some determinant that causes its program to indicate him another action. .

In the case of the investigated ethic judgements the individual must make them with certain promptitude there is no time for conscientious reflections, no even to ask dilemmas. It is the spontaneity where its dissonance is shown.

This cognitive dissonance is of a perceptive type. The understanding of reality by the investigated individual is according to a rational and equitable one. For this we have named this kind of dissonance; "**Perceptive Cognitive Dissonance**".

The perception can be deceitful. There are many factors that back this statement perception which builds mental models. A model is a transference between a real world and a symbolic world. So the symbolic world (mental) that we introject has been nourished on what we have learnt (cognition). In the moment of taking sudden decisions emotional factors prevail before the rational ones. The mental patterns that we have built,

¹⁸¹ ABAD, José A. / GUTIERREZ, José L. Popular new missal. Volume 1. Ed. EUNSA. Navarra University. Pamplona. Spain. 1995.

¹⁸² Argentinian writer (1899-1986. author of Tales, Novels, and poetry. Books: *The library of Babel*, *The aleph*, and others.

¹⁸³ This meeting was originally published in the Journal of Argentine Organization Industrial Society (now nonexistent) and reprinted years later in the journal "Ciencias Administrativas" (Special Issue Vol XXXI - 1989), Faculty of Economics, La Plata National University.

are always provisory ones. They are subjected to modifications obliged by the social interaction. For example, in the religious feelings (the converts), in politics (the turn-coats), in the social field (modification of gender prejudices), etc.

INVESTIGATION METHODOLOGY

Verifications in the pilot test

This Planning has been verified by means of a carried out pilot test in a population composed by cohortes of professors, university professionals and postgrade students of, chosen by their qualified opinion. This test has allowed:

- a) To verify the legitimacy of the use of Critical Incidents as means of induction that the people showed their degree of ethicity.
- b) To qualify the human acts by means of a method that allows to establish a pattern measurement on which they could analyze and compare the judgments of the investigated subjects. and then to separate them in two categories of "effects": SLIGHT EFFECTS and SERIOUS EFFECTS.
- c) To verify the practicity of the methodology of survey by means of the design of a list that we denominated "list-survey" in which the investigated subject must at the moment, emit his sanctionary judgment and his reason for that.
- d) To verify that the sanctionary judgments respond to the circumstantial perception, and that this maintains certain incongruity with already built-in mental models and with reality. It is because the investigated ones were invited to answer the form-survey, with immediacy and therefore had to respond with spontaneity and, this condition, far from invalidating the investigation, it legitimates it, since it is considered that it is like this how human beings generally act. The rationality is directly proportional to the time one takes to decide. On the contrary, the immediacy promotes the emocionality.

e) To detect two classes of ethicity arisen from the relativity of the sanctionary judgments, we can also separate in two categories: **Strict** and **Lax Ethics** which crossed" with the "**Slight Effects**" and **Serious Effects**" determine four types of conduct:

LAX ETHICS - SLIGHT EFFECTS
 STRICT ETHICS - SLIGHT EFFECTS
 LAX ETHICS - SERIOUS EFFECTS
 STRICT ETHICS - SERIOUS EFFECTS

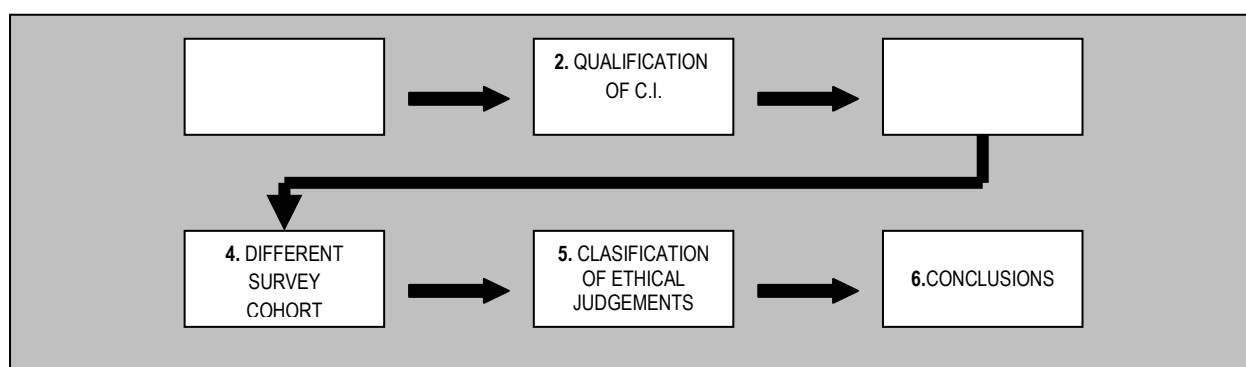


Fig. 1. Phases of the methodology used

1	COMPILATION AND SELECTION OF CRITICAL INCIDENTS 10

In order to carry out the investigations, they have compiled 1000 (thousands) Critical Incident extracted from the news, generally police news from major newspapers of Buenos Aires according to the necessity of this

work, referring to fields of diverse organizations: Banks, Companies, Family, Transport, public universities, Cities, Offices and others.

Criterion of selection

- A. They have been taken into account I.C with protagonists who transgress the generally accepted thing, because it allows the investigated subject, to make an observation and direct judgment on any cause that affects third parties. They are facts that disturb the social balance; for this they are interesting.
- B. One has tried to choose C. I. choosed by their effects and the type of protagonists. It was interesting to observe the following peculiar fact in the pilot test; that before similar facts and with identical personages, the judgments of the same investigated subject, differ. That is to say; they lack coherence.
- C. Each used I.C has a reference on the source and the date of publication in order that the investigated subject trusts its legitimacy and maintains its credibility.
- D. The typography in bold that appears in the original news has been taken off and as it corresponds to a personal in the own opinion of the newspaper which publishes it, in order not to influence the person who has the survey and in this way to is is able to emit his own judgement.
- E. Some proper names in the news that constitute the C.I. have been hidden in order to avoid any animosity versus against well-know people except when some protagonist of the C.I. gives a testimony because in this case he is considered as a trustworthy information source.

10. A critical incident is a relatively brief narrative about human behavior, individual or collective, happened to a person or many, individually or interpersonal, which can be used to analyze causes and effects of the consequences into distinct social fields. Have been collected C,I, relating different organizations in various disciplines, Medicine - Nursing - Psychology - Army - Marketing - business Administration, etc.. Its origin is attributed to Sir Francis Dalton (1930). The first studies that led to develop a "Critical Incident Technique", are of the Colonel John C. Flanagan in 1954 as part of their studies on Aviation Psychology in the U.S. Air Force during the 2 nd. World War and whose original publication appeared on Psychological Bulletin - Vol 51, No. 4 (July 1954).

2

PREVIOUS QUALIFICATION OF CRITICAL INCIDENTS

The Incidents compiled Critics, are described in this phase according to the masterful model based on factors that are observed down, like previous step to the separation in a dichotomy of effects: SLIGHT AND SERIOUS. (Annex 2)

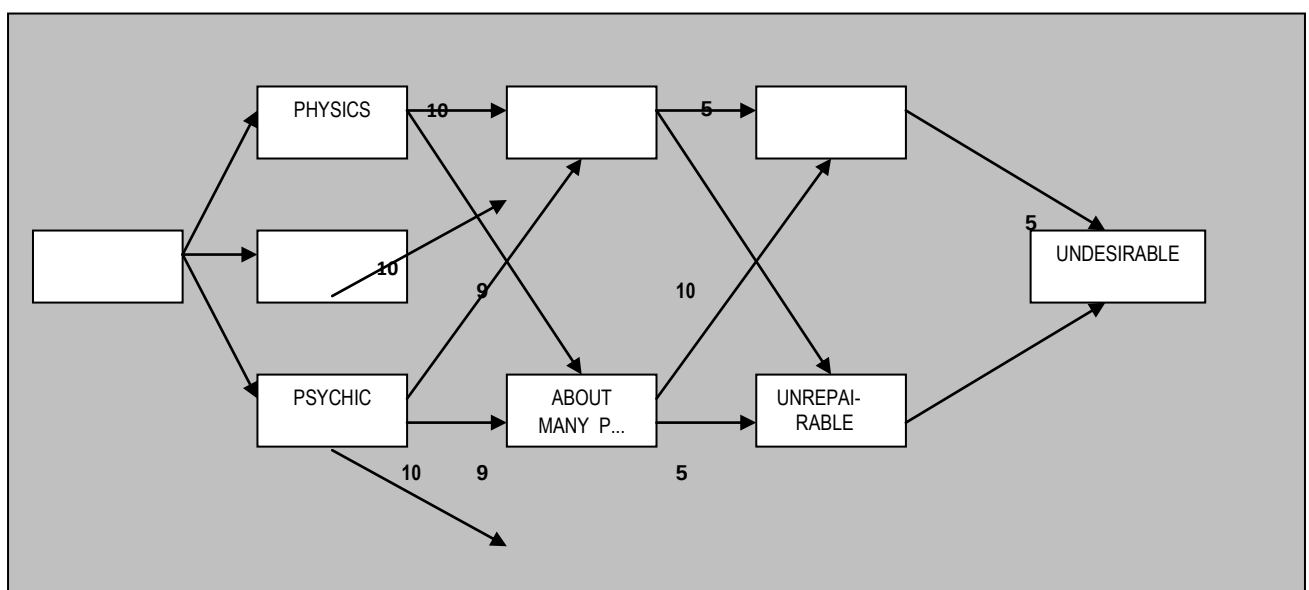


Fig. 2. Master model. The numbers correspond to the qualifications of the C.I.

The qualification of the C.I. as a previous step to the separation in two types of effects, has been carried out according to arbitrary rules shown in Figure 2. Also; in order to contribute to one but effective qualification, one selected to qualified people (university professors and professionals) so that they gave their opinion. It, has allowed:

- a) To choose the “factors” with which the C. I. would be qualified.
- b) To describe 1000 (thousands) C. I. which were grouped (according to their degree in the following phase in: 50 (fifty) by list-survey, equitably mixed between 25 of SLIGHT EFFECT and 25 of SERIOUS EFFECT.

All these factors, as well as their qualifications, are taken with a provisory character. We consider that this investigation must be perfected in the search of a high level of evidence but (according to it was said at the beginning of this document). In the future and definitive investigations other factors could be used, like; effects collaterals - avoidable effects - effects by accident - constant or systematic effects - sporadic effects - intermittent effects - unpredictable effects - risky effects, etc.

3	GROUPING OF CRITICAL INCIDENTS IN TWO GROUPS OF EFFECTS “SLIGHT EFFECT” AND “SERIOUS EFFECT”

In this phase the thousand C. I. are grouped in two categories denominated SLIGHT EFFECTS (values between 1 and 5) and SERIOUS EFFECTS (values between 6 and 10), transcribing them in the “Form-survey”. In each list 50 (fifty) C. I. distributed equitably will be included that is to say; 25 by each effect. In the pilot test it was considered that fifty was an appropriate number. To place more C. I. would unnecessarily delay the investigated one making him lose the interest. Perhaps less I.C could get to be insufficient. (model in Annex 1.)

4	SURVEY TO DIFFERENT COHORTS

Pilot test results

For the pilot test, opinion was requested to several cohorts that more or less totalized 300 students of posgrade of Argentine universities by means of the list-survey. (Annex 4.)

To the person surveyed a white sheet was give (without qualifications) so that he describes to the I.C without any type of induction. The original list with the qualification, was in the hands of the investigator. (Annex 3.)

In the blanks of each .C. I. numbers had been placed to facilitate him the qualification and it was also given a greater free space in which he could set out his reasons. One hoped that this helped the later analysis of each survey. It really that was.

5	CLASSIFICATION OF THE SANCTIONARY JUDGMENTS

OF THE SURVEY ONES

In this phase:

- a) The qualifications that each survey gave each C: I. were computed and analyzed (Annexes 5 and 6)
- b) The best qualified judgments with their reasons were compared. They many times they appear like incongruous. (Annex 7.)

6

PROVISORY CONCLUSIONS OF THE PILOT TEST

- More frequent judgments for each I.C. (Annex 6.)
- Gap of judgment in the minimum values (qualifications of the people surveyed).
- Gap of judgment in the high values (idem)

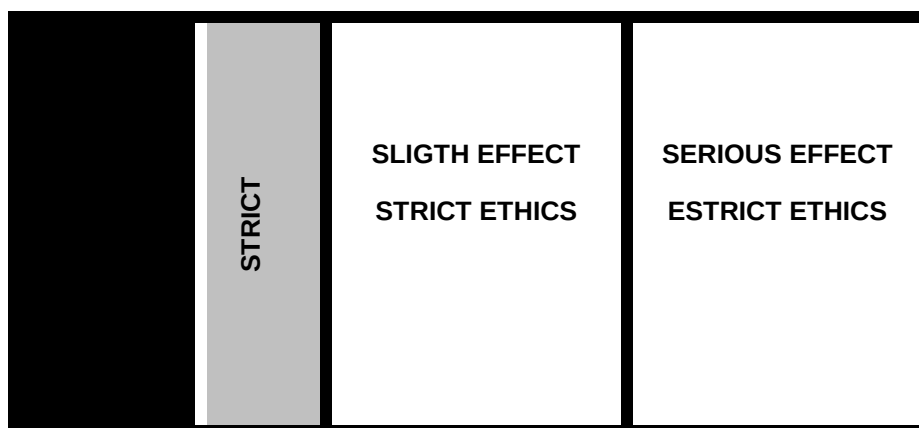
FOUR TYPES OF PERCEPTIVE COGNITIVE DISSONANCE

The sanctionary judgments have been grouped in four types of

Perceptive Cognitive Dissonance.

This typology has been placed on a matrix as follows

		EFFECTS	
		SLIGHT	SERIOUS
ETHICS	LAX	SLIGHT EFFECT LAX ETHICS	SERIOUS EFFECT LAX ETHICS



BUSINESS ETHICS

- ITS TRADITION AND CHALLENGES IN SLOVAKIA

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Summary

The aim of this article is to argue for the need for business ethics and ethical leadership in transition countries like Slovakia. We will focus on the reasoning of ethics, business ethics and ethical leadership in Slovakia and Slovak organizations, proposal of methods for its institutionalization and every day use in the decision making of leaders and followers. In the first part we will provide a short analysis of the political history of Slovakia. We consider an understanding of the Slovak political context in the 1990s as crucial for a better understanding of what was really going on with business ethics in Slovak companies at the time. In the second part we will introduce the development of business ethics as an academic discipline in Slovak universities, systematize the most important works and authors from this field and provide an overview of university study programs that include business ethics in their curricula.

Key words: Business Ethics; Leadership Ethics; Moral Leaders; Virtue; Character; Moral Development;

Political background of the Slovak Republic from 1990's

The Slovak Republic has a very short modern history as an independent country with a parliamentary democracy. On 1 January, 1993 Czecho-Slovakia peacefully split into the Czech Republic and the Slovak Republic. The subsequent two decades have been very turbulent. Immediately after the first elections in 1993 Slovakia became governed by leaders who cannot be called moral leaders. Most of them were members of political party - the Movement for Democratic Slovakia (Slovak name is Hnutie za Demokratické Slovesnko – HZDS). They abused a legal vacuum – the situation that most legislation had not been changed from the time of socialism. They made unethical decisions that were legal according to outdated but still valid laws, and they did so for their own benefit. It was an excellent example that legal does not always equal ethical. The consequences of these irresponsible actions were crucial especially for heavy industry in Slovakia as well as for the perception of Slovakia by foreign companies and institutions in the 1990s. There was nothing like business ethics in practice. Most of the big and strategic companies were managed by representatives of governing political parties, not real professionals from the relevant industry or field. They made many unethical and unprofessional decisions that brought these big companies to bankruptcy. The worst part of it was that this was precisely their intention. These “managers” did not really care about their employees. They wanted to gain from the political situation. From this period comes the Slovak term “tunelovanie” which means

taking advantage from political position. This period from 1993 until 1998 was known also as the period of the biggest privatization, which was marked by untransparent methods. In the second part of 1990s people in Slovakia realized that “meciarism” (this term was derived from the surname of political leader Vladimir Meciar) was not what they really wanted. Elections in 1998 reflected the hopes of many Slovaks. However, HZDS won the elections, according to the Slovak legal system their leader and former prime minister Vladimir Meciar did not have a high enough percentage to create a new government, and their irresponsible policies from the previous period resulted in a reluctance of any other political party to form a coalition with them. This was a promise of a better future for many Slovaks and a very important signal for representatives of the EU and other European institutions that Slovakia decided to become a transparent country that wanted to be fully integrated in the new Europe. After military, economic, social, legal, healthcare and education reforms, Slovakia became a member of NATO in 2004 and two years later a member of the European Union. In 2007, Slovakia joined the Schengen area and in 2009 Slovakia introduced the single European currency, the EURO. All of these were very important milestones for Slovakia.

However, recently discovered facts, revealed that even the period from 2004 until 2007, which was by many Slovaks perceived as quite good at domestic and international level, was catastrophic from ethical, political and economical point of view. These findings were published in a document that became known as a “Gorilla file” at the end of 2011. Information in this document provoked many protests that were organized in the bigger cities all around Slovakia. “Slovakia has recently seen the largest public demonstrations in many years. Last Friday, some 30.000 people took to the streets in several cities and during the dramatic finale in front of the parliament building, the police used water cannons against the hard core of demonstrators for the first time since 1989, when the “Velvet Revolution” swept away the Communist regime.” (Geist, 2012) People demonstrated against irresponsible, nontransparent, dishonest, unethical and (we are quite sure, also illegal) actions of Slovak politicians.

A short introduction to the situation is necessary. The cause of these protests was the so-called “Gorilla file” a transcript of conversations, wiretapped by the Slovak Intelligence Agency in 2005/6, between an associate of the giant Slovak financial group Penta and several politicians and public officials. “They were talking about their families, skiing holidays, health, gossiping on other politicians... but most of all they were discussing secret deals on large privatisation projects, mostly the conditions for government privatisation and public procurement programmes. Public property changed hands, “friendly” selection committees and controlling organs were drafted, “selected” firms were promised juicy contracts with state-controlled companies and politicians were promised paybacks. ” (Geist, 2012) It is important to note that official investigations are still not closed. However, much of this information was verified by the relevant institutions. This political-economic scandal, “Gorilla”, is proof of corruption and irresponsible governance caused by the dishonesty and self-interest of powerful businessmen and irresponsible, corrupt political leaders. The worst part of this “Gorilla” scandal is that there were more political parties involved in it. Furthermore, the number of people – politicians, journalists, high-ranking police officers – that were apparently familiar with the existence, even the content, of the file for several years was astonishing. “Any attempt to investigate the case was suppressed on formal grounds and some of those involved were allegedly trying to prevent the publication of the file (symptomatic for the situation: A few days ago a Slovak court bowed to the demand of an associate of Penta implicated in the file and provisionally prevented the publication of a book by Canadian-Slovak journalist Tom Nicholson, which analyses the “Gorilla file”, by arguing that while the authenticity of the file is still not formally established the protection of privacy is more important than the freedom of speech of Mr Nicholson.” (Geist, 2012)

The “Gorilla file” is an excellent, but very sad example of dishonest, non-transparent, unethical and irresponsible behavior of the Slovak political leaders. “Some Slovaks have interpreted Gorilla as an unwelcome reminder that the dodgy links between politics and business that thrived in the 1990s, an altogether murkier period in Slovakia, may not have been entirely severed.” (The Economist)

Business environment in the Slovak Republic

The business environment in Slovakia has changed a lot since 1993. However, one of the biggest problems still remains. Corruption. In our opinion it is a consequence of unethical political culture which indirectly supports corruption at the highest levels. We can use as an example above mentioned “Gorilla scandal”. “At the heart of the scandal lie allegations that bribes worth millions of euros were paid to officials to win various public-procurement and privatisation contracts. Former ministers, representatives from Austrian, French, Italian and Russian multinationals, and tycoons from Penta, an investment fund dubbed the “fifth coalition partner” in Mr Dzurinda’s second government, are all named in the file. So are all four political parties in Mr Dzurinda’s second coalition government.” (The Economist)

In spite of these facts Slovakia became quite an interesting country for foreign investors. There are many foreign companies who decided to operate in Slovakia. Many of these companies brought their own organizational ethics with their organizational culture. However, although applying their ethical principles across countries is complicated due to cultural or economic differences, we consider these efforts of foreign companies to raise ethical standards as beneficial to the Slovak business environment. These foreign companies have continuously realized that pure application of their business or organizational ethics through their codes of ethics to Slovak conditions does not work. They have learned from their experience and they are opening new positions in their companies for people who train their employees in ethical issues and help them to better understand their roles. This mostly holds true for foreign companies in Slovakia. Slovak companies and their leaders have not fully recognized the need for ethics in their everyday practice. However, they like to use this term in promotional materials or company brochures, most of the time the word ethics is used only as a marketing tool, not as a real, vivid part of their organizational culture. In spite of the fact that Slovakia is perceived as a democratic and transparent country, there is still much work ahead. There are some attempts to emphasize the role of ethics in business. We can use as an example The Slovak Chamber of Commerce and Industry, which in cooperation with the German-Slovak Chamber of Commerce in 2011 initiated the creation of an ethics platform. The aim of this initiative is the fight against corruption. Markus Halt, spokesperson of the German – Slovak Chamber of Commerce argues that the fight against corruption should be a top priority, as suggested by the results of a recent survey among 212 European investors in Slovakia. “Foreign companies are very unsatisfied with the efforts of previous governments.” (Halt, 2011) Halt says that surveyed businesses assessed Slovakia as the most attractive investment location in central and Eastern Europe, as in past years, and 88 percent of those surveyed responded that they would choose Slovakia as the site for their investment again. But the survey also found that if Slovakia wants to retain its appeal for foreign direct investment it will need to work harder to fix certain problems in the judicial system.

One of the biggest challenges still remaining in Slovakia is corruption and the problem of how to effectively persuade people, not only from businesses, but also politicians and lawyers that it is worthwhile being ethical. According to Aristotle, the study of ethics is inseparable from the study of politics. Learning from the other European countries' experiences (especially Finland) we consider education, university education, but also organizational education as one of the most important elements that should create a solid foundation for the creation of morally responsible organizations in Slovakia. Before we focus our attention on the Slovak university and organizational education, we will concentrate on character development.

Virtue of character

“On a daily basis we make judgements about people's character, whether we are choosing a president, a baby-sitter, or a new employee.” (Ciulla, 2003, p. 55) J. Ciulla raises in her book (2003) a very important question: How a virtue of character is acquired? The answer to this question could help us to find out where we should start with our attempts to improve situation with ethics in Slovakia, with business ethics in the Slovak business environment, but also ethics in politics. Her argumentation is based on Aristotle's description of virtue. We agree with J. Ciulla, who writes that a virtue is something that you can only have if you practice it. According to Aristotle virtue is a habit. J. Ciulla agrees, but adds that not a mindless one. You act virtuously with the intent to do the right thing. “Virtue, then, is of two sorts, virtue of thought and virtue of character. Virtue of thought arises and grows mostly from teaching, and hence needs experience and time. Virtue of character [i.e. of *ēthos*] results from habit [*ethos*]; hence its name “ethical,” slightly varied from “*ethos*” (Ciulla, 2003, p. 55) J. Ciulla underlines that none of the virtues of character arise in us naturally. She writes that virtue comes about, not only by a process of nature, but by habituation. She supports her arguments by following statements:

- (1) What is natural cannot be changed by habituation.

For if something is by nature [in one condition], habituation cannot bring it into another condition. A stone, e.g., by nature moves downwards, and habituation could not make it move upwards, not even if you threw it up ten thousand times to habituate it; nor could habituation make fire move downwards, or bring anything that is by nature in one condition into another condition.

Thus the virtues arise in us neither by nature nor against nature, but we are by nature able to acquire them, and reach our complete perfection through habit.

- (2) Natural capacities are not acquired by habituation

Further, if something arises in us by nature, we first have the capacity for it, and later display the activity. This is clear in the case of the senses; for we did not acquire them by frequent seeing or hearing, but already had them when we exercised them, and did not get them by exercising them.

Virtues, by contrast, we acquire, just as we acquire crafts, by having previously activated them. For we learn a craft by producing the same product that we must produce when we have learned it, becoming builders, e.g., by building and harpists by playing the harp; so also, then, we become just by doing just actions, temperate by doing temperate actions, brave by doing brave actions.

(3) Legislators concentrate on habituation

What goes on in cities is evidence for this also. For the legislator makes the citizens good by habituating them, and this is the wish of every legislator; if he fails to do it well he misses his goal. [The right] habituation is what makes the difference between a good political system and a bad one.

(4) Virtue and vice are formed by good and bad actions

Further, just as in the case of a craft, the sources and means that develop each virtue also ruin it. For playing the harp makes both good and bad harpists, and it is analogous in the case of builders and all the rest; for building well makes good builders, building badly, bad ones. If it were not so, no teacher would be needed, but everyone would be born a good or a bad craftsman.

It is the same, then with the virtues. For actions in dealings with [other] human beings make some people just, some unjust; actions in terrifying situations and the acquired habit of fear or confidence make some brave and others cowardly. The same is true of situations involving appetites and anger; for one or another sort of conduct in these situations makes some people temperate and gentle, others intemperate and irascible.

Habituation and education

The above listed statements emphasize the importance of habituation. What should we do to raise attention for the right sort of habituation? Where should we start? We consider good quality education at all levels – from kindergarten to university as crucial. However, it is clear that education has its limitation in personal moral development. This was the main L. Kohlberg's critique that his theory was concerned with moral thinking, but there is a big difference between knowing what we *ought* to do versus our actual actions.

It was proved that when children listened to adults' moral judgments, the resulting changes are slight. This is what L. Kohlberg might have expected, for he believes that if children are to reorganize their thinking, they must be more active. This is what we would like to emphasize in our article. An active approach toward learning and habituation should start at the lowest levels in Slovak schools. This is the biggest problem in the Slovak education system. Students are being evaluated according to their ability to memorize information, not according to their ability to use this information for solving practical problems. The learning process should be more interactive already at primary and secondary schools. The situation at universities is little bit better. However, the quality of teaching depends on the quality of a lecturer. Fortunately, still more and more university teachers are realizing the importance of case study method in education process. Of course, this is only one part of more complex problem with Slovak educational system that needs to change. We will present some recommendations from a UNESCO report. Based on experience in the education reforms of economically advanced countries it was considered inevitable to respect the following principles for the further development of education in Slovakia:

1. Principle of permanent education so that each man may have an opportunity to learn throughout his life.
2. Principle of lifelong perspective of education according to which education cannot be merely understood as a preparation for life, but as experiencing the life in such a way that education is spread within the frame of time and space. Education should be carried out in all periods of human life according to needs and conditions of each individual. Education should go beyond the school walls and become a mass movement.
3. Principle of diminishing formalism in education which should be realized through a number of various means, the most important being what the man acquired through learning and what he knows rather than the educational career he had pursued. It presupposes a free choice of his own educational career within the framework of a flexible education system. The education system should be void of "blind alleys". The state-owned, denominational and private schools should have an equal position to evoke a required competition pressure whereby the schools and the entire education system will develop through attraction of pedagogical ideas rather than power interferences.
4. Principle of mobility and choice of education – creation of an open education system that will facilitate horizontal and vertical mobility of the educated and will multiply the possibility of choice. The studying could freely, on their own impetus, leave the school, but also to return to it.

5. Principle of free access to education. It means, to give access and entry to various types of schools exclusively in dependency upon the knowledge, ability and prerequisites of each applicant.
6. Principle of education and training in early childhood as a basic prerequisite of educational and cultural policy.
7. Principle of compulsory secondary schooling according to which every child must be guaranteed a possibility to earn general and technical secondary education in the form of full-time study.
8. Principle of material, personnel, organizational and other participation of industrial, agricultural, commercial and other companies in the education system.
9. Principle of meeting the constantly growing demands for higher (postsecondary) education, while the higher education institutions should be autonomous, independent units with the appropriate academic freedoms.
10. Principle of adult education as a culmination of the educational process. The schools should become educational and cultural centres that will serve to the entire society, not only to its part.
11. Principle of self-education as a means of cultural development of an individual. It presupposes an involvement of adequate institutions and services (laboratories, documentation centres, libraries, data banks, various audio-visual aids) to help self-learning.
12. Principle of change of pupil, student from the hitherto passive object of teaching process into an active entity as a co-creator of his intellectual and physical health. The adolescent should be able to decide by himself about what he wants to learn, how, when, and where he wants to learn it. Within the framework of this principle a special attention should be paid to the talented individuals and to avoid overloading the students.
13. Principle according to which the efficiency of the system of lifelong education depends to a decisive extent on teachers, whereas the teachers should be the most capable individuals, morally matured with a positive approach to education and training. With this purpose it was presupposed to improve the social status of teacher, his material and social provision. Teacher should be an adviser, an assistant to pupil at developing his abilities and interests rather than an unerring authority conveying the prescribed knowledge.
14. Principle of orientation of organizational forms, methods and material means of education towards the educated, his individuality, his activity in classes. The organizational forms of education should be much more flexible, varied and efficient than the traditional ones. The essence of modern understanding of education methods ensues from the idea that "the best way how to teach is to do something, while the worst way how to teach others is to talk". A greater use should be made of radio, television, video systems, computer technology which enable individualization of education.
15. Principle of a feedback as a condition of efficient functioning of the education system. For this purpose, the objective criteria on efficiency of work of teachers, schools, individual sectors of management, professional institutions as well as of the entire education system were planned to develop. Eradication of subjectiveness and injustice in evaluation and marking of pupils is considered as unusually urgent. The evaluation should develop the ability of self-knowledge and self-evaluation of the educated. Parents and employees should play a more significant role and function in the feedback.
16. Principle of competence (professionalism, qualification and morality), democracy (participation of the managed in management and self-government), decentralization in management of schools and education sector. Teachers should participate in any innovation and reform in education.

According to our opinion education plays an important role in the development of society. However, students spend the majority of their time at university learning about economics, business development, history, software engineering, etc. This is all valuable and necessary knowledge to prepare them for the demands of employment in their sector, but running or working in a business will raise many difficulties that are completely unrelated to the skills or knowledge gained in university. We consider it crucial to educate all students in ethical issues also. We can do so by integrating ethics courses - applied and professional ethics in the curriculum (e.g. integrating business ethics course into the business schools' curriculum, integrating computer ethics into the informatics and computing schools, medical ethics into the medical schools' curriculum, etc.). One of the most important parts of such successful integration is to provide good quality teaching of these courses. It requires not only good teachers, but teachers who will become role models for students, who will be not only knowledgeable, but will be able to make students "fall in love with ethics" in their field and make them understand why ethics should lie at the heart of every single profession.

In the following part of this article we will focus our attention on business ethics and will present a short history of the business ethics in university education in Slovakia.

Business Ethics as an academic discipline in Slovakia

The 2002 Act on Schools of Higher Education distinguishes public, state, and private schools of higher education (colleges) in Slovakia. There are 20 public schools, 3 state schools, 12 private schools and 4 foreign schools. There are 13 universities. They offer various accredited study programs which are quality controlled every 5 years by The Accreditation Commission. "Essential tasks of the Commission are to monitor and independently evaluate the quality of education, research, development, artistic and other creative activity of the universities. The Commission comprehensively reviews conditions under which these activities take place at individual universities. Based on independent evaluation, the Commission contributes to improving the efficiency and quality of the education provided at the universities and develops recommendations to improve the operation of the universities." (Ministry of Education)

The studies are organized within the following levels:

- Bachelor's study
- Master's / Engineer study
- PhD study

Each school must provide at least the first level (bachelor's study).

Now, we will introduce the tradition of Business Ethics and its challenges in Slovakia. In the early 1990's new topics appeared after the fall of the Iron Curtain in the Central and Eastern European countries. Brand new challenges arose connected with the fall of communism and the transformation of centrally planned economies to market economies. This transformation allowed the rise of many new academic disciplines and discussions. For example, though perhaps initially inconceivable, the notions of property rights, ownership, freedom of contract, profit, and even the idea of a market itself were new to Slovaks and Czechs. Without a legal basis to the new situation (that should enforce sanctions) these nations were determined to build democracy.

In Slovakia, Business Ethics as an academic discipline appeared on the scene from the mid-1990s. From 1993, Business Ethics was taught as a subject at Comenius University in Bratislava. Later, at the end of the 1990s this academic discipline became part of the study programs at most business schools in Slovakia. Mostly it was an elective subject, not compulsory. In the same period the first study programs were created in Applied Ethics that included Business Ethics as an important part of its curriculum: Department of Ethics and Applied Ethics at Faculty of Humanities, Matej Bel University in Banská Bystrica; Department of General and Applied Ethics at Faculty of Arts, Constantine the Philosopher University in Nitra; Department of Ethics and Moral Philosophy at Faculty of Philosophy and Arts, Trnava University, Institute of Philosophy and Ethics at Faculty of Arts, University of Presov in Prešov, Department of Applied Ethics at Faculty of Arts, Pavol Jozef Šafárik University in Košice.

In the previous part of this article we emphasized that it is important to integrate business ethics into business schools' curriculum. We have to say that that is only the first step. The most difficult part of this process is to create good quality content and to have really good teachers who will be able to raise students' attention in the subject. We agree with Al Gini's argumentation that, as workers often mirror the standards set by their bosses, students follow the guidance of their teachers. We perceive teachers as their students' leaders. Their (teachers') ethics – whether they be good or bad, positive or negative – affect the ethos of the students. Teachers as leaders help to set the tone, shape behavior and make students believe that it is worthwhile being ethical.

According to my personal experience gained from conferences, teaching and personal meetings and discussions with people who have been teaching business ethics in Slovakia since 1993, I have to say that we have done much work, but there is still a long journey ahead. The situation is getting better as still more and more people prove their ability to work with foreign literature and become more familiar with the real purpose of Business Ethics. It is important to note that many students select this course because they consider it less demanding. Therefore, the teachers' role is even more important, because they have to find the right way to attract students' attention and make them think about its practical dimension.

Business Ethics literature in Slovakia

Due to the fact that I was a university teacher for five years and an independent researcher in Business Ethics for almost three years and now work as an ethics trainer and consultant, I am aware of the difficulties teachers, students and organizational members face in finding this kind of literature. Literature from business ethics, leadership ethics and organizational ethics is very limited in Slovakia. Although there have been some attempts to deal with leadership ethics and organizational ethics in Slovakia, the attempts were explored from

other disciplinary areas of applied ethics P. Fobel (2000, 2002, 2006), V. Gluchman, through business and managerial ethics points of view A. Remišová (1999), D. Smreková (1999), V. Farkašová and A. Luknič (1994), from a cultural point of view D. Fobelová (2005), from organizational ethics point of view Z. Čmelíková (2010). The situation is very similar in the Czech Republic as well. From well known Czech authors the following are the most representative of this sort of literature: J. Keller (1997, 2003) concentrates on sociology of organization, F. Bělohávek (2000) writes about organizational behavior, from an organizational culture point of view, and the well-known R. Lukášová (2004), I. Nový (1998, 2004) and E. Bedrnová (1998), write from a business and managerial ethics perspective. This is especially true of M. Bohatá (1997), P. Seknička (1997), Z. Dytrt (2001, 2003, 2006) and J. Bláha (2003).

We would like to emphasize in our article that we cannot stop with ethics education at universities. We must continue to educate leaders and all employees in organizations through various ethics training programs that will be aimed at their moral development as well as at the moral development of these organizations. One of the first companies in Slovakia that offers ethics training programs is Better Future, s. r. o.. This company was established as a response to the real need for high quality organizational and ethical education, consulting and training. At the heart of their organizational philosophy is the idea that "Good Ethics is Good Business. Better Future, s. r. o. is the first training and consulting company in Slovakia to apply phronesis (practical wisdom) to their work philosophy and work ethics. It offers a new approach in Slovakia, in which ethics and effectiveness go hand in hand.

There are some other institutions that focus their attention on ethics in society and business. We will name just a few of them: Amnesty International, Business Leaders Forum, Pontis Foundation, Centrum pre filantropiu. Most of these organizations concentrate on corporate social responsibility and philanthropy. There were just a few initiatives in Slovak business companies to concentrate on creation of "tailored" ethics programs or ethics training programs. While the typical response to the "moral crisis" in business is a clarion call for more "ethical leadership", it is true that there has not been much written about it in Slovakia. According to E. Freeman (2006) there are a few explanations of what exactly is meant by the term. "Many executives and business thinkers believe that ethical leadership is simply a matter of leaders having good character. By having "the right values" or being a person of "strong character," the ethical leader can set the example for others and withstand any temptations that may occur along the way. Without denying the importance of good character and the right values, the reality of ethical leadership is far more complex and the stakes are much higher." (Freeman, 2006, p. 2)

Aristotle suggested that morality cannot be learned simply by reading a treatise on virtue. According to Al Gini (1998) the spirit of morality is awakened in the individual only through the witness and conduct of a moral person. "The principle of the "witness of another," or what we now refer to as "patterning," "role modeling," or "mentoring," is predicated on a four step process:

- (1) As communal creatures, we learn to conduct ourselves primarily through the actions of significant others.
- (2) When the behavior of others is repeated often enough and proves to be peer-group positive, we emulate these actions.
- (3) If and when our actions are in turn reinforced by others, they become acquired characteristics or behavioral habits.
- (4) The process must include reflection, evaluation, choice, and conscious intent on the part of the actor, because ethics is always "an inside-out proposition" involving free will." (Al Gini, 1998, p. 29)

We started our article with description of the political situation in Slovakia from the period of the Velvet Revolution until the present. We will conclude it with an appeal for greater responsibility and moral leadership of our politicians that will create a climate in which ethics will become the heart of their leadership. Only through ethical behavior and ethical actions will we gain their respect. We believe that a good quality university and organizational education goes hand in hand with a more mature political culture. Therefore, we have to be active and offer relevant feedback to universities, but also to politicians that will enable such a change. With this in mind, I would relish the opportunity to be a part of this change and make a worthwhile contribution to the development of the organizational educational system which will ensure that our children and our children's children will be proud to answer the question: Where are you from? I am from **Slovakia**.

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VIRTUE OF RESPONSIBILITY IN NOWADAYS WORK ETHOS

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Summary: The problem of changing work ethos and the role of responsibility for the products of one's work is discussed in this article. Change in perception of work as value - from perceiving it as duty towards observing the effects it has in human life - is shown. The thesis claiming that fragmentation of work and lack of understanding of work's sense may lead to lack of respect for one's own work and its products, no respect for the undertaken actions and as a consequence - to abuses in workplace is advanced. Special emphasis is placed on the way responsibility for work can be perceived when understood in positive and negative categories; consequences of both approaches are discussed.

Keywords: virtue of responsibility, work ethos, employment relationships

Introduction

The world around us changes very quickly. We follow its changes without being conscious of the changes we undergo. The processes of globalization and the development of communication technologies make us think that we can reach everything in the world, everything is within the reach of our hand. With one click of the mouse in the real time we can obtain the information we require, we can realize our decisions both in professional and private lives; we can pursue self-realization because we have the opportunity and the assets necessary to do so.

In such a world, human work gains meaning and character different to the one it has had so far. It becomes necessary to implement such approach to creating work which will allow an organization to adapt to changes and to survive. To help in implementation of the new approach, task-based work systems are being introduced. Work in projects and work from home (telework) plays an important role. The employers expect the employees to be flexible and ready to constant learning, which is supposed to help the employees cope with the requirements of their jobs. Richard Sennett (2006) says the global structure of new capitalism where the employees are expected to constantly adapt to changes and undertake new risks may lead the employees to a feeling where they lose their ways and lack safety. He also notes that the change in the character of work resounds in changes of the attitude towards work; the response of the employers is 'new work ethos'.

To understand the 'new work ethos', it is necessary to look backward in order to find out what were the key issues of the 'old work ethos'. The purpose of this paper is to discuss the virtue of responsibility and its role in the changing work ethos. Firstly I show the different ways of understanding the virtue of responsibility, secondly - the nature of work and its changing ethos. Next, I concentrate on the nowadays work ethos; change of perception of work as value - from perceiving it as a duty towards observing effects it has in human life and viewing it as a part of a live project. The question that occurs at this point is what role the virtue of responsibility plays in that 'new work ethos'. Finally, as a response to the questions posed in the parts discussed above, I show the possible way the virtue of responsibility can be embedded in employment relationship.

Why is the question of responsibility important in the relationship of employment? In the nowadays work ethos an increasing need to respond to numerous demands can be observed. On the one hand we speak of personal responsibility, on the other - of institutional framework which influences the behaviors of an organization's members. In the times when work relationships are based on flexibility and uncertainty, the importance to understand what the virtue of responsibility in professional settings is and how it can be exercised increase.

The virtue of responsibility

As the economy undergoes significant changes, more and more frequently voices speaking about different sorts of responsibility: responsibility of individuals, collective responsibility and the responsibility of companies versus the society or the business responsibility can be heard. In the introduction to his work on philosophy of responsibility in the 20th century Jacek Filek (2003) says the contemporary world is yearning for responsibility and points out that people do not know what responsibility really is. The virtue of responsibility is one of the features that constitute a man who undertakes action, no matter what is the character or scope of the action. Nevertheless only a man whose action is intended and consciously undertaken may be considered author – the man whose action was imposed on him, who acted without being conscious of his deeds or permission doesn't bear responsibility for them (Ingarden 1987, p. 99).

The term *responsibility* is often understood as 'bearing consequences for one's deeds'. The elements of responsibility structure are distinguished, such as follow: the subject of responsibility, the object of responsibility, the authority imposing the responsibility, the tribunal and the enforcer. When we analyze responsibility from the legal point of view, we assume the external perspective which ephasizes the role of external authorities, the ones that impose duties. Such understanding of responsibility, referred to as negative responsibility, suggests that a man bears responsibility for everything that happens as a result of his actions, and the scope of the responsibility is limited by the the range of freedom of activity and the sense of agency. It means that a man should be ascribed with responsibility for the deeds and their consequences only in cases he had caused them, and the limits of freedom are set by the limits of responsibility for the deeds (Ingarden 1987, Filek 2002, Lewicka-Strzańska 2002).

The negative responsibility refers to the negative sanctions and punishment for the committed actions while the positive responsibility does not refer to the past but it concentrates on the future development direction and the responsibility for the directions of the undertaken decisions (Filek Jacek 1996, Filek 2002, Lewicka-Strzańska 2002). The positive responsibility consists on deliberate and voluntary – not imposed – taking over of responsibility. The relevant literature indicates the readiness to pledge for the actions of a given subject and the readiness to bear the consequences of negligence in case the subject does not meet the expectations he is expected to meet (Zawadzki 1985, following:Filek 2002).

Roman Ingarden (1987) distinguishes between four types of experience. In his study responsibility is understood in the following senses: to be responsible for something (i), to accept responsibility for something (ii), to be called to responsibility for something (iii), and to be acting responsibly (iv). Speaking about responsibility for a performed job (i) one can think both about the quality of performance (e.g. fabricating a product) and the consequences of it. An employee can do all he is able to perform his work appropriately though in case the materials or the projects he receives to do the job are faulty, the outcome of his work will be so as well. Still, he couldn't be aware of the materials' or the project's faults. Therefore it would be inappropriate to hold the employee accountable for the damages occurred. (iii). However, if the employee noticed faults in the material or in the project and, lead by his sense of duty, he reported them to his manager, he would act in a responsible way (iv). The employee could undertake responsibility (ii) for actions aiming at elimination of the faulty work.

Historically, responsibility has been perceived as virtue. Antiquity also spoke about the virtue of responsibility. Nowadays some researcher are not sure if responsibility is really a virtue due to its general character and vagueness (Gaden 1990). Why is responsibility seen as virtue in this paper than? Virtue (Latin: *virtus*, Greek: „*arte*“) is a stable and grounded moralexcellence which allows to use one's ability, willingness and senses to act morally. For Doret de Ruyter (2002) „A virtuous responsible person thus has the capacity and the disposition to recognize the needs of other people and has the ability and willingness to respond“¹⁸⁴ She understands virtue of responsibility as taking responsibility for well-being of others. In this sense “responsibility is something a person can assume or take and requires an intention and decision of the person”¹⁸⁵ In turn Garrath Williams (2008) perceives responsibility as one of the central virtues of modern liberal societies. According to his opinion, by speaking of socially responsible corporations, managerial responsibility or individual responsibility we show that responsibility is a virtue that we expect of both people and organizations. Therefore responsibility is a virtue of social order that is institutionalized in a self-reflexive manner and it has a grate influence on how we understand the virtue of responsibility, how we exercise it and what importance it has for us. His proposal regarding understanding of responsibility is that it refers to “the readiness to respond to plurality of normative demands.”¹⁸⁶ Williams states that in practice the virtue of responsibility is called in the situation, which involve plural demands. He speaks of ‘normative demands’ and stresses that what constitutes an appropriate response is a normative matter (difficult question of experience and judgment). ‘Readiness’ therefore means both: willingness and ability to respond (Williams 2008).

Otherwise, Schweiker (1995) indicates three models of responsibility: imputability, accountability and liability. Imputability refers to the connection between a person and any action, and means, that the person can be seen to have been responsible for the actions taken and all the choices taken that led to these actions. It concerns the role the person plays in the decision making process. Accountability refers to the contract view; contract implicates mutual expectations concerning the way of how to behave within a relationship. In this case every person is responsible or answerable to someone. Ultimately liability means that the person is responsible for something or someone. According to Robinson (2009) whilst some elements of responsibility can be determined through role and contract, liability involves the sense of shared responsibility which makes part of the concept of universal responsibility. Liability reflects the idea of caring for others, the sense of wider liability for certain projects or people. Here responsibility is seen not from the individualistic view, but it is treated as independent and analyzed from the interactive view. While the individualist view tend to restrict responsibility so that it could be clearly defined and limited, from the interactive point of view responsibility can only be worked out in a specific context, in response to one's social and physical environment. As Robinson emphasizes it is not obvious for any profession to accept the widest possible way of understanding responsibility because its fulfilling seems to be impossible. In order to understand universal responsibility, it is crucial to understand the following statement: “one begins with the acceptance of responsibility for the other and then works through to how that might be achieved in the particular situation, requiring the exercise of related virtues.”¹⁸⁷

The historical view at work ethos

The concept of work may be defined in different ways, depending on the assumed perspective: philosophical, social, economic or historical. Work may be perceived through the prism of the objective men tend to achieve by using their abilities and capabilities, through the prism of possibility of fulfilling human needs (Szczepański 1961, p. 171; Kotarbiński 2000, pp. 89-91), the market value it has (Smith 1954; Ricardo 1957) and in the moral categories, as every men's duty towards the others (Ioannes Paulus PP. II 1981: Vol. IV, No. 16).

What is ethos of work? Ethos is an attitude which results from one's believes and realized values, it indicates both types of values: the acceptable ones and the unwelcome in a given group. Three ways to define ethos can be shown (Kozek 1995):

- As autotelic value, while work is perceived as a primary value, as value in itself. In this case, work is perceived through the prism of its moral values
- In instrumental approach, work is perceived through the effects it has on human life. Such an approach enables wide interpretation options as it allows to examine the desired effects or profits in various categories, including tangible gains, such as remuneration or the feeling of security, as well as the intangible ones, such as self-realization and self-development

¹⁸⁴ D. De Ruyter (2002), *The Virtue of Taking Responsibility*. “Educational Philosophy and Theory”, Vol. 34, No. 1, p. 27.

¹⁸⁵ Ibidem.

¹⁸⁶ G. Williams (2008) *Responsibility as a virtue*. “Ethical Theory and Moral Practice,” Vol. 11, p. 459.

¹⁸⁷ S. Robinson (2009) *The Nature of Responsibility in a Professional Setting*. “Journal of Business Ethics” Vol. 88, p.14.

- In punitive meaning, i.e. perceiving work as compulsion imposed by the society. This approach contradicts the previous approaches, it doesn't consider value of work in itself nor its profits.

When defining place of the virtue of responsibility in the work ethos, it is important to describe what the understanding and perception of work has been through the centuries, what were the features of work and what obligations it evoked. In this article, work is understood as human activity aiming at achieving a set goal. Human work may be characterized by analysis of the goal it is trying to achieve and the way the goal is achieved.

For the primitive humans, work was a necessity, it allowed the individuals and the entire communities to survive. Improving the survival skills increased the chances to survive. Ancient philosophers made distinction between physical work directed towards production of goods on the one side and ruling and philosophizing on the other. Aristotle searched the essence of good analyzing human goals. He claimed goals could be of a different nature: of higher and lower nature, in fact, the latter being means to realize the higher ones. The highest goal was not supposed to be means to realize another goal, it was a goal in itself. The supreme goal was *eudaimonia*, usually translated as "happiness" or "perfection"¹⁸⁸. In the *Nicomachean Ethics* we read that the happy one is the one who lives happily and in wellness. It implies that the ultimate goal lies in one's behavior and the actions he undertakes, not in how much he possesses (Aristotle Book I Vol. 8, 1098, b 19). Happiness is confined in ethical courage which urges people to undertake deeds morally beautiful. The philosopher praises all serviceable work, i.e. work which leads to creating some socially useful good, including material goods. The virtue of courage allows humans to perform the function appropriate for them properly: „For just as for a flute-player, a sculptor, or an artist, and, in general, for all things that have a function or activity, the good and the 'well' is thought to reside in the function, so would it seem to be for man, if he has a function."¹⁸⁹

Władysław Tatarkiewicz (1933) points out that Aristotle presents three distinct standpoints in his work. The first one finds its gravity point in God and it leads to contemplative life. If human mind is the highest component of man's nature, undertaking intellectual activities in order to investigate truth is the ultimate goal of all human undertakings. The contemplative ethics responds to highest part of human nature, but – as Tatarkiewicz notes – it doesn't respond to the entire human nature. Therefore Aristotle introduces the second ethics, more 'human' and realistic. This ethics has its gravity point in the actor himself, it is the psychological base of a man's will which leads him to active life. Moderation is very important in the ethics of active life and fairness is the principal virtue. The actions a man undertakes, his work or the function attributed to him decide about who a man is and to what degree he realizes his supreme goal.

„For the man who is truly good and wise, we think, bears all the chances life becomingly and always makes the best of circumstances, as a good general makes the best military use of the army at his command and a good shoemaker makes the best shoes out of the hides that are given him; and so with all other craftsmen."¹⁹⁰

The third approach, called ethics of friendship, places its point of gravity in our fellow creatures, it refers to feelings of kindness and friendship. Morality is rooted in kind feelings and it has a high standard of perfection (Tatarkiewicz 1933). What significance can *kind feelings* have for performance of work? Clive Staples Lewis writes: „Friendship is unnecessary, like philosophy, like art, like the universe itself (...). It has no survival value; rather it is one of those things which give value to survival."¹⁹¹ But friendship leads to emergence and preservation of human relationships which play an important role in performance of tasks based on cooperation. People working together create a community and they can share fruits of their work with other members of the community. According to Aristotle, it is possible to pursue freedom and self-realization solely in a community, and an individual can realize its purposes in accordance with the community's development lines due to the individual's roots in the society (Filek 2002, p. 20). Thus the ethics of friendship put emphasis on the feeling of kindness in the process of shaping community and in the realization of human goals.

Medieval times reinforced distinction between so-called *artes liberales* and *opera servilia*. It was decent to undertake activities attributed to the first group by free people while the other type was left to slaves and servants. The stereotype which in the subsequent eras was visible in the distinction between the intelligence, workmen and peasants resulted in a deepening social division (Majka 1997).

¹⁸⁸ W. Tatarkiewicz (1997), *Historia Filozofii*, tom I, PWN, Warszawa 1997, s. 118.

¹⁸⁹ Aristotle, *Nicomachean Ethics*, Book. I, Vol. 7, 1097b, 19, Translated by W. D. Ross; <http://classics.mit.edu/Aristotle/nicomachaen.1.i.html> (Online: 2.05.2012)

¹⁹⁰ Ibidem Book. I, Vol. 10, 1100 I, 53.

¹⁹¹ C.S. Lewis (1960), *Four Love*. Harvest Books, p. 49.

Human work is one of the key questions in the social teaching of the Catholic church. Thomas Aquinas teaches that work is a moral urge on the one hand and it is source of virtues on the other. It is a necessity in order to preserve healthy body and soul. The words written in the Book of Genesis: „Cursed be the ground because of you! In toil shall you eat its yield all the days of your life” (Genesis 3, 17) remind that work is not a simple activity, it requires effort and sacrifices. The necessity to undertake the effort of work, indicated in the Bible is sometimes interpreted not only as a duty but as compulsion. Ioannes Paulus PP. II in his Encyclica *Laborem exercens* reminds that a man is the image of God and through carrying out of the received mandate „to subdue, to dominate, the earth” he reflects the action of the Creator.”¹⁹² Both manual labor and every kind of intellectual work always remains “a good thing for man”¹⁹³ moreover - the man is always the one who is its purpose (Ioannes Paulus PP. II 1981, Vol. II, No. 6).

The philosophers of the Renaissance placed man in the center of the universe. Man is not an alienated creature though, it is strongly influenced by his habitat. Leonardo Bruni used to stress out that family is the first social unit and the society may not exist without it. Bruni concentrated on the citizenly life and the virtues that constitute it. He contracted the ideal of the will acting in favor of common good with the Greek ideal of contemplative life. He also stressed out the significance of wealth and money in human life (Garin 1969, p. 63). He approaches work as blessing from God, thanks to which man may tame the world and make it more human-friendly. Leon Battista Alberti reckons work defines human dignity: „Can we think that we will be given appreciation and dignity in any other way than by diligently devoting our time to the most exquisite skills, working persistently and bearing the heaviest burdens of work?” (Garin 1969, p. 93) Alberti shows accumulating wealth as a goal which aims at supporting the family and its constant reinforcement. Money is not goal in itself but it serves accumulating wealth of the merchants and their families; therefore work leads to the development of families and cities. What counts in human life is diligence, persistence and honest effort. The praise of work often combines with praise of other features, such as entrepreneurship (Bernardino Telesio), even greed (Poggio Bracciolini, Machiavelli) because these features make a man undertake effort.

The reflections of the thinkers of the Renaissance refer mainly to the work of merchants and mental work, work such as getting involved in politics and the state's affairs. They neglect the question of physical work entirely. But the 16th century is the era when factories employing peasants on a large scale started to operate. The peasants were taught to perform some simple works. As Max Weber writes, the reformers of church, M. Luther and J. Calvin condemned exploitation of hired laborers. They esteemed work of the hired workers as one of the supreme values. The praise of work appears in teaching of the philosophers of the Italian Renaissance. The Protestantism allowed to spread out on a large scale the notion that diligent work is a deed that pleases God and it can guarantee salvation. Martin Luther indicated in his doctrine that a man must be responsible for his entire life and the deeds he commits. A man should accumulate acts of kindness throughout all his life. Still, he may never claim he has deserved salvation as it has already been decided. Work certifies to good intentions of the people who want to prove to their moral value by fulfilling their duties diligently. According to Weber, capitalism present in the protestant doctrine took the tendency to economize which certifies to self-discipline (Sennett 2006, p. 142). Work used to be a highly individualized value; every man was liable for the actions he was undertaking, for the way of undertaking the actions, for their character and for the ways of their realization. But the person in front of whom the man was liable was not himself or his fellow citizens but the Creator.

Man starts to be perceived through the prism of the products of his work to a larger extend (*homo faber*) (Arendt 2000, Sennett 2010). The development of cities has an important influence on shaping attitude towards work. The necessity to fulfill the needs of the middle class incurred increase of production as well as growing specialization. Owing to the technological development, living in cities allowed their inhabitants to gain independence of the natural rhythm of the seasons. Physical work, which used to be performed solely on the land until that moment, in the cities became wage earning work, organized in production plants. The organization of the division of work in the production process did not require teaching all the workers the entire production process, they only had to know their particular tasks. Human work meant performing some indicated activities and the individuals did not bear responsibility for the appropriate performance of the tasks. The work, limited to the *production factor* (Ricardo 1957) was attributed clear objectives: increased productivity and profit. The measure of the monetary value was its *use value* or *price*. The economists tried to estimate work in the market measures but the estimates were not reflected in the economic practice. The undertaken processes signified shifting the gravity point from an individual, being subject of work, to the object of work and the products of work. Smith (Smith 1954) and Marx (Marx 1965) are two of these who in their

¹⁹² Ioannes Paulus PP. II (1981) *Laborem exercens*, Vol. II, No. 4., see: http://www.vatican.va/edocs/ENG0217/_PH.HTM (online: 2.05.2012)

¹⁹³ Ibidem, Vol. II, No. 9.

works abandon the notion of distinction between the contemplative and active life in favor of the distinction between productive and non-productive work. The first distinction refers to the essence of the performed work (contemplation or action) while the other refers to the work product (work leading to a product or not). While the humanists of the Italian Renaissance emphasized the notion that human dignity relies on work, Adam Smith treats work as a sacrifice at the expense of part of the comfort, health and happiness of the employee (Smith 1954, p. 43). Such an approach clearly abandons the autotelic treatment of work as value in itself in favor of the punitive approach. In the face of work condition and remuneration which were offending for human dignity, more and more frequently their contradictory character with the ethical value of work was pointed out. Karl Polanyi (1957) notes that the *grand transformation* which marked the beginning of the new industrial order was connected with separating the employees from their support sources. As a result, work began to be treated as a good, equal with land and money. Abandoning the traditional life style and the emancipation of work meant making work dependant of its *natural limitations*. Work's ability to multiply wealth made it the key element in the new order. But this transformation required breaking the so-far existing bonds and 'rooting' anew in the rationally shaped system which constituted the base of the imposed order. What undoubtedly helped deepen the process of dehumanization of work was implementation of new management methods. As Postman (1995) noted, Frederick Winslow Taylor in his study *The Principles of Scientific Management* published in 1911 indicates productivity as the main objective for human work and thinking. This objective may be realized solely with the use of the technical account which allows to eliminate subjective and ambiguous appraisals. As a result, the subjective appraisal of a workman was replaced with rules that indicated the way the job should be performed. Shifting the weight of thoughts and reflection on the sense of the performed work to the academic rules of management lead to limiting the responsibility of the workmen for the actions they undertook (Postman, 1995, p. 65). Ioannes Paulus PP. II stated that in the era of rapid industrialization men concentrated on accumulation of goods and overlooked the human who should be the purpose of every work (Ioannes Paulus II 1981 Vol. III, No. 13).

The contemporary trends of the academic management returned to perceiving human as the subject of work; they indicate human social needs and finally his intellectual potential and the need of development which currently make base for the *Human Resources Management*. Change in the surrounding society lead to the change in treating humans within an organization on the one hand and to the change of the people's attitude towards work on the other hand. When questioning about the role the virtue of responsibility plays contemporarily in the place of work, we should outline the main tendencies in shaping of the nowadays work ethos.

Nowadays work ethos

Shaping of the nowadays work ethos is related to the civilization progress, which appears to be one of the crucial determinant of change in the contemporary life style. Ioannes Paulus PP. II writes that „the test of (...) the progress will be the increasingly mature recognition of the purpose of work and the increasingly universal respect for the rights inherent in work in conformity with the dignity of man, the subject of work.”¹⁹⁴ According to Zygmunt Bauman (2006) it constitutes the essence of the human condition as the pursuit of perfection is of constant character. Two notions are connected with the idea of progress: the conviction that time is on side of the humans and the conviction that man manages reality. Progress directs human life towards increase of satisfaction and the most important day in human life is today. It should be stressed out that the pursuit of satisfaction is the goal; the satisfaction is not the goal. Such an approach reflects the Protestant ethics which assumes permanent exertions. Bauman notes though that both such understanding of progress as well as other criteria of human life have become individualized in the contemporary times: they became deregulated and privatized. By the deregulation of progress he understands the situation where many methods to improve reality coexist and sometimes they contradict each other. On the other hand, privatization of progress means privatization is an individualized, not a collective process (Bauman 2006, pp. 209-210). In this situation the only means to allow limitation of the risk contained in the decisions humans make is to make ourselves 'the center for life planning and management'.¹⁹⁵ As Giddens (2001) remarks, the contemporary world offers a man wide possibility of choice and decisions regarding his life. In this situation it becomes necessary to select a life style. Life style consists of routine practices related to, in the first place, the consumption sphere: how people eat, what they wear, how they behave etc. According to Giddens, the sphere of work is less controllable by individuals, which means that the selection of work and its environment is one of the basic factors in selecting life style (Giddens 2001, p. 114). Every man's freedom to choose his lifestyle makes the man's professional path become a specific 'life project' which must be planned and executed. Changes in the

¹⁹⁴ Ibidem, Vol. IV, No. 18.

¹⁹⁵ U. Beck (2004) [1986] *Risikogesellschaft – Auf dem Weg in eine andere Moderne*. Scholar, Warszawa, pp. 112-114, following Bauman (2006) [2000] *Liquid Modernity*. Wydawnictwo Literackie Kraków, p. 2010.

environment require constant adjustment and they make it impossible to prepare long-term plans. Work allows people to organize their lives, that's why it is perceived as a remedy in view of the growing chaos and uncertainty overwhelming human life. Understanding work as a life project though reduces it to episodes which should be used as soon as possible. They are not viewed as a whole but as singular events, pretty often as 'games' unrelated to each other. Work assumes character of a game where direct effects of the subsequent undertakings count. In the past, the job one performed was one of the key elements of one's identity. In the situation of high risk and permanent necessity to adjust to the changing requirements of the market, work becomes an instrument solely to realize one's goals. It is viewed as a type of good, both by the employees who want to enhance their security by selling their work and by the employers who want to increase profits of the owners. In the past, the relationship between the employers and the employees was based on mutual interdependence. Both sides had to cooperate and the long-lasting cooperation profited for both parties. In the situation of high risk and permanent changes, long-term relationships are replaced by short-term relationships directed at the performance of task. It results in weakening of mutual bonds, loyalty and trust (Bauman 2006, pp. 229-230). The unstable character of the undertaken ventures, fragmentary character of the tasks do not encourage to investigate on the essence neither of the performed work nor on the role it plays in the realization of the general goal of the organization.

Roger B. Hill Job says as we have moved into the 21 st century the workplace has changed. The information age workforce has a lot of discretion, it requires collaborative work therefore not only locally but also globally (Hill 2010). He perceives the following features of work the most important characteristics in the Information Age (Hill 1992, 1996):

- Requirements regarding high-discretion and considerable thinking and decision making on the part of workers (Miller 1986, Yankelovich and Immerwahr 1984);
- Increasing demand on giving employees authority to make decisions. It is necessary if companies intend to meet the needs of customers and rich their goals (Maccoby 1988);
- Opportunities for greater self-expression by workers and possibilities to find more self-fulfillment in work;
- Perceiving work as good and a reward in itself;
- Putting stress on skills such as: challenge, autonomy, recognition and the quality of work produced (Yankelovich and Harmon 1988);
- Motivation to work involves: trust, caring, meaning, self-knowledge, challenge, opportunity for personal growth and dignity (Maccoby, 1988; Walton, 1974);
- Workers seek control over their work and a sense of empowerment.

According to Hill, work ethics became a much more important construct than it was during the manipulative era of machines in the workplace characterized by high-discretion (Hill, 1992).

Richard Sennett claims that superficiality rules in the current work relationships. He reckons lack of organization of time is its main reason. Self-discipline allows people to overcome their innate idleness and laziness. The external factors, which used to impose the defined principles of time organization (e.g. using the sound of the church bells) helped the people to organize their own work time (Sennett 2006, p. 137). The ability to organize one's work time for Sennett means - in common meaning- one of the constitutive features of the ethics of work. Its main value is connected with expecting a "reward" for the work that has been done. The 'old work ethics' meant self-discipline and working out of the employee's good will; the principle of deferred gratification was also accepted, which meant that the work done today could bring profits tomorrow only. The old work ethos was based on stability and predictability of the institution; they were supposed to assure future gratification; at present, an expectation of a reward in the future has become irrational, the employees don't work with the prospect of gaining some profits in the remote future – they expect the profits immediately.

The contemporary debate on the work ethos is strongly grounded in the context of economic conditions of activity of companies and the possibility to realize the goals they set. A company whose employees aim at immediate gratification has to motivate the employees to realize the set goals in the set time on the one hand and to control them and to prevent behaviors which could impede realization of the set tasks on the other. The employees who provide the company with their work are the company's capital therefore it seems natural that they aim at shortening the time they wait for the *Return on Investment* (ROI). Shortening the period of time when the companies may plan their actions in a rational way means they have to permanently adjust to changes. In order to increase the adaptability to changes and minimize the risk, various organizational methods are being introduced, such as increase of the flexibility of employment, flexible forms of employment or flexible methods of organizing work time and place. Flexibility on the work market though means weakening of the bonds between the employers and the employees, lack of stability in employment and constant

uncertainty (Bauman 2006, p. 236). An employee can expect to be employed only as long as his work is valuable for the employer. And the employer has no guarantee if the means invested in the employee's training and development will get a return before the employee receives a more profitable offer from the employer's competitors and - he takes it.

A widely spread method of increasing flexibility of employment is organizing work according to the principles of teamwork. Sennett defines teamwork as a specific form of *new work ethos* which undertakes cooperation instead of an individual urge to approve oneself (Sennett 2006, p. 144). Work in projects aiming at solving a specific problem, sometimes a very complex one, requires the team members to be equipped with various competences. The employees are expected to be sensitive to other people and to have so-called soft abilities (listening and cooperation) as well as – and in the first place – the ability to adjust to the changing environment. According to Sennett, work organization based on the principles of teamwork brings about many dangers such as superficial approach to work and to shaping relationships among the team members, blurry responsibility for the task realization or devaluation of the value of the professional experience and practice (Sennett 2006, pp. 144-145).

In order to increase the effectiveness of management and productivity, various system solutions aiming at work facilitation and minimization of the possibility of committing mistakes are being implemented. Paradoxically, removing difficulties often leads to performance of work which is indifferent and deprived of criticism (Sennett 2006, p. 50).

In order to raise the employees' motivation, modern companies introduce modern, individualized systems of remuneration depending on the work effects. Such form of motivation directs actions of the employees towards achieving complex goals and increasing their involvement in execution of the tasks they are given. As part of the modern remuneration systems, more and more frequently solutions are proposed which are, in fact, a specific form of return to connecting work with the property rights. Such solutions aim at increasing the feeling of responsibility of the employees for reaching the companies' goals. Still, they rarely take in consideration the ethical aspect of work referring to the way the goals are being reached. The pursuit of immediate gratification may mean in practice that activities leading to profit at the expense of other liabilities, or to breaking the rules of ethics, are undertaken.

Charles Handy (1999) writes that lack of work leads to devaluation of personal responsibility. In his opinion work doesn't only allow to obtain means necessary to fulfill needs of a man, but it also builds up the feeling of self-esteem and dignity. Handy notes that in the contemporary conditions people don't agree to be treated as machines. They expect their work to allow their development, to leave them freedom of action and decision making. Work should respond to the human dignity of a man and on the second place it is supposed to bring profits. He emphasizes the fact that the condition which allows proper operation of the social and economic system is handing responsibility to competent persons. On the one hand responsibility may not be handed to incompetent people, on the other the people may not become competent until they start bearing responsibility (Handy 1999, pp. 191-199).

The virtue of responsibility in employment relations

The examination of the way an employee undertakes responsibility must be grounded in a context defining the employment relationships. The base for shaping relationships between the employee and the employer is the contract, the agreement on the base of which the employee accepts formal supervision of the organization. The employee obliges himself to contribute to realization of the goals set by the organization in return for the organization's support in form of remuneration and provision of appropriate work conditions. Such understanding of the relationship may be viewed through the prism of mutual rights and obligations: the employee is responsible for work in accordance with the employer's business while the employer is obliged to pay the salary and provide industrial safety and satisfying work (Velasquez 1982, pp. 304-315). Starting work for a given employer, the employees oblige themselves to adhere to the conditions of the contract they sign and not to act on his disadvantage. Besides the duties defined by the contract and the employment conditions, the employees are expected to be active in shaping the processes in the company, to prevent unethical behaviors, to communicate erroneous solutions in the system which may lead to unethical or irresponsible behaviors, and to be loyal towards the employer. The examples listed above, where the employee is expected to act in a responsible way, go beyond the formally established scope of responsibility. It may be assumed then that the employees take over positive responsibility, considering future direction of the choices to be made. It is not justifiable though when the employer expects the employees to take over positive responsibility. The employer requests the employee to exercise a large variety of tasks – the great

number of demands is shown as the key factor in examination of the virtue of responsibility in today's employment relationships. Plurality of demands refers to (Williams 2008):

- Negotiating multiple normative demands; it causes the need for assignation of connection between responsibility, judgment and initiative
- Conflicting perspectives that recur in normative judgment and the uncertainty about each party's various expectations
- The need to negotiate particular, diverse and sometimes conflicting claims
- 'Non-ideal' context, in which each responsible agent act. Following Williams "responsibility is always a matter of living with agents as they are, as well as what they might become, and doing so in terms of one's particular relationships and responsibilities towards them."¹⁹⁶

As Williams (2008) notes: "the professional tries to do his best amid various regulations and professional codes, short-term priorities and longer-term goals".¹⁹⁷ In case an agent fails in one single basic duty and ignores the plurality of different demands which are caused by different circumstances, the risk of irresponsible acting increases.

Both the previously described determiners of the contemporary work ethos and the great number of demands may lead to limited perception of the responsibility for work viewed in solely negative categories.

Three groups of factors leading to limited perception of responsibility for work may be highlighted:

- System factors which refer to errors in the management system; to the work share and work organization in a company in particular; to shaping of the organization culture;
- Cultural factors referring to individual relationship between the employer and the employee, the manager and the co-workers. Shaping of the organization culture, management style and work place atmosphere is crucial among these factors;
- Factors of individual character, referring to individual attitude towards work and the value it has for every man; his professional aspirations, competence and involvement.

Table 1 presents examples of limited interpretation of responsibility for work at the work place.

Table 3 Factors limiting interpretation of responsibility at the work place

System factors	Cultural factors	Individual factors
- Excessive limitation of responsibility for the tasks or giving excessive responsibility and duties without handing over the appropriate powers (feeling of perpetration missing) - Erroneous selection of criteria of estimation and remuneration of employees. It suggests that their responsibility is limited to attaining indexes - Blurry responsibility for the entire scope of work - Excessive fragmentation of tasks resulting in fading away of the sense of work and the role the employee plays in all the tasks	- Management style leading to treating the employees as objects - Short term relationships and lack of stability of employment - Lack of dialogue between the employees and the management, lack of mutual understanding - Imposing corporation values (e.g. in the ethical codes) which are not reflected in practice	- No will to understand the sense of work and treating it superficially - Lack of belief in the importance of one's work and lack of involvement in performance of the work - Lack of experience or professional competence indispensable to perform given work - No will to understand the wide context of work - Erroneously understood professional role or erroneous understanding of loyalty towards the employer - Conviction of solely instrumental character of work and of the fact it only serves the goals set by the employee

Own source.

Plurality of demands can be caused both by the wrong solutions in the management system or misunderstanding within the relationship or organizational culture. It may also depend on the individual

¹⁹⁶ G. Williams, op. cit. p. 461.

¹⁹⁷ Ibidem, p. 459.

attitude. The way to limit the amount of violations is the continuous improvement of the management system and organizational culture. In the context of plural responsibilities both: professional responsibility and corporate responsibility require developing a creative response to the needs. Therefore there is a need for mutual understanding between the employer and the employees. It what requires continuous dialog. Such a dialog enables the development of agency, develops the commitment to oneself and the other, enables listening and the ability of more realistic assessment of the situations, sets up a continued accountability, shared liability as well as increases the capacity to respond. It also shapes the base for a real partnerships (Robinson 2009).

The first two groups of factors depend on culture and the system solutions applied in a company. Improving of the third area of violations which is connected with the individual attitude may be possible for employer only through changes in both the management system and the shaping of the relationship and culture. The individual attitude toward work however remains the personal responsibility and depends more on internal conditions than external circumstances. The personal responsibility, which is the base for individual attitude, should refer to the universal responsibility in a sense of extending the narrow perspective of professional responsibility, within the limitations of the situation (Robinson 2009). Responsibility for work in such understanding gains features of positive responsibility and the responsibility applied at the workplace starts to express the employee's opinions and values. It gains particular significance in the employment relationships because – as Sternberg (1998) states – by acting in a particular way, in accordance with the values they profess, individuals are able to contribute largely to shaping the values they prefer in the organizations they are part of.

Conclusion

The contemporary work ethos is conditioned by system-based solutions regarding the work time and place as well as imposed instruments for measuring work effects and rigid work split. It limits the scope of an employee's tasks to the size of one section of work performed by the entire company. It is indispensable to introduce this type of changes in the companies as we have to deal with complexity of work processes which hasn't been encountered so far. The will to optimize activities and increase productivity must be connected with coordination and system control. The small scope of work assigned to a work position which is a result of increasing tendency to specialization and fragmentation of work allows the employees to take responsibility only for a section of the entire work scope, not for the final product. The fragmentation of work however and lack of understanding of its sense may lead to lack of respect for the work the employees perform and the products of their work. It may also result in lack of responsibility for the undertaken actions and as a consequence - in some serious abuses. The lack of feeling of safety of employment related to the lack of stability of the institutions which should assure it, as well as the expectation of immediate gratification, have an impact on relations between the employer and the employees. Precise definition of responsibility for a section of work puts limits to the autonomy of decision making and it compels adapting to the imposed rules of general proceedings and cooperation. Such way of work organization and split may lead to perceiving responsibility for the commanded tasks through the prism of negative responsibility connected in the first place with the feeling of perpetration and the fear of punishment for unfulfilling duties. Taking over negative responsibility for the subsequent areas of human life: human being, family, groups and organizations a man is a member of, up to the social sphere, is connected with ascribing lower and lower degree of perpetration (Huiberst 1994, following: Pratley 1998). As a consequence, people may loose the feeling of responsibility for the community they are part of. Referring to the employment relationships, it may mean that the employee looses the feeling of responsibility for his company's goals while his work is meant to help realization of the goals. The employee whose feeling of responsibility has negative value may be discouraged and overloaded with work. On the other an employee who feels positive responsibility for the work he performs may be motivated to greater involvement and self-realization.

The new character of work requires understanding of responsibility for the actions one undertakes in positive categories, in the meaning of universal responsibility which extends the narrow perspective of professional responsibility within the limitations of a situation (Robinson 2009). It may be possible only in case the employer sets a proper institutional framework, cares for the relationships with the employee and cares for the embedding of the virtue of responsibility into a culture of his company.

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RESPONSIBILITY, ORDER ETHICS, AND GROUP AGENCY

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Abstract

Those who invoke the notion of moral responsibility in ethical discourse seem to be faced with a dilemma. Apparently, they either have to violate the “control principle” which says that nobody can be held responsible for what is beyond one's control. Or they have to concede that in many cases there is a “responsibility void” which means that nobody is responsible. The first option seems unjustifiable. The second renders the concept of moral responsibility useless. This dilemma may be taken to suggest that thinking about moral issues in terms of responsibility is an unproductive way of doing ethics. In our paper we offer a solution which, we hope, can rehabilitate responsibility as a moral concept. It combines order ethics (which is a kind of ethics that primarily focuses on the institutional structure of society) with a recently developed account of group agency.

Keywords: Responsibility, order ethics, group agency, social choice theory, global warming

1. Introduction

Responsibility is a widely used concept in societal discourse. It is frequently employed to address social, economic and environmental problems. E.g., investment bankers are held responsible for the financial crisis. Politicians are seen as responsible for economic growth. Citizens are seen as responsible for saving up for retirement and so on.

It can be questioned, however, whether the notion of responsibility really provides an adequate concept for framing modern-day ethical problems. Here is why. Most ethicists subscribe to the so called “control principle” (Nelkin 2008). It states that agents ought not to be seen as responsible for factors over which they have no control. Now most, if not all, of today's most pressing ethical problems result from the interactive choices of individuals and cannot be controlled by single agents. The control principle is violated, then, when responsibility for such problems is ascribed to individual agents. This has an unwelcome consequence for those who believe that thinking about moral issues in terms of responsibility is a good way to do ethics. If we want to fulfil the control principle, we cannot hold anyone responsible. It seems, then, as though any conception of responsibility faces the following dilemma (cf. Heiss 2011): When it comes to the most pressing ethical challenges of our time, it either violates the control principle or it leads to a “responsibility void” (Braham and VanHees 2011), holding nobody responsible. In the former case the conception is unjustifiable. In the latter case it is plainly useless.

In this paper we look at a solution to the dilemma which is supposed to rehabilitate the concept of responsibility. It has been proposed by philosophers who work in the tradition of order ethics which is a kind of ethics that takes the institutional structure of society – the social order – to be the “primary evaluative focal point” (Kagan 1992). We conclude that the order-ethical take on responsibility can resolve the dilemma. It can

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fulfil the control principle *and* avert the problem of a responsibility void. We show, however, that the very same dilemma resurfaces at a different level and conclude, somewhat surprisingly, that in order to ultimately resolve it order ethicists have to argue for a thesis in a totally different branch of philosophy. They have to argue that we should accept a richer social ontology and acknowledge the existence of group agents. This seems not to be an easy task. The idea of group agency apparently sins against methodological individualism. It may strike us as metaphysically queer, since it seems to postulate the existence of supra-individual entities. We suggest, however, that recent work in the theory of group agency can help tackle this problem. Drawing on contributions by Christian List and Philip Pettit we sketch an explanation of group agency which is not metaphysically dubious and which order ethicists can embrace without embarrassment.

The remainder of the paper is structured as follows. First, we elaborate on what we shall call the “dilemma of responsibility”. Then, we present the order-ethical solution. After that, we show that the dilemma resurfaces at a different level. In order to address this problem we propose, then, to augment order ethics with the notion of group agency and we sketch an account of this idea which is compatible with methodological individualism. The last section sums up and concludes.

2. Responsibility

How can we determine whether a person can be seen as responsible for an action she has performed? Kant suggests that we should ask ourselves the following question: Would she have performed the act had she known that a gallows has being erected and that she would be executed if, in fact, she did perform the act? If and only if the answer to this question is yes, then she ought not to be seen as responsible for her action (cf. Kant 1788).¹⁹⁸

Kant’s “gallows test” makes an important point about responsibility. In effect, it makes clear that nobody can be seen as responsible for factors which are beyond her control.¹⁹⁹ This principle holds good for actions (cf. Nida-Rümelin 2011). But, of course, it also holds good for the outcomes that result from actions. As Beckmann and Pies (2008) point out, a person can be held responsible only for those outcomes that she can actually control. Let us call this idea the “control principle” (Nelkin 2008).

Now what are the limitations that the control principle imposes on ascriptions of responsibility? The control principle allows us, surely, to hold a person responsible for an outcome that can unequivocally be attributed to her as an individual agent in the sense that her action was a necessary and sufficient condition for it. Take the case of a surgeon who performs surgery on a patient. Her patient dies, because she does not do the operation as well as she could have done it. In this case the surgeon can clearly be held responsible for the death of the patient, because she could have acted in a way that would have avoided this consequence. At least, this would not be a violation of the control principle.²⁰⁰ However, when the actions of many individuals determine the outcome in what has been called a “problem of many hands” (Thompson 1980), it is not clear whether the agent is in control. To be sure, even in cases where many agents are involved a single agent might be said to have a certain degree of control over the outcome. This is clearly the case if the action of a single individual is necessary for a given outcome to be brought about. E.g., if a committee requires unanimity to reach a decision each committee member can control whether a particular decision is reached. We might even be inclined to think that an agent can be seen as being in control if her action is merely sufficient but not necessary to bring about an outcome. E.g., each member of a mafia gang can, in a certain sense, control whether a person they have captured dies by shooting her in the head.²⁰¹ However, in certain interactive settings an individual’s action may be neither necessary nor sufficient for an outcome. And in such a case the

198 Nida-Rümelin (2011) suggests that the relationship between action and responsibility is so close that it would not make sense to talk of an “action” in this case. This intricacy shall not concern us, however.

199 Note that prominent authors, most notably Bernard Williams and Tom Nagel, have put forward a different view (cf. Williams (1981); Nagel (1991)). They hold that under certain circumstances individual actors can be assessed on the basis of factors which they do not control.

200 Note that the appropriateness of ascriptions of responsibility may not only depend on the control principle. There may be independent reasons why we might find it unjustified to regard someone as responsible for something she did or caused. It seems sensible to follow Aristotle who in his *Nicomachean Ethics* acknowledges an epistemic constraint (cf. Aristotle 2000/2004). This, however, is an issue we shall put aside.

201 There is, of course, no formal difference between cases in which the agent’s action is necessary and cases in which the agent’s action is sufficient for a particular outcome (“Action A is necessary for outcome O” is logically equivalent to “Action $\neg A$ is sufficient for outcome $\neg O$ ”). There might, nevertheless, be a normative asymmetry between such cases. Usually responsibility is attributed for bad outcomes. So we can distinguish between cases in which the action of a given individual is necessary for a bad outcome and cases in which the action was sufficient. And our evaluations in such cases may differ.

person is clearly not in control.²⁰² To hold her responsible in such a situation would violate, then, the control principle.

Unfortunately, many, if not all, of the most pressing ethical problems of our time are interaction problems (cf. Homann and Lütge 2004). And many of those surely belong to the latter type in which each individual's actions are neither necessary nor sufficient for the problem. For the sake of illustration, consider global warming. Its leading cause is, as we know, the massive emission of greenhouse gases to which we all contribute, most importantly by consuming goods whose production involves the burning of fossil fuels. Each individual's acts, however, are neither necessary nor sufficient for global warming to take place. No individual can cause global warming on her own. And no individual on her own can prevent it either (cf. Sinnott-Armstrong 2005). By the control principle, then, we cannot hold individuals responsible for global warming. But who is responsible, then? It is implausible to hold that nobody is responsible. For, clearly, the emission of CO₂ that leads to global warming is anthropogenic. But if the control principle is to be honoured (as we believe it should be), this seems to be the conclusion. There seems to be a "responsibility void" (Braham and VanHees 2011).

To sum up, then, it seems that any conception of responsibility faces the following dilemma when it comes to interaction problems: It either violates the control principle. In that case it seems arbitrary and unjustifiable. Or it fulfils the control principle. Then, it creates a responsibility void, since it cannot attribute responsibility to anyone. In the latter case it is useless.

One swift solution which might be tried before we proceed is to say that each individual has a *shared* responsibility for global warming, because we all contribute to the overall amount of CO₂ in the atmosphere which is the cause of it. This view does not seem to create a responsibility void, since all of our shared responsibilities add up such that all of us, collectively, bear *full* responsibility for the problem. And it apparently does not violate the control principle either, because each of us can control how far she contributes to the overall amount of CO₂. This take on the issue does not work, however. Shared responsibility clearly violates the control principle. Suppose there is this one guy, Paul, who just sits around meditating all day. He does that to the point that he sets off hardly any CO₂. In addition, he grows plants to neutralise whatever little amount of CO₂ he emits. In that case, surely, Paul cannot be seen as responsible for global warming – not even as *partly* responsible. But if responsibility is shared among all of us, it seems to follow that he is. Maybe the proposal can be modified to make more sense. How about we say that each has a responsibility for global warming in proportion to the share of CO₂ which can be attributed to them? In that case, Paul would not be seen as responsible for global warming, but the rest of us would be (and to different extents). This approach does not work either, though. It, too, violates the control principle. Suppose there is this one guy, Saul, who causes as much CO₂ emission as he possibly can. If global warming does not happen, because everybody else drastically cuts back energy consumption, Saul cannot bear any responsibility for global warming, because nobody can bear responsibility for something that does not happen. If, on the other hand, everybody goes on as they have and global warming does happen, Saul gets a high share of responsibility for it. This violates the control principle, because whether or not global warming happens is determined by other people's behaviour which Saul cannot himself control. The dilemma of responsibility cannot be solved, then, by drawing on the notion of shared responsibility. Views supporting this point are found, e.g., in French (1998) and Smiley (2011).

3. Order Ethics

A number of ethicists have recently proposed to approach responsibility on the basis of order ethics. In the following we shall consider their approach and look at their solution to the dilemma of responsibility.

At the outset, it is useful to introduce the concept of a "primary evaluative focal point" (Kagan 1992). The primary evaluative focal point of an ethical theory is the object on which this theory focuses for the most part. Traditional ethical conceptions have focused, e.g., on the evaluation of the agent's character (e.g. Aristotle 2000/2004). Others have focused on the moral assessment of acts, either on the basis of their intrinsic nature (e.g. Kant 1785, Ross 1930/2002) or on the basis of their consequences (e.g. Bentham 1907, Mill 1863, Sidgwick 1907). In contrast, *order* ethics, as its name suggests, is an ethics which focuses on the social order

202 The issue of *control* seems to be distinct from the question of *causation*. On some accounts of causation which are used predominantly in legal studies a person can be seen as causing an outcome even if her action is neither necessary nor sufficient for this outcome (cf. Wright (1985)). The so called NESS test of causation sees an individual action as the cause of an event if it is a necessary element of a jointly sufficient set of conditions for this outcome. On this test it is possible to say that a particular person has (jointly) caused an event that, nevertheless, she did not control, as she was not in control of the other conditions that were necessary for the event.

and regards it as the “systematic *locus* of morality” (Homann 2002). Many contemporary ethicists have emphasised the importance of the social order and the institutions which constitute it. John Rawls’s (1971/1999) theory of justice which is an attempt to spell out the fundamental principles governing the basic institutional structure of a fully just society is, perhaps, the most famous example of an order-ethical theory.

Since order ethics is individuated by its primary evaluative focal point, it is compatible, in principle, with various moral-philosophical schools of thought. An order ethicist may hold, e.g., a divine command theory about the social order. Or she may be a utilitarian and may hold that the right order is the one which produces the most happiness for all. Most exponents of order ethics, however, have pursued a contractualist approach to ethical norms (e.g. Rawls 1971/1999, Buchanan 1975, Homann 2002, Lütge 2007). They have argued that we can gain insights about the right social order by a contractualist thought experiment. We should imagine an “original position” (Rawls 1971/1999) in which the various parties in society deliberate about and unanimously choose the social order which shall henceforth regulate their interaction in society. The various forms of contractualism (whose specifics shall not concern us here) can be distinguished by the way in which the original position is described. Following Buchanan (1975), one tradition of contractualism starts at the *status quo*. It asks what can be done *in the present situation* to improve life for all. Combine this idea with a primary focus on the social order and you get an ethical approach which asks which institutional rules need to be introduced or changed to make everyone better off.

Most proponents of this type of contractualist order ethics have put a lot of emphasis on the so called “implementation problem” in ethics (e.g. Homann 2002, Homann and Lütge 2004, Lütge 2005, Mukerji and Schumacher 2008, Mukerji 2009, Petrick and Pies 2007). They have argued that ethical theories have focused too much on what we ought to do and have commonly ignored the problem of how it can be ensured that agents will, in fact, live up to their moral duties. Their answer to the implementation problem is that moral agents should be given incentives to behave morally, either by making immoral behaviour costly or by rewarding moral behaviour. Incentives, they say, should be incorporated in the institutions of society to regulate people’s behaviour.

Now one peculiar characteristic of an order-ethical approach of this type is that it does not attribute social, economic or environmental problems to the ill will of immoral, self-interested individuals, as many act-focused ethical theories do (cf. Homann and Lütge 2004). Rather, since its primary evaluative focal point is the social order, it attributes such problems to defects in that order. It recommends to amend the institutional structure that is incumbent in societal institutions, thereby giving individuals incentives to act in ways that are desirable from everyone’s standpoint.

Having said this much, we can address the problem of responsibility from an order-ethical point of view and explain how order ethics enables us to avoid the dilemma that traditional conceptions of responsibility run into. On the order-ethical picture which we have just laid out, the systematic *locus* of morality is the social order. Hence, agents who interact within a social order that leads to problems are not themselves regarded as responsible for the bad results of their interactions (cf. Homann 2002, Homann and Lütge 2004). Hence, order ethics does not violate the control principle. However, it does not thereby create a responsibility void. The fact that individuals are not responsible for the results of their interaction does not mean that nobody is responsible for anything. The effects of interactions are attributed to the social order within which these interactions take place. Plainly, then, those who are responsible for the social order are also mediately responsible for the effects it leads to. Now in a democratic system individuals themselves make the rules. Hence, even though they cannot be regarded as responsible for the immediate consequences of their interaction, they can, as Homann (2006), Beckmann and Pies (2008) and Heiss (2011) have argued, be seen as bearing a *mediated* responsibility for the social order in which they interact and which leads to bad consequences.

Homann (2006) offers a classificatory scheme which comprises three kinds of responsibilities.²⁰³ In certain situations it may be appropriate to hold individuals responsible for the effects of their actions. This holds at least in cases where their actions are necessary to produce a bad effect. In interactive settings where individuals cannot control the effects of their actions, because they are partly determined by others, there are two types of responsibility individuals may nevertheless bear. They may bear a “regulatory responsibility” (“Ordnungsverantwortung”) for the social order. That is, they can be seen as morally required to work towards changes that are beneficial to all. And they may bear a “responsibility for discourse” (“Diskursverantwortung”).

²⁰³ In fact, Homann (2006) talks about the responsibilities of a corporate entities, thereby acknowledging the existence of group agents. We apply his scheme of responsibilities to individuals. After all, the point of our paper is to tease out whether order ethicists do, in fact, need an account of group agency. We do not want to simply assume this, as Homann (2006) does.

The latter, it seems to us, is a backup for the former. There may be situations in which it is not possible for a single individual to influence the social order, since in a democratic society regulatory changes cannot be made by a single individual but require the cooperation of others. Now others may not be convinced that any changes are necessary. They may not yet understand that the social order produces bad effects. In that case those who do understand this are responsible for making this fact known and for communicating and explaining the need to change the social order.

Let us illustrate the order ethical approach using, again, the example of global warming. A realistic depiction of the issue would lead us far off track. So let us make a number of assumptions which, admittedly, are grossly idealised and oversimplified, but should suffice to illustrate how the order-ethical approach works. Suppose that, instead of the complex global-political order in which we actually live, we had just one country on the planet and one bottom-up democratic system where every political decision is made by the community of citizens according to a unanimous vote. Call this country Globania. Now it shall be assumed, somewhat implausibly, that each citizen of Globania currently consumes an equal amount of energy and let us assume further (even more implausibly) that this amount can be unequivocally attributed to her as an individual. As a result of all citizens consuming their current amounts of energy, the temperature in Globania increases. The overall amount of CO₂ emitted would have to be cut by 50% to ensure that global warming is kept in a range that is acceptable to all. Everybody should agree, therefore, that it is a desirable goal to reduce CO₂ emissions by 50%. Now, on order ethics, none of the citizens can individually be regarded as responsible for meeting the target, since, sure enough, each citizen on their own cannot accomplish this. But since each citizen can take part in the democratic process, each can be seen as responsible for a change in the social order which imposes on each individual a legal duty to cut their emission by 50%. (In addition, the trading of emission certificates may be allowed to make for an efficient outcome.) If the facts about global warming and how it can be controlled are not known to all citizens of Globania, regulatory changes might be difficult or impossible, because they do not garner the support of all. In this case the responsibility for discourse kicks in. Individuals who understand that a cut of 50% in per capita emissions would solve the problem are responsible for engaging in discourse with all others until a regulatory solution consented to by all can be implemented.

4. Group Agency

Let us now critically assess the order-ethical solution to the dilemma of responsibility. It seems that order ethics can, in fact, successfully resolve it. It can explain how it is possible to fulfil the control principle and prevent a responsibility void at the same time. On order ethics, individuals are not held responsible for the effects of their interactions, since they cannot control them. This does not lead to a responsibility void, though, because individuals are regarded as having a regulatory responsibility for the social order in which they interact and which makes the bad outcomes of their interaction possible in the first place. Obviously though, this is not an ultimate solution. The dilemma resurfaces, as we shall explain now.

It is clear that individual agents cannot each on their own control what the social order looks like. This might be possible in a dictatorship. But it is not possible in a democratic society like ours. No matter how hard each of us tries to achieve a change in the social order, if our fellow citizens do not go along, we cannot accomplish anything. Hence, the control principle not only rules out individual responsibility for the outcomes of interactions. It also rules out individual responsibility for the social order. To fulfil the control principle order ethicists have to acknowledge that nobody is individually responsible for the social order. This leads, again, to a responsibility void. So it seems that order ethics faces the very same dilemma, albeit at a different level.

But not so fast. We mentioned above that in cases where it is not possible for the individual to effectively work towards a reformed social order, because others do not cooperate, she has a “discourse responsibility”. She ought to communicate and explain the need for regulatory changes until others will eventually be convinced and cooperate in regulatory changes. This backup solution does not work either, though. To be sure, we do not want to say that the notion of discourse responsibility is useless. In fact, we believe that quite the contrary is the case. We simply wish to point out that discourse responsibility cannot ultimately resolve the specific dilemma that is at issue here. It is easy to see why. A single individual cannot be given the responsibility to communicate with others. Communication, after all, is a cooperative venture (cf. Nida-Rümelin 2001). If others choose not to cooperate in an individual's attempt at discourse, no discourse will occur. Hence, the individual cannot control whether discourse occurs and it would, yet again, violate the control principle to hold her responsible for discourse.²⁰⁴ It seems to us that the only way for order ethicists to resolve the dilemma of

204 It might be objected that individuals may bear a shared responsibility for discourse. Our above remarks about shared responsibility apply *mutatis mutandis* here assuming that an individuals contribution to societal discourse is neither necessary nor sufficient for this discourse to occur. This is implausible in one-on-one-settings, but very plausible in a large society.

responsibility is to accept a richer social ontology. They have to allow for the existence of group agents which can bear responsibility over and above the members that constitute them.

It is easy to see how the idea of a group agent can solve our dilemma. Consider, again, the issue of regulatory responsibility. We argued above that, by the control principle, no individual can bear regulatory responsibility, because she cannot, as an individual, control whether regulatory changes are made. The conventional order-ethical answer to this complication is to shove the problem to another level, invoking the notion of discourse responsibility. Our proposed solution which draws on the notion of group responsibility is to say this: Individuals do not bear responsibility for the social order or for discourse. But this does not lead to a responsibility void, since the *group* of individuals can be held responsible, even if *not a single* member of that group is considered responsible as an individual.²⁰⁵

The notion of group responsibility that we have introduced may, at first glance, bear a resemblance to the notion of shared responsibility which we have rejected above. But it is not the same. Group responsibility is a kind of responsibility that is borne by the group, while shared responsibility is a kind of responsibility that is borne by individuals. This crucial difference makes it possible to honour the control principle and to avoid a responsibility void at the same time. The group of citizens is seen as responsible for the social order. This does not violate the control principle, because the group as a whole *can* control the social order in which its members interact. And it does not create a responsibility void, because it is not the case that nobody is responsible. The group as a whole is. In view of this finding, we propose, therefore, to augment order ethics with the notion of group agency. The resulting normative-ethical approach, we believe, should enable us to address contemporary social problems more effectively than plain vanilla order ethics.

Admittedly though, our solution sounds very problematic, as the idea of group agency apparently sins against methodological individualism. In the remainder we shall attempt, therefore, to explain how it is possible to view a group as an autonomous and responsible agent in a way that is compatible with methodological individualism. In doing so we shall draw on a recent account of group agency by Christian List and Philip Pettit (2011). Given the limited scope of this paper, we will have to make do with a few rough remarks which, we hope, will nevertheless suffice to make the point.

First up, what is methodological individualism? It requires, roughly, that we account for social phenomena in terms of the contributions of individual agents and their motivations and do not invoke any supra-individual entity (cf. e.g. Hayek 1942, Watkins 1952, Weber and Winckelmann 1980; Schumpeter 1909). On this view, talk of a “group agent” seems to be a metaphorical, shorthand way of referring to a sum of separate individual agents (cf. e.g. Austin et al. 1869, Quinton 1975-1976, Hobbes 1976). Why? An agent is defined as an entity which has her own beliefs and desires as well as a capacity to intervene in the world based on both. On methodological individualism, the beliefs and desires of a group have to be accounted for solely on the basis of individual beliefs and desires. It seems, then, as though a group does not have its *own* desires and beliefs and, hence, cannot be seen as an autonomous agent. This reasoning, however, is flawed. It presupposes that group attitudes derive from individual attitudes in a straightforward way. That is, it assumes that each group attitude can be reduced to a certain configuration of individual attitudes. This is not so – neither in the case of desires, nor in the case of beliefs. To see this, let us investigate how group attitudes derive from individual attitudes.

Group attitudes derive from individual attitudes in accordance with an aggregation rule. E.g., the unanimity rule says that a group desires (believes) that the world matches proposition *p* if and only if all members of the group desire (believe) *p*. The majority rule says that the group desires (believes) that the world matches proposition *p* if and only if a majority of its members desire (believe) *p*. As the theory of social choice as well as the theory of judgement aggregation make clear, some of these aggregation rules cannot be used to derive group attitudes “proposition-wise”. The two following examples by List and Pettit (2011) make this clear.

In the first example a group of legislators is considering a budget proposal which currently is running a deficit. Legislators 1, 2 and 3 consider whether they should take measures to even out the budget which, as they know, means either increasing taxes or cutting spending. They have the following preferences:

	Increase taxes?	Reduce spending?	Even out budget?
Legislator 1	Preferred	Dispreferred	Preferred

²⁰⁵ We do not suggest, however, that individual responsibility and group responsibility are mutually exclusive. They can, of course, co-exist (cf. List and Pettit 2011).

Legislator 2	Dispreferred	Preferred	Preferred
Legislator 3	Dispreferred	Dispreferred	Dispreferred
Majority	Dispreferred	Dispreferred	Preferred

Note that every legislator has consistent preferences as an individual. But under this configuration of individual preferences their group has inconsistent preferences when they are aggregated using the majority rule. If the group's preference is determined by the majority rule, the group prefers a budget without a deficit which means that either taxes have to be increased or spending cut. But it also prefers taxes not to be raised and spending not to be cut which is inconsistent as an overall set of preferences. This, of course, does not mean that groups cannot form preferences based on their members' preferences. They can. But they cannot do so, as we have said above, in a way that is straightforward and "proposition-wise". They have to do it in a *holistic* way. This means that the "group's attitude on a particular proposition cannot generally be a function of the members' attitudes on that proposition." The group's preference on the issue of whether the budget ought to be evened out has to be determined on the basis of the members stances regarding tax increases and spending cuts. Or the majority for a balanced budget has to be taken as fixed which means that the group has to adopt a stance on tax increases or spending cuts which cannot reflect the majority view in both cases.

An analogous problem occurs when it comes to the aggregation of beliefs, as is made clear by List's and Pettit's (2011) second example which (coincidentally) pertains to global warming. They introduce an intergovernmental panel on climate change which consists of three individuals. Each member holds beliefs regarding a number of related issues. The first is whether current emissions are above a given threshold. The second is whether temperatures will increase if emissions are above this threshold. The third is whether temperatures will, in fact, increase.

	Emissions above threshold?	If Emissions above threshold, then temperature increase?	Temperature increase?
Individual 1	True	True	True
Individual 2	True	False	False
Individual 3	False	True	False
Majority	True	True	False

A majority judges that emissions are above the threshold and that temperature will increase if emissions are above the threshold. Nevertheless, a majority judges that temperature will not increase. Overall, this is inconsistent. To resolve the inconsistency the group has to adopt a different method of aggregation. It cannot aggregate the attitudes of its members proposition-wise. It either has to determine its attitude towards the third proposition on the basis of its members' attitudes on that proposition. In that case it cannot adopt the majority view on the first two propositions. Or it can determine its attitude on the third proposition based on the majority views regarding the first and second proposition. In that case it will have to reject the majority attitude towards the third proposition.

As these two examples make clear then, groups can form beliefs and desires which, though they supervene on the inputs of their individual members, are nevertheless largely independent from these inputs. In order to show that groups of agents can themselves be agents the last thing to show is that they can intervene in the world based on their autonomous beliefs and desires. This is easily done. Groups of agents consist of agents. And agents can act. So a group of agents which has autonomous desires and beliefs can act through its members.

Let us conclude, then, that it does not appear to be absurd for order ethicists to augment their conception of responsibility by the notion of group agency. The augmented order-ethical account presents a very plausible solution to the dilemma of responsibility.

5. Conclusion

Let us sum up and conclude. In this paper we have pointed out that, apparently, any conception of responsibility faces a dilemma. When it comes to the most pressing ethical problems of our time it either leads to a responsibility void or it violates the control principle. Large-scale ethical problems are interaction problems in which no individual agent controls the outcome on her own. Rather, individual agents *jointly* determine the outcome. By the control principle, then, nobody can be seen as responsible for problems such as global warming which arise as a result of the interaction of many individuals. This, however, apparently leads to a responsibility void which means that nobody is seen as responsible. It seems, then, as though we face a choice between rejecting the control principle or creating a responsibility void. Both options seem equally unattractive. The former leads to morally arbitrary conclusions. The latter renders the notion of responsibility useless as a normative concept. In the next step we presented the order-ethical solution to this dilemma. On order-ethics, individuals are not to be seen as responsible for the outcomes of their interactions. This does not create a responsibility void, though, since ethical problems are attributed to the social order for which individuals are, in turn, seen as responsible. As we saw, however, this is not an ultimate solution. It just pushes the problem to another level. Plainly, no individual can control the social order either. To address this problem we suggested order ethicists should adopt the notion of group agency. They should argue that the group should be seen as an autonomous agent which is responsible for the social order in which its members interact. If augmented with this idea of group agency, order ethics can, in fact, solve the dilemma of responsibility. Since the notion of group agency appears to violate methodological individualism, our proposal appears to depend on the metaphysically queer thesis that there are supra-individual entities. In the last section we explained that this need not be so, as it is possible to explain the existence of autonomous group agents in a way that is compatible with methodological individualism.

In conclusion, it is important to qualify what we have said. We have argued that a version of order ethics which is augmented by a conception of group agency is capable, *in principle*, of solving the dilemma of responsibility. We have not argued that this is the only solution. Nor have we suggested that it works in every single case. It might well be that there remain a number of responsibility dilemmas in practice which cannot be solved along the lines of the approach we have advocated. The reason for this is obvious. The solution we have sketched requires the existence of a group which can be seen as an autonomous agent. We have shown that *some* groups can be seen as autonomous agents. But this does not mean that *all* groups can be seen in that way. Perhaps there are interaction problems which defy our solution, because the relevant group of individuals does not fulfil the requirements for being an agent. What we have said leaves open, then, which cases can be solved on the basis of our approach. This is a question further research in the order-ethical tradition will have to address.

As a final remark, allow us to draw attention to a methodological issue in ethics. If our argument holds water it suggests that, at least sometimes, the normative plausibility of ethical theories depends on claims in a totally different branch of philosophy. In our case the normative plausibility of the order-ethical conception of responsibility depends on the social-ontological claim that group agents exist. This is a surprising conclusion which, it seems to us, is not in line with the mainstream view in moral philosophy. In a famous article on methodology in ethics John Rawls argued for the independence of moral theory, contending that “the theory of meaning and epistemology, metaphysics and the philosophy of mind, can often contribute very little” to ethics and that “preoccupation with the problems that define these subjects may get in the way and block the path to advance.” (Rawls 1974-1975) If what we have argued is correct, it shows that at least sometimes moral philosophers are well advised to ignore Rawls's contention and to look beyond the traditional confines of their discipline.

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BRIDGING BUSINESS ETHICS – WEST AND ISLAM²⁰⁶

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ABSTRACT:

Islamic business ethics topic is gaining traction with increasing number of individuals and groups recognizing their stake in this important domain. This study analyzes an actionable alignment framework enabling a structured approach to cross cultural business ethics promotion. Author focuses his comparative analysis on Western and Islamic economics principles. By comparing models of ethical standards utilized in both cultures, author searches for a stable communication and cooperation mechanism, which could be further utilized to build a common platform of understanding. Author draws attention to the concept of social capital activation and building of knowledge-sharing bridges between societies based on relationships between trusted advocates of Shariah compliant solutions on one side, and trusted representatives of Western communities on the other side. Cooperation and know-how sharing dimensions are proposed and effective change management framework are incorporated to complement the overall study structure.

Keywords: Islamic business ethics, business ethics, knowledge transfer, knowledge promotion, trust, social capital.

Introduction

Financial and economic crisis has hit the global economy very severely. Most of the governments have paid a lot of attention to the markets' evolvement trends and have been identifying support packages for the most troubled companies and sectors. Only in 2008 the USA has established bailout packages of more than 600 billion USD. Since then the impact has transmitted itself to the countries stability, significantly affecting the overall liquidity not only of the banking sector, but also country economies.

The trust in the banking sector has been compromised and not yet restored over the last three years with the levels of public dissatisfaction growing and leading to multi-day protests in the European financial centers.²⁰⁷

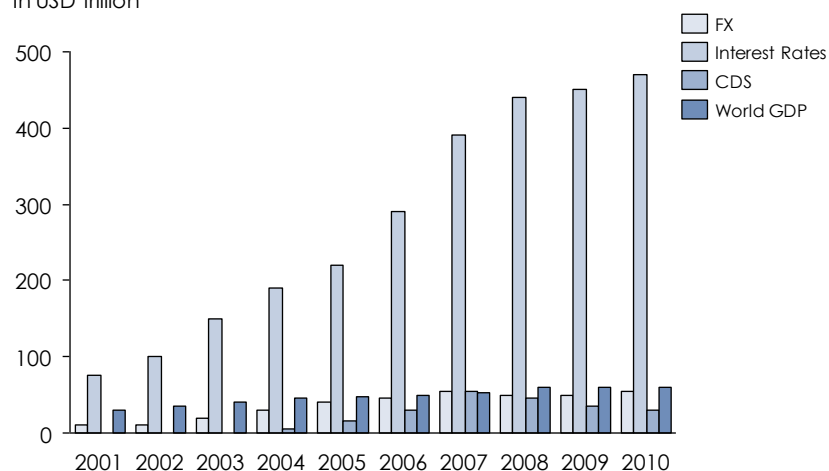
One of the key reasons for this level of frustration among the society is a growing understanding of how much the financial domain has detached itself from the real economy. System assumed to serve as a channelling mechanism to transfer money between savers (investors) and borrowers, allowing for an effective allocation of resources within the economy, has detached parts of its activity from the physical economy reality and begin to create an uncontrollable bubble of financial instruments. The comparison of the value of outstanding derivative contracts vs. the real global GDP serves as a proof of the magnitude of the issue.

²⁰⁶ The views expressed in this paper are solely those of the author, and not of Deutsche Bank AG.

²⁰⁷ More: A. Smith, What Banks Are Still Missing: Trust, TIME, 4th May 2009 available on the Internet: <http://www.time.com/time/business/article/0,8599,1895264,00.html> on 10.05.2012 and B. Schäder, Protest gegen Banken: Farbschlacht ums Frankfurter Occupy-Camp, Financial Times Deutschland on 19.05.2012, available on the Internet: <http://www.ftd.de/finanzen/protest-gegen-banken-farbschlacht-ums-frankfurter-occupy-camp/70037743.html>

Exhibit 1: Global output vs. value of outstanding derivative contracts

In USD trillion



Source: Bloomberg statistics.

Financial institutions are 'public trust' establishments, however the synthetic markets created in the last decade and their spectacular fall down put in question the business standards applied by the market makers, and especially the moral part of their behaviours. Even though one might claim that the performed activity remained within the legal framework, not breaching pertinent and applicable rules of law, however is that enough – or is more than legalism expected from the publicly entrusted entities? (Gasparski, 2012; Gasparski 2007)

As a counter example, the Islamic financial market stability should be considered – even though the market has also taken a hit, the impact was significantly more driven by the secondary effects of the international financial crisis (being the drop of investments, reduced commodity prices, etc.) rather than the primary cause – excessive financial leverage and financial markets operations not linked with the real assets. Such transactions are forbidden in the Islamic domain.

The search for solutions and mitigation mechanisms for future of the financial system is still ongoing, and the debate about the austerity measures and bailout packages does not have an end yet. Also the discussion about the ethical standards and expected behaviours of financial institutions has not lead to an international alignment.

Author focuses on the topic of business ethics, as one of the key enablers of market trust, driving the stability in the long term. The paper investigates an opportunity and an actionable framework for knowledge sharing between the Western and Islamic business environment. Author believes that the effectiveness and efficiency of knowledge transfer and could be further optimized by establishing a more structured approach for the identification of knowledge building and sharing dimensions, as well as communication forums and measurement tools.

Author notices, that a growing number of discussions on different levels (including media) on one hand enables wider public to access the latest state of discourse, on the other hand may create inefficiencies in best practice, state of the art findings sharing.

1. Business Ethics Sources and Convergence

The views of the sources of moral norms are dependent on the general view about the universality of ethical standards. Divided into four main positions: extreme absolutism, extreme relativism, moderate situationism and immoralism. (Kojder, 2007)

Proponents of the first view argue that ethical principles are absolute, unchanging and are timeless in nature. Are independent of man, come from God, Reason, the Absolute. For Kant, the source of standards is the mind, in every religion - regardless of where and when these standards are given by God (Allah, the gods) and, as such, are universal and independent of people. Neither social nor psychological factors can modify

and change the basic moral norms. This is what both the Judeo-Christian religion and Islam say. Moral standards are simultaneously the universal and unchanging religious norms. Believers take them as absolute.

This view is not shared by the followers of other concepts. Extreme and fortunately not very popular is immoralism. Moral standards do not make sense and values (Nietzsche).

Somewhat more significant is the extreme relativism. Relativists believe that all standards are relative, because every situation is unique. Investigating sources means to perform unique studies of sociological, psychological, philosophical, political and other reasons for the formulation of each of the standards.

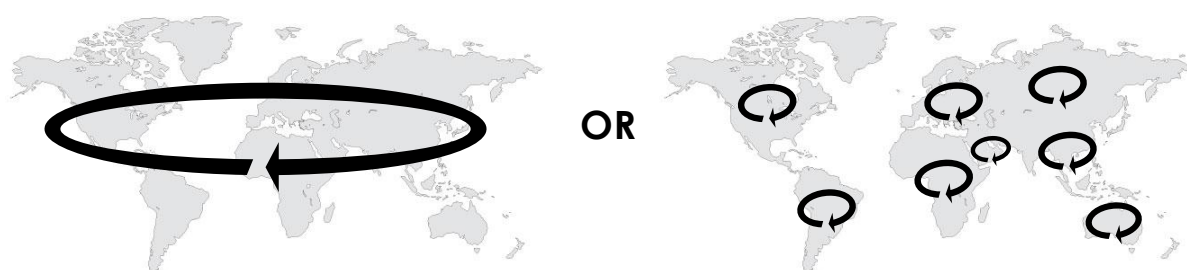
Moderate situationism considers that the standards may be in conflict and you have to specifically investigate their source. The more elaborated rule, the more one has to say about its sources. These sources can be a) philosophical b) sociological, c), psychological, d) historical. Therefore, the source may be: a) religion, b) a different concept of the world – not religious, c) environmental, social, d) psychological, family, e) historical - such as "fashion" for certain behaviours and widely shared views in given epoch, f) economic, political, g), and a number of other factors.

In all the cases ethical standards stay in relation with the regulatory environment, being both influenced by the legal framework, but also complementing it, in cases codified rules are not providing sufficient guidance.

The economic crisis has triggered, as well as accelerated, a number of regulatory efforts to increase the market order and to re-establish common trust in the financial system. One by one Basel regulations push the banking sector back to the more assets based and less leveraged operations, linking them back to real economy. New ideas, such as Volcker Rule aim at further separating core banking and financial market (investment) activity.²⁰⁸

What was allowed before, will not be permissible in the future, implying that it becomes a part of unethical behaviours and activities. Business environment is at a tipping point of revamping its moral paradigms, and the level of both legal but also ethical rules alignment will have a long lasting effect on the convergence or separation of markets.

Exhibit 2: One or Many Economies?



Source: Author's analysis.

All markets are interlinked as never before, with all the global communication and transportation capabilities that reduced the distance between historically less dependent areas. (Kołodko, 2008) Therefore, it is not the technology that will further impact the international and cross-continental co-operation, it is the rules and business standards that will define the level of integration.

The critical situation starting in 2007 and 2008 is a unique opportunity to re-balance the business standards, search for alternative principles. As a result of the ongoing and coming developments, both market practitioners and scientists will experience a trend defining the future decades of business activity. Depending on the will and effort to sustain the global integration, it will either lead to a clearer picture of one international and common market, or to a number of separate markets with local reach and less interlinked between each other.

²⁰⁸ Public Law 111 - 203 - Dodd-Frank Wall Street Reform and Consumer Protection Act, available on the Internet: <http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/content-detail.html>, downloaded on 19.05.2012.

2. Bridging framework

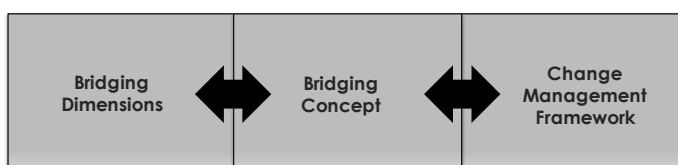
Building an effective Western and Islamic business ethics standards alignment framework requires a structural approach to be established – first to enable effective definition of actionable initiatives and second to secure timely and focused monitoring and control capability leading to ongoing assessment of the overall success measurement. A proposed structure consists of three key building blocks: the bridging dimensions, bridging concept and learning model (see Exhibit 3).

Bridging dimensions define the areas on which Western and Islamic ethical concepts should be discussed. A mutually exclusive list of dimensions is suggested by the author as the baseline of the research study. The dimensions shall be further investigated; however the proposed grouping allows to build a high-level and holistic picture of the overall trust and understanding building effort.

By introducing the bridging concept author aims to put forward an approach allowing for an informed creation of competence centers around individuals and groups based on their recognized trust within their both Western and Islamic communities. A link between Western and Islamic communities is also defined through the trusted individuals and groups becoming the communication bridges serving as advocates and moderators between their societies and business environments. (Sztompka 2007, Kozminski 2004, Fukuyama 1995)

Lastly, effective learning and change management model is presented as actionable tool to be utilized when enforcing the proposed concept of trust bridges along all bridging dimensions.

Exhibit 3: Business Ethics Alignment Framework



Source: Author's analysis based on Islamic Marketing Promotion Framework presented by author during Global Islamic Marketing Conference 2012 in Abu Dhabi.

All three dimensions together bring a synergetic value by complementing each other and establishing a stable framework for day to day implementation and measurement of achievements' progress.

At the same time allow to balance the global efforts and assess the key gaps in ethical concepts integration. Not only communication layers represented by bridging dimensions, but also key stakeholder groups, as well as implementation methods can be observed and analyzed.

3. Bridging dimensions

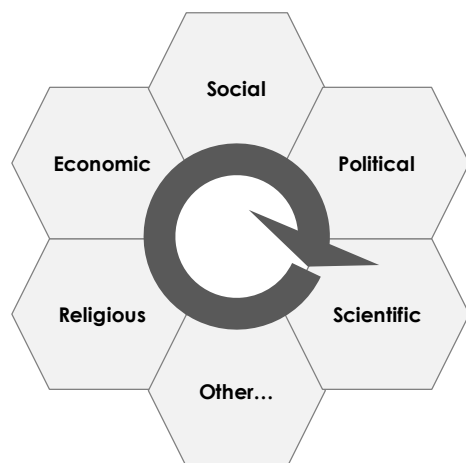
Building understanding and alignment of ethical standards between the two 'communities' implies a consideration of a number of dimensions. Long term buy-in of key stakeholders is at risk, if the momentum is not being created within multiple areas establishing the overarching and self-sustaining confidence in the proposed solutions. A number of dimensions have been identified by the author as key for a stable framework establishment.

The first leading dimension is the scientific research – the research gap between the Islamic scholars and the traditional (or conventional) Western theory practitioners shall be closed to ensure mutual understanding of commonalities as well as differentiating factors between the two frameworks on a theoretical level.

Secondly, the social adoption of Western and Islamic concepts by the wide public has to be secured. The Western and Islamic ethical values have to be transparently introduced to the international community taking advantage of conclusions reached through the scientific research. Individuals need to be educated, when it comes to the principles of ethics and their origins, to give them an opportunity to build their views and opinions in an informed manner.

Thirdly, the economic sources of moral standards should be uncovered, e.g., rules defining encouraged business activities, as well as limitation to the business ventures establishment. Such limitations could relate to the allowed sectors of activity, leverage ratios or financing structures. (Bonca 2010)

Exhibit 4: Key dimensions of 'ethics' bridging'



Source: Author's analysis

Another challenge ahead of international ethics' stakeholders is the level of political support both by international organizations and local governments. There is plenty of debate around the world about the convergence of markets and societies, as well as the integration of international market and business platforms. Yet, still due to political tensions and growing unrest in some of the core Islamic business regions, the level of support for "new" and "non-conventional" rules is not at its peak.

Complementing all the previously mentioned dimensions, the alignment of religious interpretations, when it comes to basic moral requirements, will be crucial for the growth of international cross-understanding and alignment (or acceptance) of ethical standards.

Financial markets can be presented as an example of a front-running sector of Islamic economy that has already embarked on a standardization journey with two key forums AAOIFI and IFRS established.²⁰⁹ Both organizations work towards the alignment and unification of rules guiding the operations of Islamic financial institutions around the world, by defining internationally recognized standards.

The above dimensions, not exhaustive, act as primary enablers for the Western and Islamic standards alignment. Significant synergies can be observed among them, yet lack of focus and attention to any of them may result in creating a disproportionate sophistication and imbalance of expertise and alignment within the international community, leading to potential tensions and alignment obstacles.

4. Bridging concept – building expert workgroups

Defining the dimensions, on which the discussion and alignment shall take place, is only the first challenge in building a structured study of Western and Islamic ethics alignment. The second element is the decision on how to best manage the knowledge development and transfer within the communities (the wider public).

Author believes that the most effective way of approaching this challenge is to make sure that relevant advocates of ethics on both sides work together in their areas of expertise, and then jointly communicate with wide public, using their "trusted channels". The latter concept will be presented in the next chapter, whereas the concept of building common teams of advocates will be presented below.

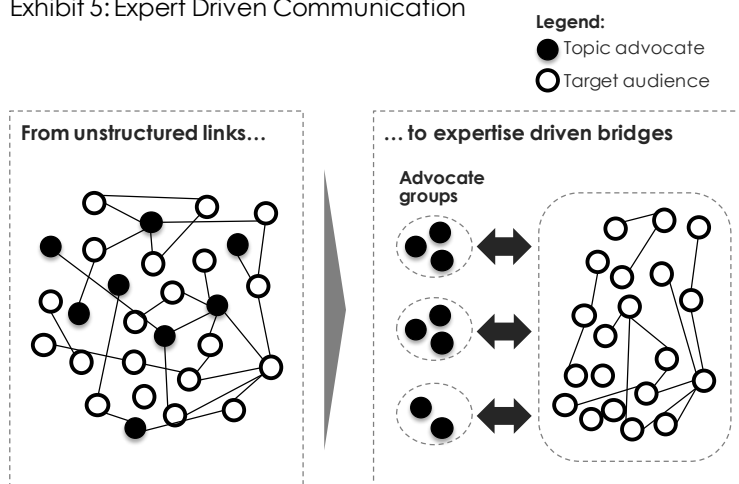
Author believes that an expertise driven communication model should be established to maximize the achievable effect of all the individual efforts of ethics' advocates (see exhibit 5).

²⁰⁹ See the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards (IFRS) websites for more detail: www.aaofii.com and www.ifrs.org accessed on November 10, 2011.

Today, on many of the “bridging dimensions”, due to lack of high-level coordination, one observes an unstructured influence being exercised. Islamic and Western advocates remain in contact with their selected counterparts, as well as limited audience – often a regional (geographical) limitation is applied here.

Whereas author believes that bringing increased order to the interactions, both between advocates, as well as between their groups and the wide public, could yield tangible benefits for the time and effort required to further enhance the buy-in of target stakeholder groups when it comes to moral standards alignment.

Exhibit 5: Expert Driven Communication



Source: Author's analysis, presented during Global Islamic Marketing Conference 2012 in Abu Dhabi.

Such advocates' grouping brings two immediate advantages: firstly, the internal alignment of market leaders and market makers can be established in a more consultative and effective manner; secondly, the outbound communication from advocates' groups to the public domain is better structured with aligned messages across all individuals, leading to improved and more unilateral perception by the target audience.

The first mentioned advantage is a key prerequisite to build internal alignment within the Western and Islamic communities on the way forward and the acceptable frameworks and schools of thought to be pursued by the individuals when performing their own studies or when communicating with external stakeholders.²¹⁰

Internal alignment of advocates is a key condition to build a stable and reliable communication strategy with individuals and societies as a whole to convey the agreed principles and convince about the advantages of proposed approaches (Bonca 2007).

The more the outbound communication is aligned across all the actively involved parties, the better the overall effect is, and the shorter is the implementation time.

5. Bridging concept – creating bridges of trust

However, can the establishment of expert (advocate) groups be further enhanced to create greater impact on the wide public? Based on the research by P. Sztompka about the trust and its fundamental role in building and cementing societies, one can draw a conclusion that enhancing a previously presented structure by one more element – circles of trust – can have a major impact on the effectiveness of the overall ethics alignment (Sztompka 2007).

The concept assumes that it is easiest to convince individuals in a society and embark them on a common journey, if the messages are brought to them by their entrusted advisors and opinion makers. The social capital comes into picture.

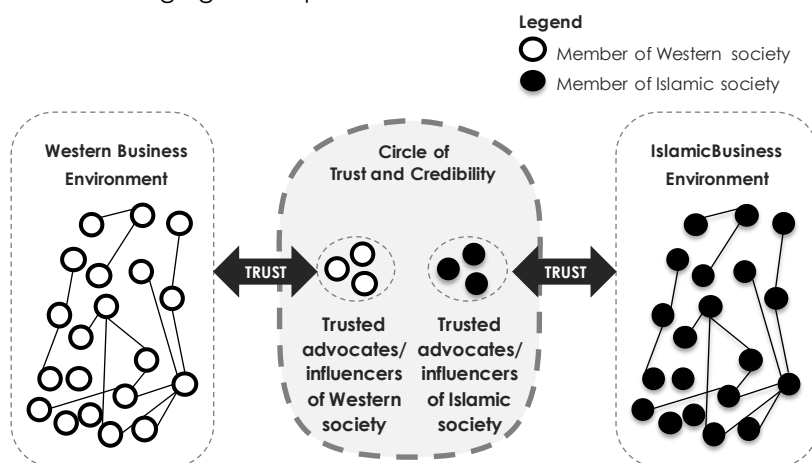
“As other forms of capital, social capital is productive, as it enables reaching certain targets, which could not have been accomplished, if the social capital was not there [...] For example a group, whose members are

²¹⁰ Global Islamic Marketing Conference plays such a role as a forum for scholars and market practitioners to share insight and agree the ways to address identified challenges. AAOIFI and IFRS play a similar role for financial markets and accounting professionals and Organization of the Islamic Conference (OIC) plays similar role when it comes to social and political affairs.

trustworthy and trust others, will be able to accomplish much more than a comparable group, which misses the element of trust” (Coleman, 1990).

Both Islamic and Western business are aimed to be promoted across both Muslim and non-Muslim communities and societies; therefore the importance of securing “trusted” communication channels gains its importance.

Exhibit 6: Bridging Concept



Source: Author's analysis, see also P. Sztompka, *Zaufanie. Fundament społeczeństwa* (Trust. Fundament of a society), Znaki, Cracow 2007.

The bridges of trust, as presented on exhibit 6, give an overview of the concept on a theoretical level. Assuming that society A is composed of individuals who recognize and support Western ethical standards, then such a society or community in best case scenario should identify its representatives, who have two characteristics.

Firstly, have required level of knowledge and understanding of Western ethical standards on one of the bridging dimensions (e.g., social) to be able to effectively communicate them to Islamic counterparts.

Secondly, are capable of identifying and building long-lasting trust based relationships with recognized representatives of society B, who have the “mandate of trust” from their communities. “Access to individuals through personal investments into relationships with them, obtaining access to their networks, means obtaining access to their information, knowledge, wealth, power and prestige” (Lin, 2001: 38), hence building trusted relationships is a very effective way of creating value. “It is more important whom you know, that what you have” is a common saying in the world of business. (Sztompka, 2007).

Author believes that apart from creating groups of entrusted advocates within the Western community, it is and will be absolutely crucial to identify entrusted individuals and groups within the Islamic audience (societies and/or communities) to establish well balanced communication channels across all the mentioned bridging dimensions.

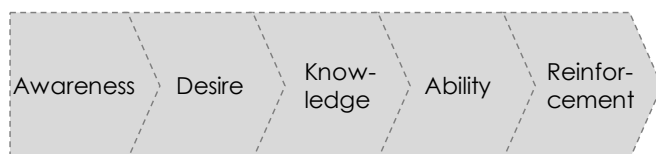
It is much easier for an individual from a society B to believe and embark on a solution, if it is presented or at least backed by advocates that are trusted by him. Obtaining the same level commitment of this individual by contacting him directly by the advocates of society A will require for them to build the trust relationship first, which in effect may require significantly more time and effort, rather than building the communication using already established “trust bridges”.

6. Application of change management framework

So far the discussed framework has discussed the alignment Western and Islamic ethical standards and the effective, trust based communication channels. Author proposes to complement the framework with actionable tool enhancing the effectiveness of communication efforts.

There are 5 key steps when defining and implementing change initiatives (Hiatt 2006) and bridging Western and Islamic ethics can be considered as a change management initiative, whereby societies or communities shall be convinced to the unified application model of ethics.

Exhibit 7: ADKAR Change Management Framework



Source: J.M. Hiatt, ADKAR: a model for change in business, government and our community, Prosci Research, Colorado 2006.

The first step in the process is the creation of awareness among the target audience – by moving individuals from “I don’t know what I don’t know” area to a space where at least the knowledge about the existence is established (see exhibit 7).

Secondly, the “desire to learn more” needs to be awakened to create a genuine interest in both Western and Islamic ethics principles, as establishing a “pull culture” where the target audience is “hungry” for knowledge is much more effective, than pushing or imposing learning.

Thirdly a well structured and unified knowledge needs to be delivered – here the focus on bridging dimensions and internal alignment between advocates of Western and Islamic principles is crucial. Direct discussions, comparative studies and publications are needed to refute myths and stereotypes with regards to the principles of ethics in different cultures. This congress addresses this challenge. A reliable and sound knowledge about the sources of ethical norms, religious and non-religious, social, psychological, historical, economical, as well as legal. This knowledge will develop a background, a context for a better mutual understanding and trust.

Once the knowledge about the ethical norms of different cultures (and their sources) is transferred, the capabilities of people to use and apply presented solutions need to be established on a more operational level (e.g., mutual and in depth understanding of codes of ethics of different sectors of economy, corporations, business associations, as well as transparency on individual cases of ethical norms’ violation resolved by different committees) and finally reinforced by mechanisms that support their every-day application.

The above change management ADKAR process is not only a valuable execution tool, but often more importantly a diagnostic mechanism enriching the understanding of the current state of affairs and the “burning platform” for the change implementation.

Conclusions

Proposed Framework for bridging Western and Islamic business ethics is an attempt to structure multiple international efforts of conventional and Shariah scholars and practitioners. Author believes that further research should be initiated along the proposed approach to assess the current state and plan for the future steps in an integrated and holistic manner.

Author designed the framework across three key areas: the bridging dimensions, which define the discussion topics; the bridging concept, which proposes an effective approach to building inter-community or inter-society links based on trust; and lastly the learning model based on ADKAR change management framework being an actionable tool supporting execution.

Author reckons that further study of the proposed approach shall be performed both on the scientific and practical level to verify its applicability, identify and address potential gaps and test its real life effectiveness.

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Track 3: Sustainability

EMERGING TRENDS IN CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING BY LARGE CORPORATIONS: A COMPARATIVE ANALYSIS OF CORPORATE CSR REPORTS BY WESTERN EUROPEAN AND NORTH AMERICAN CORPORATIONS

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Summary

The last decade has witnessed rapid growth in the publication of corporate non-financial reports. These reports are variously called corporate social responsibility, global citizenship, or sustainability reports; we will use the term 'corporate social responsibility' (CSR) reports to cover the entire genre. As the number, length, and diversity of these reports have steadily increased, this growth has been accompanied by serious research that attempts to evaluate the textual substance and comprehensiveness of the issues covered. Our presentation will describe an analytic framework called the CSR Monitor[®], which we have developed to evaluate the substantive character of the CSR reports of large corporations, notably multi-national corporations (MNCs). In addition, in this paper we present results from these data focusing on MNCs from Western Europe and North America. Our findings suggest that, in general, companies from Europe had a higher rate of publishing CSR reports when compared with companies from North America, particularly those companies in the United States. We also found that there the quality of CSR reports varied from country to country within Western Europe, but compared to their North American counterparts, as a group Western European companies provided greater detail about issues in their CSR reports. This paper will provide analyses of the overall CSR Monitor scores, as well as a sample analysis of the CSR Monitor's 'Sustainability and Environment' scale. It also reveals that third party assurance is still underutilized in many CSR reports. Last, the report provides several examples of how the CSR Monitor can be used to aid stakeholders in comparing the quality of disclosures in CSR reports.

Keywords: CSR ;CSR-S; ESG; CSR-sustainability report, non-financial reporting, Environmental reporting.

The Growing Importance of CSR Reports

Voluntary disclosure about a company's activities in environmental, socio-political, and governance (ESG) areas is a relatively recent phenomenon when compared with financial reporting. These reports are variously called corporate social responsibility, global citizenship, or sustainability reports; we will use the term 'corporate social responsibility'- (CSR) reports to cover the entire genre. An increasing number of companies have opted to use CSR reports as their primary means of public disclosure of their non-financial activities. A study by KPMG revealed that in 1999, 377 companies issued CSR-sustainability reports (KPMG, 2005). The rate of voluntary reporting has continued to increase by over 1000% and is now estimated at over 5600 corporations worldwide (CorporateRegister, 2011).

This increase in annual CSR reporting, however, has created a number of challenges both from the perspective of the corporations issuing these reports and from the perspective of their intended audience. Companies have found that the CSR report can be a useful vehicle for providing credible information and for reassuring public trust through the corporate-sponsored message. Real and perceived motivations vary.

'Voluntary disclosure' theory assumes a positive relationship between corporate performance and disclosure (Dye, 2001), and that companies that disclose believe that good CSR performance gives them some strategic advantage (Idowu & Papasolomou, 2007). Good CSR performers will broadcast their acts, bad performers won't. Conversely, 'legitimacy theory' posits that an organization's activities must conform to the larger society's expectations in order to have legitimacy; there is an explicit or implicit social contract (Shocker & Sethi, 1974). Hence, companies issue CSR reports to build their legitimacy (Williamson & Lynch-Wood, 2008). Legitimacy theory describes a more defensive approach in that firms disclose information because of public pressure to do so (Patten, 2002). It is likely that the motivations of most firms sit somewhere on a continuum between these two positions (Dawkins & Fraas, 2011). At the same time, the publication of CSR reports has whet the public's appetite for more disclosure, while corporate critics point to the paucity of factual content and relevant information in some reports (Ferns, Emelianova & Sethi, 2008).

Regional Differences in CSR Reporting

As the publication of CSR reports increased, CSR reporting practices differed from country-to-country and region-to-region. These differences included how different regions and countries addressed the need for transparent corporate disclosure—either voluntary or mandated—and whether those efforts have been successful. Idowu & Papasolomou (2007) investigated the motivations of companies issuing CSR reports in the United Kingdom before the implementation of the *Companies Act*. Deegan, Rankin and Voght (2000) studied the impact of environmental disasters on environmental reporting in Australia, while Burritt (2002) examined the effect of mandatory and voluntary initiatives there. In India, even though the Securities and Exchange Board of India (SEBI) had established reporting guidelines, Chatterjee (2011) encountered continuing inconsistencies in CSR reporting by companies there. Mahadeo, Oogarah-Hanuman & Soobaroyen (2011) found that CSR reporting was expanding in Mauritius, and that 'legitimacy' remained the strategic motivation behind the increase. Spain's *Instituto de Contabilidad y Auditoria de Cuentas* (ICAC) had set standards for annual reports, but Criado-Jiménez et al (2007) discovered that companies used a range of strategies to sidestep transparency mandates. The first CSR report in China was released in 2001 by the China National Petroleum Corporation, but since then there have been both government and market exchange efforts to increase CSR reporting (Wang, Chin & Cui, 2010). CSR reports by Finnish companies were more likely to publish positive rather than negative environmental problems, making their objectivity suspect (Niskanen & Nieminen, 2001), and many tended to lack consistency and comparability (Vuontisjärvi, 2006). These are just a few of the country-focused studies.

In addition, there has been increasing attention in comparing CSR reporting across borders. There is evidence that companies in Latin America that have greater European ties or are listed on the New York Stock Exchange (NYSE) are more likely to participate in the Global Compact or the Global Reporting Index (Perez-Baitres et al, 2010). DaSilva et al (2007) compared the CSR communications of oil companies in Brazil and in the UK, finding that the UK companies had more developed CSR communications. Because they are often the sourcing partners for MNCs in developed countries (Strategic Direction, 2011), BRIC (Brazil, Russia, India, China) based companies are frequent areas of research. Li et al (2010) found that the BRIC companies which were larger manufacturing firms, located in more rule-based countries, and with better governance, also had stronger CSR communications. BRIC companies have outpaced their colleagues in other developing regions, such as Eastern Europe, in terms of CSR reporting (PFS, 2008). The notable presence of some large MNCs in conflict-ridden areas of Central Africa contrasts with the less-than-notable and generic CSR reporting of these MNCs regarding those conflicts (Kolk & Lenfant, 2010).

Challenges in Measuring CSR Reporting

Almost as soon as there were CSR reports, there was recognition that obstacles existed in measuring and comparing reports. Abbott and Monsen (1979) identified two critical problems in evaluating CSR reports:

1. Most CSR reports lack detailed quantitative information—financial or otherwise-- on the firm's CSR activities;
2. Reports do not rigorously apply uniform methodologies to measure the full impact of the disclosed CSR activities.

Although more and more companies cite GRI and other methodologies, in practice, these challenges continue to exist in CSR report assessment today. CSR reports lack standardization in terms of measuring and evaluating the ESG aspects of company's operations. Some of the inconsistency lies in the simple fact that CSR reporting in most countries is voluntary, with few mandated requirements for content or formatting. The sheer number, size and diversity of corporate CSR reports also make it difficult for both the issuers and the

intended audience to make meaningful comparisons that are both cost effective and objective (Chen & Bouvain, 2008). There is a lack of consensus on how to measure the content and specificity in CSR reports (Graafland et al, 2004), along with outright contradictions measurement (Chatterjii & Levine, 2006). A number of academics have used varying approaches to measure the inclusion and degree of information in CSR reports. Some of the approaches are:

- *Counting the number of words used in disclosures:* Word counts may appear to be a crude measure, especially when a word may have two different sets of contexts (for example, the word 'environment' to mean an earth sciences issue or a milieu, i.e., the 'work environment'). Still, this approach has held up as a statistically reliable measure in comparing CSR reports (Deegan & Rankin, 1996; Mahadeo, Oogarah-Hanuman & Soobaroyen, 2011);
- *Sentence counts:* Instead of focusing on words or 'mentions', this approach assumes that counting only full sentences devoted to a disclosure topic reflects more accurately the CSR report's coverage to that topic, and is a better measure of the depth of coverage (Sandhu & Kapoor, 2010);
- *Page counts:* This approach counts pages with disclosures to compare reports (Dagilienė & Gokienė, 2011). A variation takes the ratio of disclosure pages to the size of the full report (Dagilienė, 2010); this approach thus adjusts for reports that have a large number of photographs and other graphic material;

Although they are operationally simpler to implement, measures such as word counts and page counts may not be sufficient for capturing the content of a CSR report, and provide limited options for comparing reports (Chen & Bouvain, 2009). Textual analysis focuses on the semantic content of a CSR report. The challenge to using textual analysis is that it tends to be labor-intensive, so some operational compromises occur when using this approach:

- *Mentions:* This approach looks for instances when a specific ESG topic is cited, and may categorize the type of mention. It is used frequently, but it is a labor-intensive methodology. Researchers using this methodology often make adjustments such as limiting the range of ESG topics they investigate or utilizing mostly binary variables to note whether there is a mention or not (cf. Clark & Gibson-Sweet, 1999; Line, Hawley, Krute, 2002; PFS, 2008; Kolk & Lenfant, 2010; Li et al, 2010; Fortanier, Kolk & Pinsky, 2012). Some researchers limit the operational burden of content analysis with limited sample sizes based on region and/or industry (cf. Holcomb, Upchurch & Okumus, 2007; Cowper-Smith & Grosbois, 2011);
- *Content-analysis software:* A less used approach is the use of content-analysis software such as Leximancer to uncover concepts used (Chen & Bouvain, 2009). This eliminates much of the labor-intensive nature of textual analysis while providing good research-oriented tools with reliable outputs. Although a useful tool for researchers, the resulting analyses from the software may not be much help for the targeted audience of CSR reports, for example. Socially-responsible investors and other stakeholders;
- *Metrics and scales:* This approach argues that descriptive, non-measurable text is of little use in the CSR report, and that the emphasis should be on the existence of specific, future-oriented performance metrics in the CSR report (Scott Marshall & Brown, 2003). Abbott & Monsen (1979) developed a Social Involvement Disclosure (SID) scale, which showed some validity for research, but it has gotten little traction among the research community, possibly because of the labor-intensive aspect of the SID's data collection. There is some concern that metrics must be chosen with care, because metrics that are unreliable or difficult to compare provide little help, and may even be detrimental in terms of cost and misdirection (Chatterjii & Levine, 2006).
- *Report structure:* This analytic approach puts as much emphasis on structural aspects of a report (structure, interface, accessibility) as on the content (DaSilva et al 2007). Similarly to textual analysis, it is labor intensive.

All these approaches have their own strengths and drawbacks. The lack of consensus on a single approach, along with the often narrow range of topics investigated or limited sample size, leave many studies of marginal use to the larger target audience of CSR reports: socially-minded investors, other stakeholders, and the general public. Consequently, these stakeholders face practical challenges in comparing non-financial reports

to assess each company's CSR-related policies, programs, and practices. The lack of consistency also leaves the companies open to critics' concerns about the quality of their reports.

Assessing Assurance in CSR Reports

In the context of CSR reporting, 'assurance' is the verification by a third party that the statements in a CSR report are accurate. Efforts to measure CSR reporting have been around almost as long as the reporting itself, but assurance activities started later in the mid-1990s with the advent of organizations such as AccountAbility (1996). Since then, there has been a slowly increasing attention to assurance. This attention is driven partially by concerns that executives may distort disclosures, partially by stakeholders who are more suspicious of claims in CSR reports, and partially by the efforts of the assurance providers themselves. Attaining assurance from an outside party is one way that companies can give their CSR reports more credibility (Pflugrath, Roebuck, & Simnett, 2009). In a series of reports, the accounting firm KPMG cited an increasing use of assurance statements in CSR reports (KPMG, 2005; KPMG 2011), but the numbers still lag behind the number of CSR reports. One study found that, of 2,113 stand-alone CSR reports issued from 2002–2004, only 31 percent had independent assurance statements (Simnett et al, 2009). Similarly, for a sample of 7,004 stand-alone CSR reports from 22 countries for 1990–2007, Dhaliwal et al. (2010) found that 27 percent were assured.

It is clear that, just as measuring the CSR reports have proven to be a challenge, so is measuring the assurance that the disclosures are accurate. There are primarily two competing standards for assurance--the AA1000 Assurance Standard (AccountAbility, 2008) and the International Standard on Assurance Engagements (ISAE) 3000 (2005). There is also a lack of consensus on the appropriate assurance providers, and which assurance providers will provide the most credibility (Simnett et al, 2009).

Characteristics of the CSR Monitor

As noted above, there can be wide variability in CSR reporting content and formats. The challenge to the stakeholder lies in the difficulty in evaluating the quality and scope of these reports, and comparing one CSR report's relative effectiveness with another. To overcome these difficulties in CSR report and assurance evaluation, researchers at the Weissman Center for International Business at Baruch College have developed a content-analysis based system that allows for individual corporate reports to be analyzed on a set of common components that are covered in most CSR reports. The system is called the CSR Monitor™. The CSR Monitor is the product of the Sethi International Center for Corporate Accountability (SICCA), which is owned and operated by the Weisman Center for International Business at the Zicklin School of Business, Baruch College, of the City University of New York.

The CSR Monitor provides a practical framework for evaluating CSR-sustainability reports, using standardized measurement tools to provide in-depth analyses of the reports' content. The CSR Monitor's analytic framework currently includes almost 150 variables, many of them text-based; analysts assess CSR reports and enter them into a database designed to calculate and weigh scores for individual CSR topics, as well as calculate an assurance score and final CSR Monitor score. The goal of the CSR Monitor is to provide to investors and other stakeholders a tool for easier and more standard comparison of CSR reports. The first endeavor was using data from CSR reports released in 2006-2007 (Ferns, Emelianova & Sethi, 2008); our presentation at ISBEE 2012 will use CSR reports released in 2009.

The analysis examined each CSR report for discussion of these issues, measuring the firm's commitment along a continuum of: 1) the acknowledgement of problems; 2) the material and specific activities undertaken to address these problems; 3) the publication of measurable results; and 4) whether independent verification and assurance of these results were included in the report. The analysts are trained to provide an objective and consistent analysis of the content in terms of materiality, specificity, completeness, and verifiable integrity. The CSR Monitor includes a separate section on the assurance measures, including the existence and inclusion of the assurance statement, the type of assurance provider, and an explanation of the processes taken in the assurance engagement.

The CSR Monitor has examined almost 1400 companies from 24 industries and 46 countries. These companies were selected based on company lists prepared by Fortune, BusinessWeek and FTSE. Most of these companies are in OECD defined industrialized countries, so we also examined top performing companies from the emerging economies and regions. The companies in this robust sample produced 514 CSR reports for 2009. In this iteration of the CSR Monitor, we analyzed twelve issues covered in the CSR reports, as illustrated in Table 1:

Table 1: List of Topics Examined by CSR

<u>Topic</u>	<u>Points</u>
1 Executive Message	10
2 Sustainability and Environment	20
3 Good Citizenship, Community Development & Philanthropy	15
4 Stakeholder Engagement	10
5 Supply-chain Procurement	10
6 Supply-chain Labor Management (Workers in sourcing countries)	10
7 Corporate Governance	5
8 Corruption	5
9 Reputation	5
10 Human Rights	5
11 Assurance Statement	10
12 Codes of Conduct	5
<u>Total*</u>	<u>110</u>

*To simplify comparisons, all final scores have been normalized to 100

The CSR Monitor is the only analytical instrument that compares a company's statements of its accomplishments against the quality of its assurance measures. We can assess how transparent they are with their own assurance measures:

- Does the report provide specific, objective data of CSR activities?
- What other types of data and reporting is provided to support those claims?
- Is there external verification of those claims?

The CSR Monitor includes assurance as part of the overall ranking, as well as a separate ranking of reports by their assurance quality. We believe that the CSR Monitor's assurance approach encourages firms to provide more assurance reporting to utilize external assurance reviews

Cross-analysis of company-produced reports can be useful to companies in comparing their reports to those of other companies, while providing a cost-effective means for communicating the relative scores of different reports across multiple elements.

In addition, the CSR Monitor's comparative reports highlight the areas of strength and weaknesses in corporate reports originating from different industries, regions, and countries. This capability may induce companies to produce better reports that meet the expectations of various stakeholders, both in the financial communities and also in a variety of NGO and public policy oriented groups.

A Look at the CSR Reports from Europe and North America;

When it came to reporting their corporate social responsibility positions, companies based in Western Europe outpaced their international competitors, particularly their North American²¹¹ ones. The 2010 CSR Monitor shows that almost two-thirds of the top publicly-traded Western European companies issued CSR reports. This was considerably higher than companies in the United States, of which only one quarter provided CSR reports ($p < .0001$). There was no statistical difference between reporting rates of Western European and Canadian countries ($p > .1$).

²¹¹ For purposes of this research, Mexico is placed in the 'Latin America and Caribbean' region.

Table 2: CSR Reporting Rates by Region

Region	Firms w/ CSR Reports	Number of Companies	Reporting Rate
Western Europe	190	299	63.5%
North America	194	752	25.8%
- United States*	180	725	24.8%
- Canada +	14	27	51.9%

* Western European reporting rates were higher than US reporting rates: $p < .0001$

+ Western European reporting rates were not higher than Canadian reporting rates ($p > .1$)

The sample contained 752 Fortune 1000 corporations based in North America; 194 (25.8%) of them released CSR reports in 2009. The sample also contained 299 Fortune 1000 corporations based in Western Europe; 190 of them, or 63.5%, released CSR reports that same year. There was some variation from country to country; several countries—Sweden, Luxembourg, and Greece—had 100% reporting rates, but they had ten or fewer companies in the sample. The Western European countries with largest numbers of Fortune 1000 firms had relatively high reporting rates; Germany's was the lowest at 45%. We checked the reporting rates of US companies versus that of the German companies, to see if the US performed as well as the lowest performer. Germany's reporting rate was statistically greater than that of the US ($p < .01$).

Table 3: Reporting Rates for Western Europe and the US with more than 10 reports

(sorted by reporting rate)

Country	Firms w/ CSR Reports	Number of Companies	Reporting Rate
Sweden	10	10	100.00%
Britain	57	77	74.03%
Spain	10	15	66.67%
Netherlands	13	20	65.00%
Switzerland	12	19	63.16%
Italy	10	16	62.50%
France	30	49	61.22%
Germany	23	51	45.10%
Unites States	180	725	24.73%

One country, Portugal, had no Fortune 1000 companies issuing CSR reports in 2009, but it had only one company in the sample.

Although reporting rates alone paint a striking picture, there are more areas where CSR reporting differs by region. Table 4 lists the Western European and North American countries with various statistics concerning their total CSR monitor report scores. The average CSR score for North American companies was statistically lower than Western European countries ($p < .0001$). The same was true when comparing US only companies to Western European companies. When looking at just Canadian companies versus Western European companies, however, no statistical difference existed. When compared to individual Western European

countries, US companies did not score statistically lower than Finland or Switzerland, but did for the rest ($p < .005$ or lower).

Table 4: CSR Monitor Scores of Western European and North American Countries with Five or More Reports (sorted by average)

Country	# of Reports	Mean Score	Median	Lowest Score	Highest Score	Standard Deviation
Italy	10	50.18	54.66	27.95	62.05	10.62
Spain	10	45.23	48.18	6.36	77.95	18.96
Sweden	10	40.06	42.62	18.41	54.55	12.88
Netherlands	13	38.67	37.50	22.73	66.36	11.79
Germany	23	37.71	37.27	13.18	56.68	12.35
France	30	35.72	33.98	12.73	66.36	12.14
Britain	57	33.94	34.55	7.73	67.50	13.93
Finland	5	33.36	28.18	10.68	53.86	17.17
Switzerland	12	32.82	33.64	10.91	48.64	11.46
Canada	14	32.29	29.89	16.82	55.45	10.96
US	180	27.90	26.14	2.05	60.91	13.65

Example CSR Monitor Scale: ENVIRONMENT

Sustainability and environmental coverage has long been a mainstay of CSR reporting. The reports analyzed in the CSR Monitor overwhelmingly covered environmental issues; only three of each sample group (three reports from US companies, one each from Austria, Greece, and Spain) did not.

The CSR Monitor analyzes reports related to sustainability and environment along nine factors that measure how much the report:

1. recognizes environment as an issue
2. describes company activities on reducing direct environmental impact;
3. describes specific company activities on reducing indirect environmental impact;
4. describes specific commitments in the form of policies, codes of conduct, guidelines and principles as they pertain to the environment;
5. lists important international awards or recognitions received by the company or main units/products for environmental performance;
6. talks about environmental education and training;
7. describes results (accomplishments) in measurable terms;
8. includes short-falls and challenges toward future improvement;
9. provides evidence of external monitoring and independent verification.

Each category is graded along a continuous scale based on the textual analysis; none of these are binary variables. Our analysis places high importance to the reports that describe independent third-party assessment of company's operations in regard to environmental compliance and provide summary of such audit findings. Certifications received from external agencies that have heavy industry membership (e.g. Forest Stewardship Council, ISO) receive lower scores. Lower scores are also assigned to the reports that mention independent environmental audits, but do not disclose audit's findings. Scores are based on the level of specificity and the scope of coverage. In this version of the CSR Monitor, the Sustainability and Environmental scale had a maximum of 20 points. Table 5 contains the results in our comparison of Western European and North American companies:

Table 5: CSR Monitor ENVIRONMENT Scores of Western European and North American Countries with Five or More Reports (sorted by average)

Country	# Reports	Mean Score	Median	Lowest Score	Highest Score	Standard Deviation
Spain	10	13.4	13.5	0.0	19.0	5.3
Italy	10	12.7	12.9	5.8	16.0	3.0
Sweden	10	11.2	11.9	4.0	17.3	4.4
Netherlands	13	10.5	11.0	2.0	18.3	4.5
Finland	5	10.2	9.0	6.8	15.0	3.3
Germany	23	10.1	11.0	2.5	15.0	3.7
Switzerland	12	9.9	8.9	1.0	19.0	6.0
Britain	57	9.9	10.0	2.0	18.3	3.9
France	30	9.5	9.8	1.0	16.5	3.6
Canada	14	9.0	9.0	4.0	14.0	3.3
US	180	8.0	7.5	0.0	18.8	4.1

The environmental score results were similar to those of the overall CSR Monitor scores for these two regions:

- The CSR reports of Western Europe companies had statistically higher environmental scores than those of North American companies ($p < .0001$).
- Again, we looked at the scores of Canada and the US separately. There was no difference between the environmental scores of Western European and Canadian company reports. The environmental scores of Western European CSR-reports were statistically higher than those of the US ($p < .0001$);
- Comparing the US reports' environmental scores to those Western European countries that had the closest scores:
 - French company CSR reports had environmental scores that were statistically higher (just barely) than those of the US reports ($p < .05$);
 - British ($p < .005$) and German ($p < .01$) company CSR reports had environmental scores that were statistically higher than those of the US reports ($p < .05$);
 - There were no significant differences between the environmental scores of US and Swiss CSR reports; the Swiss CSR reports had the greatest variance in terms of their average environmental scores.

These differences are striking, but more noticeable is that there is still room for more substantive disclosures on company activities that impact the environment.

Example CSR Monitor Scale: ASSURANCE

As noted above, corporations issuing CSR reports must contend with some skepticism on the part of the company's relevant stakeholders and public-at-large. This is particularly important because both the content and its presentation in the CSR reports are completely controlled by the company creating these reports. In the case of financial reports, companies are required by law and regulation to present their data in a particular manner and also to have the accuracy of the reports' content verified by certified independent financial auditors. Similarly, some companies engage independent third-party assurance companies to verify the accuracy of the information provided in the CSR reports.

The CSR Monitor's content analysis of assurance statements is based on a total score of ten (10) points. Of these, seven (7) points are allocated to the comprehensiveness of the investigation and verification process, and three (3) points are assigned to the scope of the integrity assurance.

The CSR Monitor analyzes the assurance aspect of CSR reports with four factors:

1. Type of Assurance – whether any independent verification has been conducted, whether the assurance group was internal or external, and whether a formal assurance statement is provided;
2. Assurance Provider: assurance providers are classified into four groups:

- Public Accounting/Auditing Firm;
 - Specialized Integrity Assurance Provider;
 - For-Profit Certification NGO and other third-party monitoring groups;
 - Independent NGOs, academic centers and other ad hoc groups.
3. Comprehensiveness of the Investigation and Verification Process: This factor evaluates the investigation and verification processes that were conducted for the assurance engagement;
 4. Level of Integrity Assurance: This is evaluated by whether the scope of the assurance review is limited or broad.

In comparing the assurance efforts of the CSR reports in this sample, the most obvious finding was how few North American companies provided any assurance measures in their reports (Table 6):

Table 6: CSR Monitor ASSURANCE Reporting Rate of Western European and North American Countries

Region	No Assurance	Assurance	Reporting Rate
Europe	79	111	58.4%
North America	178	16	8.25%
- United States*	166	14	7.8%
- Canada +	12	2	14.3%

* Western European assurance reporting rates were higher than US reporting rates ($p < .0001$)

+ Western European reporting rates were higher than Canadian reporting rates ($p < .005$)

It is clear that North American companies have an opportunity to increase the credibility of their CSR reports by including assurance measures in those reports.

The assurance score results showed that CSR reports from North America—both from the US and from Canada—were lower than those scores of Western European companies: The CSR reports of Western Europe companies had statistically higher assurance scores than those of North American companies, both those from the US ($p < .0001$) and those from Canada ($p < .005$).

- Comparing the Canadian reports' assurance scores to those Western European countries that had the closest scores, there were no statistical difference between the assurance scores of the Canadian CSR reports and those from Sweden and Finland. The rest of the Western European countries had higher assurance averages for their assurance scales;
- The assurance scores of American companies were statistically lower than those of the CSR reports from the individual European companies,

The results of our analyses on the Assurance scale are contained in Table 7.

Table 7: CSR Monitor ASSURANCE Scores of Western European and North American Countries with Five or More Reports (sorted by average)

Country	# of Reports	Mean Score	Median	Lowest Score	Highest Score	Standard Deviation
Spain	10	5.4	6.5	0.0	9.0	2.8
Italy	10	3.9	4.5	0.0	7.0	2.2
Netherlands	13	3.8	5.0	0.0	10.0	3.4
Britain	57	3.4	3.0	0.0	10.0	3.4
France	30	3.0	3.0	0.0	8.0	2.7
Switzerland	12	2.8	2.5	0.0	7.0	2.8
Germany	23	2.4	3.0	0.0	7.0	2.5
Finland	5	2.4	0.0	0.0	6.0	3.3

Country	# of Reports	Mean Score	Median	Lowest Score	Highest Score	Standard Deviation
Sweden	10	2.4	0.0	0.0	7.0	3.2
Canada	14	0.8	0.0	0.0	6.0	2.0
US	180	0.5	0.0	0.0	10.0	1.7

The more obvious issue is the low assurance reporting rates in general. Further study into the underlying factors in these regional differences is warranted.

Sample Company Comparisons from the CSR Monitor

The data from the CSR Monitor provides fertile ground for much research. Nonetheless, one of the drivers behind its development was to provide stakeholders with a standard and effective means of comparing the quality of companies' CSR reports. The CSR Monitor can provide overall scores, or also breakdowns of the scores by each of the twelve factors in the CSR Monitor. The following two examples (Tables 8 and 9) show the top five scoring companies in each region:

Table 8: Western European Companies with Top 5 CSR Monitor Scores

	Company	Country	Score
1.	Repsol YPF	Spain	85.75
2.	GlaxoSmithKline	Britain	74.25
3.	L'Oréal	France	73.00
4.	TNT	Netherlands	73.00
5.	Lonmin PLC	Britain	72.25

Table 9: North American Companies with Top 5 CSR Monitor Scores

	Company	Country	Score
1.	Intel Corp.	US	67.00
2.	Compass Bancshares	US	66.25
3.	Phillips-Van Heusen Corporation	US	65.50
4.	Coca Cola Co.	US	64.25
5.	Hess Corporation	US	64.00

The CSR Monitor allows for comparisons across regions, as Table 10 shows:

Table 10: Top 10 CSR Monitor Scores

	Company	Country	Score
1.	Repsol YPF	Spain	77.95
2.	GlaxoSmithKline	Britain	67.50
3.	L'Oréal	France	66.36
4.	TNT	Netherlands	66.36

5.	Petrobras	Brazil	65.68
6	Lonmin PLC	Britain	65.68
7	Telecom Italia	Italy	62.05
8	Nedbank Group Ltd.	South Africa	61.36
9	Intel Corp.	US	60.91
10	CRH	Ireland	77.95

Last, with the CSR Monitor, stakeholders can compare companies in specific regions and industries, with breakdowns of the individual factor scores. The example in Table 11 lists five British companies involved in extraction activities, and their detailed CSR Monitor scores:

Table 11: Detailed CSR Monitor Scores for Five British Extraction Firms

Company	Lonmin PLC	Anglo American	BP	BG Group PLC	Rio Tinto PLC
Country	Britain	Britain	Britain	Britain	Britain
CSR Monitor Industry	Metal Mining and	Metal Mining and	Oil & Gas	Oil & Gas	Metal Mining and
Executive Message	9.25	10.00	7.25	4.75	0.00
Environment	14.50	8.75	13.50	12.50	12.50
Philanthropy	6.50	11.00	4.50	2.50	7.50
Engagement	6.00	2.00	2.50	0.00	0.00
Supply Chain Procurement	3.50	2.00	0.00	2.50	2.00
Supply Chain Labor Mgt	5.50	5.50	4.00	4.00	4.00
Governance	3.00	1.00	2.00	1.00	2.00
Corruption	3.00	2.00	0.00	3.00	1.00
Reputation	4.00	1.00	1.00	1.00	0.00
Codes of conduct	5.00	4.00	4.00	5.00	5.00
Human Rights	5.00	2.00	1.00	2.00	4.00
Assurance	7.00	6.00	8.00	8.00	5.00
CSR Monitor Total	72.25	55.25	47.75	46.25	43.00
Total Weighted to 100	65.68	50.23	43.41	42.05	39.09

Plans for the Future

The development of the CSR Monitor is an ongoing project at the Sethi International Center for Corporate Accountability. The latest version has some slight re-weightings of some of the factors:

- Less overall weight on the 'sustainability and environment' scale; this one area is the single most common area covered in CSR reports, even in somewhat weak reports, and that tended to inflate the overall scores;
- More weight on independent assurance: The absence of independent assurance in many CSR reports suggests that giving more weight to assurance would provide better differentiation in the quality of CSR reports.

This new version of the CSR Monitor is being used to analyze CSR reports published in 2011; we anticipate the data analyses to be ready in the Fall of 2012.

Because many of the same companies are in the 2010 CSR Monitor, presented in this paper, and the forthcoming 2012 CSR Monitor, we anticipate some longitudinal comparisons in how companies are adapting their CSR disclosures. As independent assurance becomes more of a factor in establishing the credibility of CSR reports, we anticipate more companies including assurance in their reports.

We have performed some preliminary factor analysis to evaluate whether some of the scales in the CSR Monitor tend to group together in terms of the types of information companies disclose. For example, it appears that 'supply chain procurement', 'supply chain labor management', and 'engagement' share a relationships. The same is true of 'reputation', 'corruption', and 'governance'. We anticipate that a better understanding of the interplay between these factors will help in analyzing CSR reports.

Summary

We present the use of the CSR Monitor to provide a standardized framework and a quantification system for the deep and robust textual evaluations of CSR reports. The CSR Monitor does not aim to evaluate the actual CSR activities of companies. Instead, it provides a structured and comparable analysis of corporate social responsibility and sustainability related activities as disclosed publicly by the companies.

The CSR Monitor's will allow stakeholders and other interested groups to assess the quality of CSR reports from the perspective of their own standards and expectations:

- It provides a reasonable classification
- It provides a framework for consistency in reporting
- It provides means for comparing large numbers of reports.
- It provides the means to compare CSR reports across a number of classifications, such as region, country, and industry.

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CIRCULAR ECONOMY:

AN ETHICAL AND SUSTAINABLE ECONOMIC DEVELOPMENT MODEL

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Abstract

The traditional linear growth mode of economical development is focused on the pursuit of GDP which has obvious ethical defects. Therefore, this kind of economy is considered as 'from cradle to grave' one. Cyclic economy establishes Reducing, Reusing, and Recycling as its central principles in order to achieve sustainable development, thus is called "from cradle to cradle" economy. The holistic value principle, sustainability value principle, and new ethics of production and consumption, such as cleaner production, reducing pollution, saving resources, protecting environment, and keeping a balance between short-term and long-term benefits, etc, can solve many ethical problems the traditional linear growth mode faces. It is an ethical sustainable economy and requires Copernican Revolution take place in business ethics.

Keywords: traditional economy, ethical defects, cyclic economy, holistic value principle, sustainability value principle, ethics of production, ethics of consumption

Historically, the mode of economic growth showed a progressive evolution process, which is the crystallization of human's deepening understanding and self-conscious choice for the relationship between economic development and environment, economy and society as well as between economy and human themselves. Exclusive economic growth has been criticized, and the development of circular economy has become the consensus of worldwide economic development. Without a doubt, the declaration of circular economy will

surely engender a new economic ethics. This paper will proceed from the following three aspects: circular economy is a revolution in the evolution history of economic development mode; circular economy engenders new ethical relationship and moral appeals; circular economy implies value principles.

Circular Economy is a Revolution in the History of Economic Development Mode Evolution

The concept of circular economy first appeared in the 1960s and is proposed by K. Boulding (1966), an American economist, for worsening environmental problems. Circular economy means that within the large scale system of people, natural resources and science and technology, and in the whole process of resource input, corporate production, product consumption and waste, traditional linear economy whose development depends on resource consumption is transformed into an economy whose development depends on the recycling of ecological resources. He analyzed the root cause of environmental problems and proposed that human economic development mode should be transformed from one-way linear economy to circular economy. With the concept of sustainable development proposed, people began to thoroughly explore this new economic development mode. It thus can be seen that the essence of the circular economy development mode is to ease environmental pollution, resource scarcity and other conflicts arising out of economic development.

Circular economy is based on the “3R” principles, namely “reduction”, “reuse” and “recycle”. “Reduction” aims to reduce the quantity of materials used for production and consumption; “Reuse” is a process approach and aims to extend the period of relevant consumption and production; “Recycle” is an approach used for output end, which aims to reduce final treatment capacity by turning wastes into resources again. “3R” principle is the core content of the circular economy. Circular economy is based on ecological principles and organizes economic activities into a feedback process, namely “resources - products - renewable resources”, so that resources can be reasonably recycled to protect the environment, reduce pollution and achieve sustainable economic and social development. Compared with the traditional linear economy, the circular economy is a revolution in the history of economic development mode.

First of all, the circular economy advocates an economic development mode harmonious with the earth. The traditional linear economic development is a one-way linear process of “resources - products - pollution emissions”. With the development of industry, the expansion of production scale and the increase of population, the weakened environmental self-purification capacity result in increasingly more prominent environmental problems and resource shortage crisis. Dajia Chu (2007) believes that the traditional linear economy achieves extensive economic growth through the process of turning resources into wastes at the expense of environment and resources. To the contrary, the circular economy follows ecological laws, and rationally uses natural resources and environmental capacity. Further, it adopts the feedback process of “natural resources - products and services - renewable resources”, and develops economy based on constant recycling of materials, and harmoniously integrates economic system into material cycle of natural ecosystem; this theory reveals that the economy is not all of human activities, but a subsystem of the natural ecosystem, in this way, economic activities are ecologically implemented.

Secondly, the circular economy aims to achieve an economic development mode that is connotative, scientific, resource-saving and clean. The traditional linear economy is quantity-oriented economic growth mode. On the relationship between development and saving, more importance is attached to development while saving is ignored, with the sole aim of pursuing GDP growth; on the relationship between speed and efficiency, more importance is attached to speed while efficiency is ignored; on the relationship between extension and connotation of development, more importance is attached to extension while connotation is ignored. The growth mode of “Three High and One Low” (high exploitation, high utilization, high emission and low efficiency) is as such. On the relationship between the economy and the environment, the traditional linear economy is an environmentally-unfriendly economic growth mode. On the other hand, the circular economy advocates low input and high utilization of natural resources and low emission of wastes, which is beneficial to promote pollution prevention and whole production process control. The circular economy is an environment-friendly economic development mode and may fundamentally eradicate the long-term sharp conflicts between the environment and economic development.

Finally, the circular economy adopts “green” evaluation system (green GDP etc.). In the accounting and evaluation of the economy, the traditional linear economy adopts a single economic indicator (such as the GDP). Such evaluation system is difficult to objectively reflect resource consumption and environment pollution. On May 20, 2011, China Youth Daily published a news titled “GDP Giant Suffered from Lead Poisoning”. This news reported that 332 people lived in Deqing County, Huzhou City, Zhejiang Province, suffered from lead poisoning due to pollution. The root cause is that the local government approved a large number of high-polluting enterprises in order to gain GDP growth, and ignored consequent environmental

problems. In this incident, the pollution is caused by Zhejiang Haijiu Battery Co. Ltd., which has 1,000 employees and generates an annual output value of 450 million RMB. According to local media reports, this company is the largest enterprise in Deqing County and passed environmental protection verification before it went public in 2010. Apart from this, media has reported other lead poisoning incidences in 2011, such as the children lead poisoning incidence in Huaining, Anhui province, and lead poisoning incidence in Taizhou, Zhejiang province. In 2010, six lead poisoning incidences with relatively large impact occurred across the country. Most of these incidences were closely related to the pollution caused by lead-acid batteries and secondary lead industry. These evidences show that the traditional linear economy will exert negative influence on the sustainable development of national economy and especially will cause physical and psychological harm to the people. This economic growth mode that will endanger the environment and people's health must be changed. The circular economy adopts a green evaluation system (green GDP etc.). The so-called green GDP is to deduct costs of environmental resources and costs used for environmental resources protection and service from current GDP. The resulting figure is called "the Green GDP". Such accounting and evaluation method can promote repeated and rational use of the resources and achieve optimization of industrial portfolio and maximization of economic benefits. Meanwhile, it will encourage consumers' green consumption and promote green industrial production.

In summary, the concept of circular economic development advocates the harmonious relationship between economy and environment, economy and ecology as well as economy and society in order to alleviate the constraints of natural capital on economic growth and human welfare development, and to achieve sound mutual supporting development relationship among economy, society and ecology (environment). Therefore, the circular economy provides a strategic development mode for the transformation from traditional economy to sustainable economy since industrialization and may fundamentally eradicate long-term sharp contradictions and conflicts between development and resource, environment and society, which can meet both natural laws and economic laws.

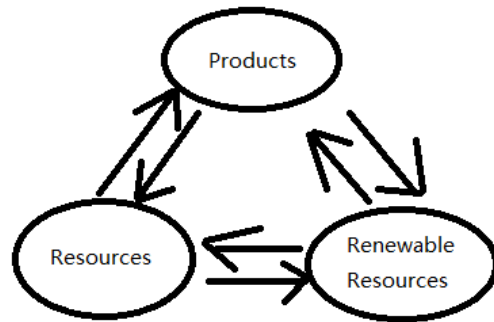
Circular Economy Engenders New Ethical Relationship and Moral Appeals

As an economic development mode, the operational structure of circular economy comprises three levels. There are interlocking industrial chains between such levels. In this way, the integrated whole of the economic operation as well as new ethic relations and moral appeals different from traditional linear economy are formed.

The operational structure of the circular economy comprises three levels of cycles, namely the internal minor cycle within an enterprise, the regional medium cycle between enterprises and the major cycle of socio-economic layer. Such three operational levels not only reconstruct industrial relations, but also rebuild new ethical relations within the enterprise, between enterprises as well as between the enterprise and the society (environment).

Internal minor cycle within the enterprise

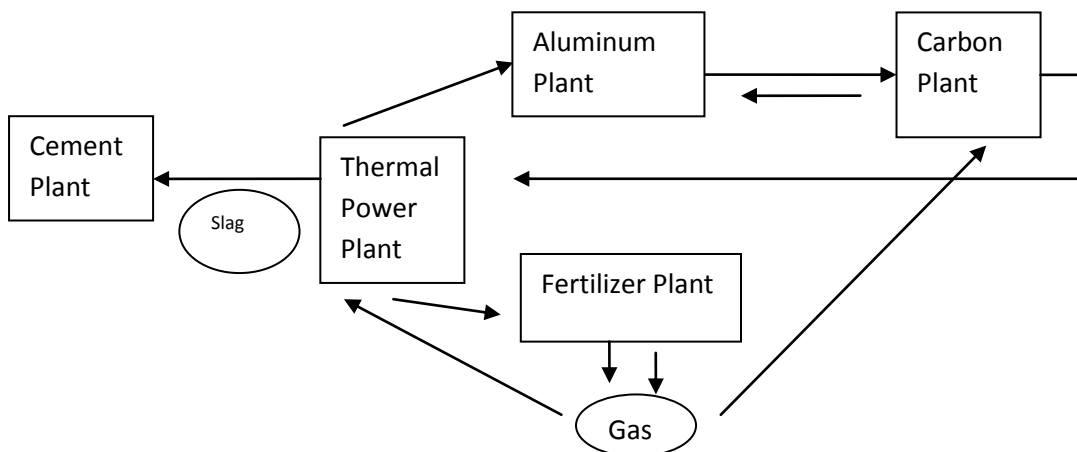
Within an enterprise, circular economic development mode requires clean production process, green management, "zero waste" and "zero pollution". Further, it requires enterprises to implement "closed materials cycle" and multi-level energy use, transform wastes generated by the manufacture of one product to raw materials used for the manufacture of another product and, according to different objects, establishes water cycle, multi-level use and recycling of raw materials, energy conservation and energy reuse, control and comprehensive utilization of "three wastes" and other sound circulatory systems. Clean production is a new development strategy and creative idea, and is an important foundation for the development of circular economy at the enterprise level.



Circular Economy Chart

Regional medium cycle between enterprises At the regional level, the circular economy is mainly represented as eco-industrial network of symbiotic enterprises or industries, namely wastes will be interchanged between enterprises within regional eco-industrial park. The eco-industrial park is an important way and carrier for the development of the eco-industry and circular economy. Based on proper design of logistics and energy within the industrial park, it simulates natural ecosystems, forms symbiosis network between enterprises, transforms wastes of one enterprise to raw materials of another, uses energy and water resources between enterprises step by step and has apparent characteristics to fully use resources and energies, protect and improve the quality of ecological environment.

Taking Henan Shangdianlvye group's ecological chain “aluminum - electricity - heat – fertilizer” for instance, it is a new industrial organization which combines circular economy principles and eco-industrial principles. It takes the thermal power plant as a center and combines with the aluminum plant, fertilizer plant, cement plant and other related industries, through circulation and flow of industrial chain, within a relatively fixed area, transforms the secondary energy from previous link to primary energy of the next link and to achieve maximization of materials and energy utilization and minimization of wastes emission. In this way, a relatively closed energy cycle chain and environmental protection industrial chain are formed to improve energy efficiency, reduce environmental pollution and the efficiency of circular economy is reflected.



“Aluminum - Electricity - Heat – Fertilizer” Ecological Flow Chart

Major cycle of socio-economic layer It refers to several national ecological cycle systems, such as the treatment of water pollution in the “three rivers” and “three lakes”, the project of returning farmland to forests or grassland, desertification and solodization control project, energy structure optimization project and ecological agriculture development. Tianjin and Shanxi national circular economy demonstration region

construction are another example. The industrial cycle chain which takes “resources - products -renewable resources” at its core is an important guarantee to achieve the major circulation of resources at the social layer. At the major cycle of socio-economic layer, the circular economy is mainly led by the government.

It can be seen that three levels of circular economy mode are actually an industrial structure and relevant organic cycle operation system, which promote enterprises to gather together and form a combo of enterprises and the society. In such combo, mutual-contact, mutual-restraint and mutual-promotional economic relationship chains and ethical relationship ties are formed. In this way, circular economy ethics have many new moral appeals.

Clean production, emission reduction and resource saving. Clean production required by the circular economy is an eco-green pollution control mode for the entire production process. It continuously applies overall preventive environmental strategy to production processes, products and services in order to increase eco-efficiency and reduce human and environmental risks. Clean production takes “prevention” as primary measure and requires enterprises to prevent from the source of relevant pollution, take the responsibility to promote clean production and reduce emissions. It also requires enterprises to start from product design, raw material selection, reform and optimization of production processes and technical equipments, materials recycle and wastes utilization and other aspects, comprehensively consider economic benefits and environmental protection, and strive to achieve maximum economic efficiency with minimum resources. Through strengthening management and technological innovation and actively adopting harmless or less-harmful new processes and technologies, clean production effectively reduces the consumption of raw materials and energies, achieve “less input, higher output and lower pollution”, eliminates environmental pollutants in the process of production as far as possible and achieves the purpose of “energy saving, consumption reduction, pollution reduction and efficiency increasing”. The enterprise must give priority to the principle of “reduction”. In short, clean production shall be promoted according to the concept of eco-efficiency in order to efficiently use all resources and energies and ultimately achieve the economic operation mode of harmless pollution emission or zero emission.

Consistency of environmental protection and business development Natural resources are not inexhaustible and endless. The absorbance and purification ability of the natural environment for human wastes is also limited. The development achieved at the expense of resources and environment is not sustainable. The circular economy aims to pursue harmony and unity between the development and the environment, which values overall interests and long-term interests of human development and achieves leaping development of the economy by minimal environmental costs. Natural resources and ecological environment are the cornerstone for a country's economic and social development. All raw materials supplied for basic human living needs and construction demands are the gift of nature. For the enterprise, environmental protection shall be the most important and obligatory social responsibility. Especially for our country, a developing country under the conditions of rapid development of industrialization and urbanization, shortage of resources per capita and unimproved environmental degradation, ecological environment protection becomes obligatory responsibility of the enterprise.

Integration of short-term and long-term interests With the rapid development of China's economy in recent years, serious environmental pollution and ecological destruction phenomenon frequently occur. And short-term behaviors of the enterprise are the main cause. In order to pursue the profit maximization, some enterprises overdraw social and enterprise resources and even bring about ecological destruction and environmental pollution, value short-term output and ignore long-term investment, which not only harm the interests of the contemporary people, but also excessively consume living resources of future generations. Short-term behaviors will harm the society in many aspects: firstly, over-exploitation and use of resources and environmental pollution cause “resource bottleneck” and the scarcity of basic resources; secondly, the scarcity of basic resources causes disconnection between macroscopic and microcosmic views of social development. The short-term behavior which aims to pursue short-term interests must cause catastrophic damage to social and natural resources and restrict optimization of the economic structure and transformation of economic development, such value orientation which will harm long-term development and social interests is not desirable. For the enterprise, an important microeconomic body for the development of circular economy, the relationship between short-term and long-term interests as well as local and overall interests shall be correctly transacted, on the principle of integration, subject to core concepts of that environmental protection is deemed as a primary mission, common interests are higher than the interests of single enterprise and an individual, and social value is higher than corporate profit, common development is hereby realized, unsustainable short-term behaviors are forbidden to be implemented, only in this way, sustainable development of the enterprise, economy and the society can be achieved.

Co-existence and co-prosperity, mutual benefits and the win-win situation The eco-industrial park is an important carrier of the circular economy and thus forms a medium cycle level of the circular economy.

Enterprises in the park mutually exchange raw materials, energy, information technology, personnel or capital and, through management and cooperation of the environment and resources including such resource elements, achieve win-win situation of ecological environment and the economy. The traditional linear economy only emphasizes some kind of exchange relations between enterprises, regardless of specific contents of the exchange relationship, which is the significant difference between the ecological park and the traditional economy. Taking the ecological chain shown above for instance, there is the thermal power plant as the center of the power industry and combines with the aluminum plant, fertilizer plant and cement plant and other related industries. For single enterprises, the economic development between enterprises which are in the same industry or in different industries and are on the industrial chain of circular economy or in the ecological park has formed an inseparable and closely interests relationship, it can be described that honor one means honor them all, and injure one means injure them all. The enterprise shall properly deal with benefits relationship between enterprises in the same industry or different industries in a community, mutually cooperate and support, obtain bigger development space for self-development while taking the responsibility for other enterprises on the same industrial chain, and in this way, build an ecological platform under benign development and achieve coexistence and co-prosperity, mutual benefits and win-win situation.

The development mode of circular economy engenders some new ethical relations, proposes many ethical concepts and moral requirements different from traditional linear economy, and, on the one hand, requires that enterprises within the ecological circle or region must reach mutually accepted values, and on the other hand, stipulates many new production and life modes as well as behavior and ethics codes for enterprises and citizens to abide by.

Circular Economy Implies Value Principles

The circular economy is different from the traditional linear economy; inherent ethical spirits deeply implied it is overall value principles and sustainable value principles. In details, they are new understandings and due ethical attitudes to resources, environment, production, consumption, interests and justice and shows initiative spirits in the face of ecological constraints and the sense of responsibility for future mankind. The value principle of circular economy is to ease the tensions between economy and environment as well as economy and society in order to achieve the ethical spirit of harmonious co-existence of economy, resource, environment and society.

Overall value principles of circular economy's ethics are based on the doctrine of worldwide universal connection and new knowledge on the economy. Engels said that dialectics is the science about "universal connection". The world is a totality formed by numerous concrete things and their processes, and each thing and its process is an organic component and link of such totality. In this way, from individuals to complicated systems, from non-life cycles to life cycles, to the society, to the infinite universe, a universal connection network mutually connected and linked by infinite layers and intermediate links is formed, and existence, movement and change of each individual can be concrete embodiment of universal connection. Therefore, the development of any specific thing must take into account relevant aspects of its connection, otherwise, it can only be abnormal development, and abnormal development is inevitable to be short-term. Intrinsic, objective and core requirement for this development mode of circular economy is to consider the influence of economic activities on relevant environmental, resources, social structures. In this sense we can say that the ethics of the circular economy has the value of "universal ethics".

Specifically, overall value principles of circular economy's ethics are to deem the economy as an open subsystem of large scale global system. It possesses relative independence and interacts and mutually restricts with environment, ecology, society and whole human system and relevant subsystems. Economic development must be consistent with overall system. As mentioned above, the circular economy is proposed based on increasingly serious contemporary environmental issues and aims to find a way to promote economic development with less resource consumption and non-deteriorated or even improved environment. Therefore, the contemporary human must give up one-way development concepts of only concerning economic efficiency and growth rate and shall pay more attention to the carrying capacity of resources and the environment as well as the value of the ecological environment and human. Lester R Brown, a famous American scholar, thought that: "The translation from ecology-destroying economy to sustainable economy is depending on the Copernican change of our economic thinking, understanding that the economy is only a part of the Earth's ecological economy, and the economy can be continuously developed only by adjusting the economy to be consistent with ecosystem."^[1] Herman E Daly, a well-known ecological economist stated in 1996 in his book *Beyond Growth - Sustainable Economics* that "existing dominant economic mode completely

[1]Lester R. Brown (2003), "Eco-Economy: Building an Economy for the Earth", ShanghaiEastPublishingCenter

rules out ecological costs”^[2], which makes the market fail to reflect the truth of the ecology. Boulding, an American economist, published an article named *A Science - Ecological Economics*, in which he first proposed the concept of “Ecological Economics”. This theory is based on ecological principles and wholly researches mutual influence and restraint between ecosystem and productivity system, studies the combination of ecology and economy, reveals essential connections between nature and society and relevant laws, changes traditional production and consumption patterns and saves all available resources.

Among elements of traditional linear economic operation, ecological environment element is used as unlimited and unrestricted available resources, and this is the theoretical reason for people to pursue economic efficiency while destructing ecological environment. The overall value principles not only make up previous lack of understanding for the value of the environment and natural resources, but also break through strict boundaries of ecological ethics and economic ethics, which require that economic development must respect the law of ecology. From the view of spatial dimensions, overall value principles also indicate that resources and environment problems have become globally transnational topics. Relative to the requirement of overall values, a country and an nation shall all be deemed as local, therefore a global vision must be possessed to correctly understand and transact the relationship between local and whole, comply with international conventions, assume moral obligations and undertake global responsibilities. Thus it can be seen that overall value principles highlight inherent ethical spirits to pursue harmonious development of economy, society, environment and human and advocates new systemic overall ethics integrated economic value, ecological value and human value.

The sustainable value principle of the circular economic ethics is also implied in the economic development mode. Two major principles, namely the overall value principle and the sustainable value principle, reflect the inherent ethical spirit of the circular economy based on spatial and time dimensions. The former reflects connection nature of things, and the latter reflects development essence of things. So, what is development? What kind of development do human beings need?

The goal of circular economy is to achieve the sustainable development of mankind. At present, whether developed countries, less developed countries or developing countries, all are concerning about development issues. So, what is development? How to develop? From the view of inherent requirements, the goal of the circular economy is sustainable development. Its essence is to, through clean production, emission reduction and resource conservation, achieve economic growth and achieve the goal for sustainable development of natural ecology, society and economy. Traditional linear economic growth mode is a GDP-oriented economic growth mode. It has obvious ethical flaws, for instance, it ignores to consider quality and efficiency of economic growth, ignores the internal consumption of economic “exterior” and ignores to fully consider human development demands and social welfares. Such flaws make this economic growth mode hardly achieve sustainable development of economic society. Lester R. Brown published *Eco-Economy – A Economic Concept Conducive to the Earth* in China in 2002. In such book, he stated that “it must to turn a market-oriented economy into an ecology-oriented economy”^[3]. If we can not achieve such translation, we will pay a heavy price. Reference to his book, the author quoted former vice president of Esso which is the company developed Norwegian and North Sea oil fields - Stein Dale’s view to express his viewpoints: “The centrally planned economy collapsed due to failing to make the price express the truth of economics, and free market economy may collapse due to failing to make the price express the truth of ecology.”^[4] The circular economy is based on ecological economics and requires sustainable development of the resource, environment and healthy life. For the selection of economic growth mode, under the circumstance of severe resource shortages and environmental pollution, the understanding of human beings is continuously deepening. In 1990, a consensus is generally reached all over the world that sustainable human development is the full meaning of the development, and human beings must take a sustainable development path. The sustainable value principle is people-oriented, which can meet the needs of contemporary people without harming the capacity of future generations to meet their needs and can make the human beings have a continuous development.

The sustainable value principle reflects new ethical attitudes and requirements for production, consumption, nature and other different aspects. The sustainable value principle of the circular economy is required to fully and wholly achieve sustainable development requirements.

Firstly, to establish new production ethics codes. The value principle of sustainable development requires the main body of circular economy – enterprises to abandon traditional production mode aiming to mass production, mass consumption and mass wastes, select sustainable economic growth mode - circular economic development mode, in accordance with the principle of industrial ecology, within certain area,

[2]Herman E Daly (2001) “Beyond Growth: the Economics of Sustainable Development”, Shanghai Translation Publishing House

[3]Lester R. Brown (2003), “Eco-Economy: Building an Economy for the Earth”, ShanghaiEastPublishingCenter

[4]Lester R. Brown (2003), “Eco-Economy: Building an Economy for the Earth”, ShanghaiEastPublishingCenter

combine relevant enterprises or departments to build an industrial chain and establish an ecological park for forming industrial symbiosis combination and industrial metabolic and symbiotic relationship between enterprises. Subject to such requirements, the enterprise must adhere to production ethics codes such as clean production, emission reduction and resource conservation, unify enterprise development and environmental protection, integrate short-term and long-term interests, fully consider the carrying capacity of ecosystems, save and recycle natural resources, in order to maximize the economic efficiency.

Secondly, to establish new consumption moral values How to consume? What kind of consumption concepts should be established? With regard to such questions, the sustainable value principle of the circular economy is totally different from traditional linear economy. Marx once said that: “human will consume every day since appearing on the stage of the Earth, no whether prior to the production or in the process of the production.”^[5] Historically, due to economic growth are in different ways, relevant consumption moralities are also significantly different. Traditional linear economic mode pursue “hard production and desperate consumption”, also called “cradle-to-grave economy”; the circular economy development mode is essentially an ecological economy, which aims to increase recycling and re-utilization of the resource, therefore also called “cradle-to-cradle economy” (Braungart and McDonough, 2002); from the view of consumption links, the former is an unsustainable consumption pattern, and the latter is a sustainable consumption pattern, two kinds of consumption patterns show fundamental differences in terms of ethical dimensions and moral appeals. The circular economic development mode requires enterprises and social members to consume according to moderate consumption, green consumption and other ethical guidelines, consider recycling of the wastes while consuming and select a lifestyle adapting to environmental carrying capacity - green lifestyle, and establish new concepts about recycling production and consumption. The consumption concept of circular economy implies sustainable value principles, reflects inner unity of economic value, ecological value and moral value, emphasizes the harmonious development of economy and society and deems it is a sustainable development path, and establishes an environmentally-friendly economic ethics under consciously social selection. The consumption ethics of circular economy is formed based on the theory of ecological ethics and people’s sense of social responsibility, it should be said, and the consumption ethics of circular economy is a forward-looking and advanced ethics.

Thirdly, to establish new natural ethics The circular economy is built on the basis of ecological principles and natural laws and is an economic development mode evolved harmoniously with the Earth. Its operation mode is similar to traditional industrial economy and deems the natural environment as “materials taking field” and “garbage dump”, not only regards it as available resources, but also considers it as the basis for human beings to survive and a benign circle ecosystem which must be properly maintained. The development of circular economy requires the improvement of science and technology, which not only shall consider the natural development capacity, but also must take into account relevant repair function for the ecosystem, for meeting the demands of total value of human society, benefiting to whole ecological environment of human beings, benefiting to the balance between human interests and natural rights and benefiting to the justice of resource rights for contemporary and future generations. This is the ethical attitude of sustainable value principle towards the nature implied in the circular economy.

The sustainable development value principle of the circular economy takes the ability to promote sustainable development of economic society as a standard to judge good and evil, advocates to obtain the interests based on the survival of human beings and sustainable development of long-term common interests of human beings, refuses economy first principle and opposes to achieve quick success and get instant benefits by short-term behaviors. Thus, the existence of sustainable value principle is the difference between the circular economic ethical mode and the traditional linear economic ethics.

The circular economic ethical mode is a new economic development ethical theory and has very rich contents. The overall value principle and the sustainable development value principle include the concept of environmental ethics and ecological ethics and contain new production ethics and consumption ethics, which reveal the internal ethical spirit of the relationship between economy, ecology (environment) and social development, reflect the relationship of co-existence and co-prosperity, not consumption and development, between the economy, nature and society, embody people-oriented, comprehensive, coordinated and sustainable scientific development concepts and unify human economic demands and ecological laws, temporary needs of contemporary people and long-term interests of future generations, and human beings and the nature. This ethical mode, based on development laws of economy, ecology and human beings, integrated with ecology, economics, environics, ethics and other disciplines and thoughts, organically unifies economic values, ecological values (environment) and moral values. Therefore, we can not understand it

[5] *Collected Works of K. Marx and F. Engels, Volume 23, Page 191.* Beijing: People’s Publishing House (1972)

within the scope of economics. We shall examine the significance of this new ethical mode of the circular economy ethics based on the economic and social development in 21st century and use it as a new economic development ethics for coordinating the relationship between economy and environment, economy and resources, and economy and society.

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SUSTAINABILITY IS A WORK OF JUSTICE: VIRTUE NOT DISTRIBUTION

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Summary

The argument most frequently used to justify the call for sustainability in business and life generally is based on notions of distributive justice. This paper sees a strong link between sustainability and justice, but in a different way, concerned more with the development and exercise of the virtue of justice by individuals. Sustainability is thus more personal, and is something involving personal effort. It is a work of justice.

Difficulties with the utilitarian and rights approaches to sustainability as just allocation are discussed. Sustainability is seen as a debate about purpose, about what is to be valued, and movement toward sustainability is to be achieved by a work of justice – engaging in that debate both in the local community and between communities, and developing the virtues, including justice, which will facilitate that debate.

Keywords: sustainability, justice, virtue, responsibility, intergenerational justice

The argument most frequently used to justify the call for sustainability in business and life generally is based on notions of distributive justice (see for instance Dobson 1998; Jacobs 1999; Tencati & Perrini 2011). This paper sees a strong link between sustainability and justice, but in a different way, concerned more with the development and exercise of the virtue of justice by individuals. Sustainability is thus more personal, and is something involving personal effort. It is a work of justice.

The first section in the paper provides a short restatement of the conventional view that sustainability is principally about intergenerational justice, and introduces some alternative positions. This is followed by a section in which the three main approaches to justice – utilitarian, rights and virtue – are outlined (after Cotton 2001). The third section is concerned with the argument that justice is a virtue, that it is a quality of character as well as a measure of distribution, and that this personal virtue can be developed in community. The fourth section considers the interrelationship between the virtue of justice and sustainability, and shows that both sustainability and justice require personal effort. The conclusion reinforces the argument that runs through the paper that sustainability is something to be worked at now, that a commitment to sustainability is not a wish for the future but an action in the present.

Introduction

The Club of Rome report in 1972 drew attention to the possibility that the earth faces 'Limits to growth', and that these limits might be reached within the lifetime of many of its current inhabitants unless the then equations or paths of growth were attenuated (Meadows et al. 1972). The term sustainability gained recognition and authority by its use in two United Nations sponsored activities, the 1987 report of the World Commission on Environment and Development, the *Brundtland Report* (1990), and the 1992 Earth Summit held in Rio de Janeiro. The theme of both is development, especially development for what was then called the Third World. The intergenerational element is clear and in the report's title *Our common future* and in Brundtland's definition: 'Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future' (Brundtland 1990, pp.84, 81.49). A slightly different form of this definition, found a little later in the WCED report has found much wider usage, often as a definition of sustainability in general. Under this formulation, the focus on future generations is explicit and the reference to aspirations dropped, as has the concept of seeking, resulting in the phrase 'meets the needs of the present without compromising the ability of future generations to meet their own needs' (Brundtland 1990, pp.84, 81.49). This underpins much of the writing and practice about sustainability. It can be found in numerous books, curriculum materials, and websites, and in the sustainability reporting guidelines of the Global Reporting Initiative (GRI 2006). On this approach, 'Futurity: an explicit concern about the impact of current activity on future generations' and equity are core ideas in the discussion of sustainability (Jacobs 1999, p.26).

This approach to the definition of sustainability is contested. This point did not go unnoticed by the WCED team as they included in their report a comment by a speaker at public hearings conducted by them in Sao Paulo as they prepared their report. The unidentified person told the Commission, 'You talk very little about life, you talk too much about survival' (Brundtland 1990, p.84). In a similar vein Amratya Sen, has expressed concern that the emphasis is on needs and not on capabilities. He writes (Sen 2004, p.11):

The world has good reason to be grateful for the new prominence of this idea, yet it must be asked whether the conception of human beings implicit in it is sufficiently capacious. Certainly, people have 'needs', but they also have values, and, in particular, they cherish their ability to reason, appraise, act and participate. Seeing people in terms only of their needs may give us a rather meagre view of humanity.

Another concern (of which more later) is that the WCED definition does not provide any guidance on what is to be distributed justly across generations. Some activists in the environmental justice movement argue that 'the environment is a particular form of goods and bads that society must divide among its members' (Dobson 1998, p.20) while other environmentalists have wider concerns such as the preservation of wilderness (Carter 2009, p.449), and supporters of the triple bottom line will be concerned about an even broader canvas including social and economic sustainability as well as the environment. That we do not know what the needs, let alone the aspirations, of future generations will be makes it difficult to decide what we should constrain, or distribute. This may be one reason why there are so many definitions of sustainability – the number exceeded 300 and was still rising when Dobson (1998) did a count over a decade ago.

Approaches to justice

This paper accepts, after Jacobs (1999), that the future and equity are important elements in the concept of sustainability and that sustainability and justice are linked, but not that the relevant linkage mechanism is to be found in the concept of (intergenerational) distributive justice. I will argue that by considering justice as a virtue a broader notion of sustainability will be fostered, one in which individuals today will be engaged, and perhaps working hard. Before embarking on that argument it is necessary to outline the three main approaches to justice – utilitarian, rights and virtue. The description that follows is based on the introduction provided by Michael Sandel who describes ideas behind these three ways of thinking about justice as 'maximising welfare, respecting freedom, and promoting virtue' (2009, p.6).

Under the popular definition sustainability means that the needs of both current and future generations will be met. In a utilitarian approach to ethical decision making the goal will be to maximise welfare. If this approach is adopted to assist in the understanding and practice of sustainability questions will arise as to what is to be included in the calculation of welfare, as to the time period over which the maximisation of welfare is to be sought, and as to the extent that the distribution of welfare is to be taken into account both within any one generation and across generations. If future generations have an uncompromised ability to meet their needs that would seem to suggest that they will be able to achieve a level of welfare at least equal to that of the present generation or that they will have a modified set of needs, perhaps having cut their coat to match their cloth. But is that just? The concern is for a just allocation.

Another approach is to focus attention on freedom and to say that the most important element to be sustained is human freedom, without which there can be no justice. Some might consider the key freedom to be provided by the opportunity to participate in a free market and to make free choices in it, including choices about what to value. Others, after Kant, might consider the central freedom to be the capacity to choose under which rule they should live. Thus for sustainability this approach to ethical decision making will tend more to focus on the maintenance of certain fundamental rights. As Sandel notes, 'making sense of Kant is not only a philosophical exercise; is also a way of examining some of the key assumptions implicit in our public life' (2009, p.104).

The third approach is concerned not with the justice that is demonstrated in an appropriate level or measure of welfare, or the justice demonstrated in the existence of certain freedoms or rights, but with that quality of character known as justice, one of the virtues 'on which the good society depends' (Sandel 2009, p.8).

At this stage I will note some of the difficulties which come from using either the utilitarian or the rights approaches when considering the link between sustainability and justice. The conventional definition holds that sustainability is about just allocation. Basing sustainability in utility makes it a matter of calculation rather than principle. If that is so then it lessens the grounds on which sustainability can make a moral claim on individuals (and society). If sustainability is not a principle to be fought for or defended, but the result of a calculation, then its attraction will be lessened. In the context of sustainability utilitarianism is not only subject to the criticism that there is no single measure available with which to calculate the various individual utility functions, but to the added difficulty that any calculation involving intergenerational justice will have to span long periods of time.

If, as Nozick (1993) for instance argues, each individual has a right to make a free choice about what they value, then the concept of intergenerational justice is perhaps thwarted, deprived of any power to move society toward a goal of sustainability. Each can make his or her own decision as to what needs (and aspirations, even capabilities) to seek in the present, but the needs which the future generation will be meeting cannot be foretold. That makes it difficult to justify or to mount any coordinated effort to protect or develop a particular element of society or the environment. That applies as much to action by government or some other authority to enforce actions in support of sustainability as it does to any autonomously evolving campaign. Rawls establishes a right to just distribution in the deliberations of the 'original position' where no-one knows their ultimate status in society (Rawls 1972), but this still leaves open how things are to be valued.

It is to this difficulty in determining what is to be valued that the virtue approach can make a contribution. On the one hand, virtue, like utilitarianism and rights does not have a universally accepted position on what should be valued it does have a process for investigation. The virtue approach involves cultivating the attitudes and dispositions on which society depends and 'reasoning about the common good' (Agosto, Gasson & Atwood 2008, p.8). This is both an individual and a communal activity, personally cultivating virtue and collectively debating the right way to value things. As I will argue below, both these are important elements of sustainability.

A disadvantage or difficulty of the virtue approach is that it is personally demanding in a way that the other two approaches are not. No longer is sustainability something I can commit to and perhaps follow some rules or possibly burdensome strictures in support of it. It is work, for the discussion and cultivation requires work by both individuals and communities. Having the discussion about what to value is work as much as personally cultivating a disposition toward justice.

Justice as a virtue

The linking of justice with issues of sustainability and distribution brings to the fore the social role and organisational nature of justice. It is here that Rawls begins *A theory of justice*, calling it 'the first virtue of social institutions' and making 'the basic structure of society' its primary subject (Rawls 1971, p.3). However it is the idea of justice as an individual virtue that is the focus of this paper. That particular virtue or moral excellence is principally concerned with 'moral issues having to do with goods or property' (Slote 2010) and the concept can be traced back at least as far as Plato.

This 'conception of individual justice...ties justice (acting justly) to an internal state of a person rather than to (adherence to) social norms or good consequences' (Slote 2010), thereby rejecting the utilitarian and rights/freedom approaches and making it an example of the virtue approach. Put in perhaps simpler terms, 'only the just can know what justice is' (Hamilton 1961) or 'we become just by acting justly' (Aristotle, [c330BC] 1953, p.2:1). Both these statements point to the dynamic nature of the moral virtues, that they can be developed through practice and from example. This will be important when considering sustainability as a *work of justice*.

The purpose of the *polis*, the engagement of individuals in the life of the society or state, is 'to form good citizens and cultivate good character' (Sandel 2009, p.193). To determine which virtues are to be honoured and rewarded in society involves reason and argument, to determine the 'goods internal to practices' (MacIntyre 1985, p.198) which contribute to the growth and enjoyment of the individual undertaking some practice and seeking to do it well. Aristotle's examples range from the practical in the playing of flutes through the building of houses to the development of courage and the capacity to act justly. The purpose of every art, job, or practice, he argues (Aristotle, [c330BC] 1985? , p.3.8), is some good. To determine its value we need to understand its purpose or essential nature, in the sense that the purpose of flutes is to be played well. I would argue then that the purpose of sustainability is to allow, encourage and enhance the good society and its physical, intellectual and moral virtues. Sustainability is a debate about purpose.

The journey aspect – working toward sustainability

The fourth section considers the interrelationship between the virtue of justice and sustainability, and shows that both sustainability and justice require personal effort.

The first Brundtland definition included an aspect of incompleteness and mission – 'sustainable development seeks to meet...' – which is lost in the second and much more widely used statement that sustainability 'meets the needs...' (Brundtland 1990, pp.84, nn). The active verb 'seeks' with its connotation of expeditions and discovery has been replaced by the passive 'meets' with the implication that the task has already been achieved. The idea that we should be "working toward" justice and sustainability not only acknowledges that this is unfinished business requiring an ongoing effort but also recognises that there is no sufficiently well-defined set of universal values with which to assess the relative merit of trees, jobs and health.

This plurality of values in the contemporary world could be used as a reason to do little if anything to seek out more than the broadest of definition of sustainability, sustainability light, as it were. Support could be found in at least two arguments – that failure is certain and so any effort would be wasted, or that it would be a repudiation of individual freedom to seek to change another person's view of the relative worth of those various things which are held to be valuable. Virtue provides grounds for rejecting this do-little approach. Both Aristotle and MacIntyre point to the personal benefit which can come as one seeks to develop moral virtue and understand purpose. For Aristotle, to be a better person, to have a virtue or any number of them more deeply than before, or to understand more clearly how particular virtues that one has relate to each other and to the whole, giving reason to engage in the development of one's moral capabilities even if of no immediate use.

Where there are goods internal to the practices then there will be a benefit for the practitioner even when the intended external goal is not met. MacIntyre acknowledges the importance of flow and time when he writes, 'I can only answer the question, 'What am I to do?' if I can answer the prior question, 'Of what story or stories do I find myself a part?' (1985, p.201). That there are multiple stories, that each of us might be part of more than one is a challenge, an opportunity to exercise reason, rather than an invitation to inaction.

The plural society need not inhibit debate, indeed it heightens the need for the development of virtue and the capacity for reflection (Harris 2008). Furthermore, Gardner (2010) argues that, even where there is widespread acceptance of a multiplicity of views about what constitutes truth, beauty and goodness, engagement in a 'movement toward' truth is essential if truth and society are to be sustained. The questions raised by any examination of what is meant by sustainability and how it is to be achieved cannot be answered without consideration of ethics, and 'our debates about justice unavoidably embroil us in substantive moral questions' (Sandel 2009, p.243). Thus an attempt or desire to introduce a form or process of sustainable allocation on the basis of equivalence will lead to consideration of whether the future generations will (or should) attribute the same value to the item being allocated as we do in this generation. Those in Gen Y, we are told, have different values, honour and reward different virtues to those from the Babyboomer generation. Is it sustainable that what is sustained changes from generation to generation? Sandel acknowledges the link between allocation, value and justice when he writes: 'Justice is not only about the right way to distribute things, it is about the right way to value things' (2009, p.261).

...a work of justice

This section of the paper discusses the nature and value of the work involved when sustainability is considered to be a work of justice. It draws on MacIntyre (1985, 1988) and the notion of goods internal to practices to show how such work can contribute to personal fulfilment, result in tangible benefits to society and enhance engagement in a community, all at the same time.

Both MacIntyre and Aristotle tell us, from their positions over 2,000 years apart, that the cultivation of virtue is not easy; it requires practice. This is part of the work of justice. Any moral virtue in its desired state lies in a

mean between the extremes of excess and deficiency, courage for instance between rashness and cowardice, justice between the extremes of giving too much and too little. As this mean is not an arithmetic mean the finding of it requires the application of reason, and engagement in a process of moral decision making. One aspect of the work is participation with others in the process. Earlier I referred to unavoidable debates. Participating in those debates – enunciating a position, listening intently to different views, seeking common ground – requires effort.

It may be that the debate is conducted through stories, as different tales capture the reality of variations in the value and honour attached to specific items at different times and in different places. The work is not only in the telling of the story for sometimes the story will become real and its implementation unavoidable. Telling the story, looking after it and nurturing it is a responsibility, for 'you can't really take pride in your country [or profession, or wilderness] and its past if you're unwilling to acknowledge any responsibility for carrying its story into the present, and discharging the moral burdens that may come with it' (Sandel 2009, p.235).

This has implications for ethics education and sustainability education throughout the education system, organisations and society. Where case studies are used the cases should be chosen to encourage debate rather than unalloyed condemnation or praise for one participant at the expense of another. Cases where the same item – a stream, the companionship of domestic animals, the classics of art and literature, for instance – is valued differently by a number of different participants in the case, and where there is a matrix of stakeholders and valued goods, will provide a greater opportunity to discuss what is necessary to maintain the society and the environment for generations to come than two-party, A against B, cases. Case studies can be put to a number of purposes; open-ended cases can invite the search for a solution, others may be chosen to demonstrate the application of a particular theory or principle, some may be examples of good practice or the consequences of despicable behaviour. In the teaching of ethics, especially to adults, cases which allow and encourage those studying it to examine how the participants responded to the conflicts of values and the interplay of internal and external goods have been found particularly effective (O'Donovan 2002).

Conclusion

Although the most common framing of sustainability is in terms of intergenerational (distributive) justice, that view is open to criticism both practical and conceptual. It will be more helpful, I argue, to consider justice as an individual virtue than as a social virtue. On this basis sustainability is something to be worked at now; a commitment to sustainability is not a wish for the future but an action in the present.

Sustainability is a debate about purpose, a debate about what to value in a world where there are wide differences about how some goods are to be valued. That debate occurs both within communities and between communities. Understanding the traditions which have led to the practices of the community in which one is placed, and of the other communities with which one engages in a search for sustainability will be enhanced by a disposition to openness and to justice.

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CORPORATE SUSTAINABILITY AND SHAREHOLDER WEALTH

– EVIDENCE FROM AMERICAN COMPANIES

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ABSTRACT

The goal of this study is to provide insights on implementing sustainability into corporate strategy, and provide an answer whether it can lead to higher than average market valuation. Using extensive data of S&P 500 firms covering the years 2006-10, 85 companies were selected as meeting corporate sustainability criteria. An investment strategy that bought firms with CS would have earned abnormal returns of 7.4 percent per year during the sample period. We find that firms with balanced financial, social and environmental activities had lower revenues growth, lower growth volatility, and lower stock price volatility. These results are consistent with the idea that firms benefit from investing in corporate sustainability and that this practices are reflected in their stock prices. The results also indicate that investment in sustainable companies do not show anti-cyclical patterns within usual stock market cycle, however it is connected with higher stock market crash resistance. The empirical evidence of this paper is particularly pronounced for public firms that consider to implement sustainability into core business strategy. It also contributes to better understanding of this concept in the contemporary capital markets.

Keywords: corporate sustainability, shareholder wealth, environmental management, corporate social responsibility, sustainable corporate finance, sustainable development

1. Introduction

The word *sustainability* has become a more common part of the world's vocabulary over the past few decades, from the Club of Rome's Report called "The Limits of Growth," presented in 1972, to the concept's

widespread existence in the contemporary business world. *Sustainable development* has become part of the public agenda around the globe. More consumers want businesses to provide eco-friendly products and services and take the lead on actions to address their environmental concerns. National governments are starting to promote a balanced approach to business planning and development. Growing numbers of shareowners pursue corporations to achieve long-term sustainable profitability, leading to a stock value rise and cost of capital reduction, over time. Employees want good and safe working conditions. The communities in which the firms operate want them to be aware of the social impact of their activities and significantly reduce their negative consequences. Corporations are also being closely monitored by several non-governmental organizations (NGOs), who are trying to pressure them to behave in more socially responsible ways. Because the general public gives each business a “license to operate,” companies should not ignore the ongoing *sustainable wave*. Those who will be able to ride it may achieve a substantial competitive advantage.

The concept of *sustainability* was initially launched as an environmental idea focused on the conservation of resources. Nowadays, it has become a milestone for the entire business community. According to a recent survey, 93% of CEOs see sustainability as important, or very important, to their company's future success, 96% believe that sustainability issues should be fully integrated into the strategy and operations of a company, and 73% see this as a way of strengthening their brand, trust, reputation and financial performance (UNGC, 2010). The number of companies and industries that can still afford to ignore changing external social conditions, natural resource management pressures, and rising expectations for long-term financial policy implementation, is declining rapidly. All *sustainable* efforts undertaken by corporations must benefit all sides. If either a business, or a society, pursues policies that benefit its interests at the expense of the other, a temporary gain to one will undermine the long-term prosperity of both (Porter and Kramer, 2006, 2011).

In order to turn *sustainability* into above-average profitability, the concept must become a matter of corporate management and core business strategy. Each company must be able to select those aspects of the ongoing *sustainable wave* that intersect with its particular business. All movement in that area should be undertaken carefully and present an opportunity to create shared value and substantial benefits for a business in a given time period, higher than other possible investment projects, that are also valuable from other stakeholder perspectives. This is the *conditio sine qua non* of making *sustainability* a major factor of the core business strategy. An emphasis on window dressing in that area will not provide long-term profitability and may lead to market share decline and the loss of their reputation (Besley and Ghatak, 2007).

Addressing sustainability issues at the micro level requires well-defined and measurable concept of corporate sustainability (CS). Scholars and practitioners often treat CS and corporate social responsibility (CSR) as being nearly synonymous. This is a common misunderstanding - these two concepts have different backgrounds and different theoretical paths. CSR generally refers to a collection of company's policies and practices linked to relationships with key stakeholders, values, compliance with legal requirements, and respect for people, communities and the environments they live in. Being socially responsible means operating a business in a manner that meets or exceeds the ethical, legal, and public expectations that society has of businesses. Thus, it is generally limited to social and some environmental aspects of business activities, meaning that CSR commitment contributes only partly to sustainable development.

The concept of CS can be seen as a transfer of the overall idea of *sustainable development* to the business level. This implies that the identity of the *sustainable company* has a multidimensional perspective. Strategic CS management deals with questions of integrating economic, ecological and social issues to realize a business case (Dyllick and Hockerts, 2002; Flatz, 2002). This concept determines how to integrate the previously discussed areas systematically. It truly contributes to all aspects of sustainable development. A sustainable company can be seen as a business unit which considers its long term health as a combination of the proper management of all major areas of its activities (e.g., financial, social and environmental) at the same time. Thus, it is able to overcome conflict of goals between the above mentioned areas in the long run. From the financial perspective, it means that asset and revenue growth is balanced with the corporation's operating and financial policies. A set of mutually consistent growth objectives and financial targets is actively developed over time.

The social perspective can be described as an achievement of business goals in the way that meets ethical standards and respects identifiable stakeholder's welfare. In order to do so, a *sustainable company* should adopt practices that go beyond the minimum legal requirements. Environmental perspective means that a company includes ecological aspects in all of its core competencies. The implementation of a coherent environmental friendly management system (EFMS) is necessary. A *sustainable company* sees environmental factors as a matter of its core business strategy.

The goal of this study is to provide insights in relation to implementing sustainability into corporate strategy, and providing an answer for whether it can lead to higher than average market valuations. Companies that carefully think through the issues of *sustainability*, and are able to develop effective ways to build them into all major areas of their activities, are likely to achieve competitive advantage in the contemporary marketplace. Those who truly overcome a conflict of goals between financial, social and environmental perspectives should find opportunities to mitigate operational risk, cut the costs of capital and boost revenue. This should result in a more stable financial performance and higher stock market valuation of *sustainable corporations* in the long term. Activities in the area of CS that entail a short-run cost to achieve an appropriately greater shareholder gain and profitability in the long-run will therefore not be a departure from the economic objective and conduct of the corporation.

2. Related Literature

Numerous studies have empirically examined connections between “doing good” and “doing well” for the shareholder. The existing literature is fragmented and tends to focus on a single aspect of sustainability, either the social, environmental or financial aspect, rather than a proper balance between them and the company’s relationship with various dimensions of shareholder gains.

The link between CSR and profitability was studied by Margolis and Elfenbien (2008) in their survey of management literature. They found that there is little evidence stating that CSR negatively affects performance. However, the authors also point out that there is only a very small positive correlation between corporate behavior and good financial results, which could be a result of reverse casualty, in which a history of strong financial performance gives companies a better ability to contribute to society. Mănescu (2011) provides evidence that human rights and product safety indicators might be value relevant, but are not efficiently incorporated into stock prices.

Scholtens and Zhou (2008) found that the different components of stakeholder relationships appear to be associated, in a complex manner, with shareholder performance. Renneboog, Horst and Zang (2008) also suggest that the existing studies do not unequivocally demonstrate that socially responsible investments (SRI) have a positive shareholder value impact. The other aspect of CSR, corporate philanthropy, and its impact on sales growth, was examined by Baruch, Petrovits and Radhakrishan (2010). They determined that charitable contributions are significantly associated with future revenue, whereas reverse casualty is marginally significant. Elfenbein and McManus (2010) suggest that consumers consistently express a willingness to favor socially responsible firms and tend to pay more for products linked to charitable activities. In their study, Boyle, Higgins and Rhee (1997) suggest that CSR activities may adversely affect financial results. Kahn, Lekander, and Leimkuhler (1997) also agree that managers who entail corporate resources to social issues impose a direct cost on shareholders. Different results from the above mentioned empirical studies show the difficulties in testing the relationship between CSR and firm financial performance. The most important of them are addressed by Benabou and Tirole (2010).

When it comes to the environmental aspect of sustainability, two major opposite streams are identified. The first points out a positive and the second point out a negative link between corporate environmental performance and profitability. Reinhardt (1998) is among the proponents of a win-win environmental management paradigm. In his study, he argued that green strategies enhance firms’ competitive advantage by attracting environmentally aware consumers. Majumdar and Marcus (2001) find that the development of pro-environmental technologies is connected with an increase in the productivity and quality of companies’ operating process.

Semenova and Hassel (2008) show that the reputational benefits of environmental preparedness mainly increases market value, while environmental performance can also bring operational benefits to financial performance. In their study, Nakao, Amano, Matsumura, Genba and Nakano (2007) find out that a firm’s environmental performance has a positive impact on its financial performance and vice versa. Yin and Schmeidler (2009) provide evidence that firms which integrate ISO 14001 standards into their daily operations report improvements in environmental and financial performance. Similar findings are presented by Guoyou, Saixing, Xiaodong and Chiming (2011).

In contrast, Fernando, Sharfman and Uysal (2010) find that green environmental strategies do not increase market valuation, but there is also not a statistically significant difference in performance between green and environmentally neutral firms. Only inappropriate environmental management is valued lower by the market. In his study, Zaho (2008) points out that the environmental investments appear to conflict with shareholder value maximization. The results of the statistical analysis indicated that the registration of ISO 14001 environmental management systems has led to lower profitability. Fisher-Vanden and Thorburn (2010) also provide evidence on the negative shareholder wealth effects of voluntary corporate environmental initiatives. They suggest that companies announcing membership in environmental programs experience significantly

negative abnormal stock returns. Based on the studies that have been done to date, it is difficult to determine exactly what the relationship between the implementation of environmental management systems and shareholder benefits is.

Sustainability, in the discipline of corporate finance, is a less established concept. This area is relatively new, however, the concept does have a growing body of literature. It is often interpreted as a financial policy that cares for future generations. This single corporation objective does not say anything about enhancing profits and shareholder gains in the long-term, and is, therefore, a departure from the economic objective.

Sustainability in finance requires a multidimensional approach. This finds its reflection in Soppe's (2004; 2011) theory, that defines sustainable finance as a financial policy that strives for triple-bottom-line performance measurements with human actors that opt to maximize multi-dimensional preference functions. In a related theoretical work, Johnsen (2003) suggests that sustainability in corporate finance is strictly connected to socially responsible investing. Margolis and Walsh (2001) synthesized 80 studies on SRI portfolios, and found that over 50% indicated a positive link between SRI funds performance and CSR practices by companies.

The multidimensional approach complicates financial modeling and results in unacceptable methodological difficulties. This is probably the reason why the linkages between corporate sustainable finance and widely perceived performance have not yet captured the proper attention of the contemporary academic literature. Orlitzky, Schmidt and Rynes (2003), in their meta-analysis of 52 studies on the linkages between corporate social and financial performance, illustrated that the current evidence is too fractured and variable to draw any generalizable conclusions.

Additional research should be done on the benefits of the environmental, social and financial aspects of CS. In our view, the existing literature is too fragmented, especially because it treats the above mentioned areas separately. In some cases, the existing studies are not able to unequivocally quantify them, especially in the area of sustainable corporate finance. Hence, this paper develops a new method for CS assessment. We study CS as a multidimensional concept, along with each of its major components, and provide an answer as to whether it can lead to additional shareholder gains.

3. The Theoretical Framework and Methods

3.1. Financial Aspects of Corporate Sustainability

The unrestrained growth of revenue can lead to serious financial difficulties. The tradeoffs between more growth and higher financial risk might enable corporations to gain enough cash from the market to maintain its existence over longer term horizons. The history of the six major financial and economic crises over the last century is the best proof of it. These crises include: 1. The collapse of the speculative stock market in 1929-1933, 2. The collapse of real estate values in 1929-1933, 3. The Savings and Loan institutions collapse in the 1980s, 4. The Latin American bank debt crisis in the 1980s, 5. The collapse of Long Term Capital Management in 1997 and, 6. The sub-prime home mortgage loan crisis in 2006-2009. Therefore, growth should no longer be seen as something to be maximized in parallel to unlimited additional risk taking. It is a decision variable that must be consistent with other major policy parameters.

Sustainability in finance is interpreted as mutual compatibility in the long run between growth objectives and established operating and financial policies. To test the above mentioned consistency, the concept of the sustainable rate of growth is introduced. The rate of growth shows the maximum revenue growth (in %) which the company can sustain (finance internally) without changing any of its basic operating and financial ratios and without resorting to a new equity issue (Higgins, 1977). The firm's sustainable growth rate g^* in a given year is a function of the profit margin p_m (net income after tax/revenue), asset turnover a_t (revenue/assets), financial leverage f_l and earnings retention ratio e_{rr} :

$$g^* = p_m * a_t * f_l * e_{rr}. \quad (1)$$

This sustainable growth rate calculation takes beginning of year equity as the base of its calculations. Sales and profit improvements are taken relative to last year's ending positions. If the company is able to achieve the sustainable growth rate g^* , the new assets are financed by new debt and an increase in equity through retained earnings. In other words, the financial and operating policies of the firm are aimed at stable risk and returns for the owners of the residual claims, in the long term.

If the actual growth rate is higher than the sustainable growth rate in the longer term perspective, the company permanently does not have enough capital to meet its investment needs. The main challenge is to

find a proper way to finance growth. It can be achieved through dividends reduction, operating performance improvements, increases in leverage, new equity rises or actual growth rate reductions.

Over the last decade, 2000-2009, new equity issues only provided, on average, about 1% of the total funds required by U.S. non-financial corporations. In fact, in most of the years during this time period, the value of shares repurchased by companies exceeded the value of new shares issued, indicating negative net new equity. There are at least four reasons for this state of affairs: 1. The most competitive and financially successful firms appear to primarily rely on internal cash flows to invest, despite the ability of additional low cost external financing (Kaplan and Zingales, 1997), 2. Some corporations are not interested in new equity issues because of their prohibitive characteristics, which is much higher than other sources of capital costs (e.g., registration, underwriting, selling, possible underpricing), 3. The stock market also becomes a secondary source of capital because of the time lag between new equity issue decisions and actual selling conditions and, 4. New common stock can lead to loss of voting control, especially in closely held companies.

Operating performance improvement can be achieved through profit margins and asset turnover increases. It requires a lot of strategic decision making and restructuring. The strategic drivers are prices, volumes and product mix. A successive concentration of resources, in relation to where they can be used most effectively, can increase the operating performance of a given company. Simple price increases, or product quality reductions, will only decrease competitiveness and lead to a lot of operational disorder.

The usage of increased financial leverage as a factor enabling the development of company growth objectives is very tricky. The relaxation of financial constraints will lead to an increase in the weighted average cost of capital and a possible decrease in the market value added that is created by the firm. The average U.S. firm's cumulated value of debt to the accumulated value of assets ratio rose from 46.5% in 2001 to 54.5% in 2009. We should not see a further substantial increase in corporate debt levels in the coming years. If the company cannot allow the relaxation of the financial constraints' scenario to happen, the only other way to increase the existing debt ratio is to reduce the cash flowing to shareholders. This is extremely problematic, because equity owners are used to receiving dividends of a certain level, therefore, there is not much room in the contemporary stock market for further reductions. In 2008, the average percentage of corporate net incomes distributed to shareholders reached a decade low value of 16.2%, down from 44.8% in 2003 and a 1999-2008 average of 28.9%. The possible reduction in dividends should also be compensated by more than a proportional rise in the share price produced by new investments.

When new equity financing is impossible, the firm's investment, financing and dividend decisions are independent. Because investment capital beyond that provided by retained profits and accompanying borrowing is available only through a reduction in dividends or an increase in financial leverage, the marginal cost of capital increases with growth beyond the sustainable level (Higgins, 1977).

The unrestrained growth of revenue can lead to serious financial difficulties. Sustainable growth problems are, therefore, becoming more and more severe in the contemporary marketplace. Many companies will not be able to solve them by simply relaxing financial constraints, a payout ratios reduction or new stock sales. Asset and revenue growth must be balanced with a corporation's operating and financial policies in the longer term perspective. Only then will the concept of sustainability truly become a matter of corporate management and core business strategy.

If the actual growth rate is lower than the sustainable growth rate in the longer term perspective, the company permanently has more than enough capital to meet its investment needs. The main challenge is to determine the proper way to use the excess cash. It can be achieved through new value-creating investment expenditures, mergers and acquisitions (buying growth), common share repurchases or an increase in dividends. From a strictly financial perspective, the problems posted in the above mentioned situation seem to be far less demanding; this is not true from the *sustainable company* perspective.

The situation in which the firm permanently underperforms its sustainable rate of growth has negative information content within the ongoing *sustainable wave*. It becomes more and more difficult for a business to locate value-creating investments for all of the cash flow that is being earned. More specifically, an increase in dividends is not always a good solution, as the stock market often reacts negatively to unexpected extraordinary dividend payments, especially in the longer term perspective.

Only 30% of all mergers and acquisitions are successful in terms of additional value creation. The only proper solution is to sustainability build into all of the major areas of companies' activities. It will allow for determining new value-creating investment opportunities and make the actual rate of growth closer to the sustainable rate of growth. This should result in a more stable financial performance and higher stock market valuation in the long term.

4.2. Social Aspects of Corporate Sustainability

There is no universal definition of CSR. According to Howard Bowen, CSR is defined as a 'businessman's obligations to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of the society' (1953: 6). Allied concepts (Sethi, 1979; Wartick and Cochran, 1985) also link the responsiveness and performance of a firm to the society. In the contemporary market economy, all stakeholders (e.g., consumers, employees, governments, shareowners, local communities, and NGOs) have equal interests and equal claims in the company's outputs and resources (Freeman, 1984; Clarkson, 1995). Hence, the firms should be accountable to them.

Society's and governments' demands for CSR have recently become highly prominent. The United Nations (UN) promotes CSR through the group called the Global Compact; the UK government has created a ministerial portfolio of CSR. Vast numbers of corporations are engaged in the social practices of self-reporting initiatives and self-regulation. In addition, cooperation with NGOs is moving across supply chains. There has also been substantial growth in the number of ethical and social mutual funds, as well as their market share (Vogel, 2005).

CSR is now seen as mainstream in the business world. The variety of factors that combine to account for this state of affairs are as follows:

- The economic and political power of the world's biggest corporations has grown significantly in recent years. In the year 1999, it included 100 of the largest economies in the world, 51 of which were corporations and 49 were countries (based on comparisons of corporate revenue and country gross domestic product). In the year 2009, their number, mainly due to an economic meltdown, fell to 45;
- Social responsibility is likely to be a normal good (Benabou and Tirole, 2010). The general wealth creation connected with the globalization process has made people around the world more aware of both positive and negative externalities created by companies in their business as usual and increased demand for socially responsible businesses at the same time. Consumers who value CSR efforts would be also willing to pay more for products offered by such firms (Elfenbein and McManus, 2010);
- Employees tend to work harder (or better) for socially responsible firms, which can lead to stronger employee commitments and higher productivity (Baron, 2008);
- Information about companies' practices throughout the world has become easily accessible and spreads much more quickly, thanks to new information technologies (the long run cost of doing business without taking care of social issues has risen significantly);
- Honest commitment to good corporate citizenship connected with strong commercial competence can help create value in the longer term perspective, as there is no principal-agent problem connected with companies' investment in social responsibility if it generates higher returns to its shareowners.

There is a wide range of activities connected with being a socially responsible corporation. It spans from creating good working conditions, to volunteering in the local community, and from eliminating race discrimination, to building wells in Sudan. What is most important is that all CSR activities should be integrated into a core business strategy and decision-making process that is relevant throughout the company. CSR activities must be aligned with companies' core competencies, which imply a long time perspective of CSR.

Being truly socially responsible involves considerable costs. Taking a step forward in adopting it, that goes beyond the minimum legal requirements, should generate tangible opportunities to increase competitiveness and attract new sources of capital. Strategic CSR should lead to businessman's obligations to pursue those policies, to make those decisions a long term increase in profits and a strengthened market position. The firm is investing shareholders' money into it, so paying attention to being a socially responsible corporation should have bottom-line benefits, which, over the longer term perspective, will lead to sustained profits.

Truly responsible businesses never lose their commercial imperative. However, Friedman (1970) and Reich (2008) argue that a concentration on CSR leads to a "incorrect" corporate objective function. In their view, firms should focus on increasing profits and transferring all social activities to other organizations.

More profitable businesses create additional welfare in the form of jobs, products and innovation. All of these benefits are hidden under the social responsibility umbrella. There is nothing bad in making additional money by addressing the current society's and governments' demands.

4.3. Environmental Aspects of Corporate Sustainability

At the turn of the 21st century, in the age when a number of ecological threats, due to the rapid development of human civilization, have been identified, environmental issues are not only becoming part and parcel of politics, but also of business life. The growing ecological awareness of the consumer, the increase in the significance of CSR, including the change in the expectations of strategic pressure groups (Esty and Winston, 2006), the pro-environmental transformation of the international and national legal environment, the development of the pro-ecological technologies and the appearance of new “green” sources of capital (Laszlo, 2003), are considered the most important reasons for businesses to restructure themselves to become more eco-friendly. The ‘ecologization’ of a company refers to the inclusion of environmental management in its operations. This means broadening planning, organization, leadership and member performance control processes by aspects of the minimization of ecological burdens.

The history of the pro-environmental reorientation of managing a company is relatively short. Other concepts, not directly connected to ecological issues, such as the quality of occupational health management systems, are much older and more widely used in business practice. According to the latest trends, there is an increasing willingness to include environmental aspects into existing management systems, thus designing it into an entirely new, comprehensive concept of corporate management, which we call eco-friendly management system (EFMS).

EFMS are best understood as a general system for managing an organization, which includes environmental aspects in a majority of its activities, including: procurement, manufacturing, distribution, reporting, marketing, services, research and development, public relations, and infrastructure. The basic advantages of EFMS include a change in the organization’s culture, the elimination of non-effective processes, an increase in savings due to a less frequent occurrence of breakdowns and a reduced amount of waste, an improvement in product quality and occupational safety, an improvement of the company image, reinforcement of its market position, the benefits of the first move, the imposition of standards, and the lower weighted average costs of capital (including gaining access to new “green” sources of capital).

The implementation of eco-friendly management systems involves a considerable number of costs. Its effectiveness depends on a variety of factors, like the size of the company, the industry, the technological advancements, the competitive environments, the ecological awareness of society, the government’s environmental policies, and the local community. The pro-environmental reorientation of managing a company can only ensure above-average profitability in the long term, if the concept becomes a matter of the core business strategy and is included in a majority of its basic functions.

4.4. Sample and Data Description

To select the sample, we began with an investigation of all companies listed in the S&P 500 index. The index includes 500 leading U.S. based companies (a few of them have their headquarters in other countries) as the leading industries of the American economy, capturing 75% coverage of U.S. equities. Our main financial data source is the Wharton Research Data Services (WRDS), which provides detailed balance sheets, income statements and cash flow statements for the above mentioned firms. The WRDS database covers most of the S&P 500 firms. Missing data were derived from the Yahoo Finance website, which served as a supplementary source. All social and environmental performance data have been retrieved from firms’ websites. There is no existing and credible central database covering information about these aspects of corporate activities.

In the first phase, we restricted our sample to the 464 firms that demonstrated that their social activities are integrated into their core business strategy and decision-making process. These companies publish profound CSR reports, documenting a wide range of activities connected with being continuously socially responsible since the year 2006. Their actions, which are desirable in terms of the objectives and values of the society, have also been awarded by at least three external institutions and organizations.

In the second phase, we exclude companies without EFMS, resulting in a sample of 262 pro-environmental oriented firms in terms of procurement, manufacturing, distribution, marketing, service, research and development, public relations, and infrastructure. These companies implemented, or achieved, since 2006, at least three of the following requirements:

- In the area of reporting: own-designed environmental reports or reports created according to Global Initiative Reports guidelines;
- In the area of procurement, manufacturing, distribution, research and development and service: own-designed an environmental management system or ISO 14001 certificate;

- In the area of infrastructure: Leadership in Energy and Environmental Design (LEED) certificate;
- In the area of public relations and marketing: environmental awards granted by external institutions and organizations.

In the third phase, the sample of 262 was further reduced to 85 companies, which were able to achieve mutual compatibility between growth objectives and established operating and financial policies in the long run. In order to meet the criteria of financial sustainability, the companies' average difference between the real rates of revenue growth and the sustainable growth rate, determined by using Formula (1), oscillated between plus and minus 10% in the years of 2001-10. This estimator is a proper measure, because it does not create a severe bias in the results, as it is rarely possible to precisely hit the sustainable rate of revenue growth, so using a range is absolutely necessary, and because the selected range of difference between the real and sustainable revenue growth rate is wide enough and the time horizon long enough to ensure that the differences between the groups are not the result of the fact that some companies might be more sensitive to cyclical changes in the stock market than others. Finally, the selected estimator is narrow enough to eliminate the companies characterized by a too high long term volatility of the revenue growth rate from the sample.

The list of 85 firms with balanced financial, social and environmental activities is illustrated in Table 1. The sectors of industrial and consumer discretionary are most strongly represented in the sample, while the sectors of energy, finances and healthcare are not well represented. The sector of telecommunication services is not represented at all. Table 2 summarizes these results.

4. Research Hypotheses

Managing CS requires the examination of the type of relationship between a combination of proper management of all major areas of a company's activities (financial, social and environmental) and the overall corporate financial performance. There are three theoretical possibilities for this (Preston and O'Bannon, 1997). Firstly, more profitable firms have enough financial resources to spend on sustainable activities. They can improve their environmental and social performance and implement more activities in that area, better than the less profitable firms. Another possible explanation is that sustainable performance drives financial performance and shareholders benefit from investing in CS. Finally, there can be a synergistic relationship between them.

In our study, we address several issues related to the impact of CS on shareholder value creation. First, we attempt to ascertain whether the implementation of sustainability into corporate strategy leads to abnormal returns. We also examine whether or not companies meeting CS criteria are associated with different stock price volatility.

Hypothesis 1: Companies that adopt sustainability into their core business strategies and decision-making processes earn higher than average stock market valuations.

Hypothesis 2: Companies that adopt sustainability into their core business strategies and decision-making processes are characterized by lower stock price volatility.

Secondly, we examine the revenue growth paths of both sustainable and unsustainable firms. We do so in order to determine whether CS is related to different revenue growth rates and different revenue growth volatility.

Hypothesis 3: Companies that adopt sustainability into their core business strategies and decision-making processes earn lower average growth rates than unsustainable companies.

Hypothesis 4: Companies that adopt sustainability into their core business strategies and decision-making processes are characterized by a lower volatility of revenue growth.

Finally, we ask whether or not investment in sustainable companies exhibits any anti-cyclical patterns within the usual stock market cycle. We also examine whether the implementation of sustainability into corporate strategy leads to different economic crisis resistance.

Hypothesis 5: Companies that adopt sustainability into their core business strategies and decision-making processes are not characterized by anti-cyclical patterns within the usual stock market cycle.

Hypothesis 6: Companies that adopt sustainability into their core business strategies and decision-making processes are characterized by a higher than average stock market crash resistance.

All formulated hypotheses in our study are directional, suggesting that firms and shareholders benefit from investing in CS and that these practices are reflected in their stock market performance. This approach is consistent with the ongoing *sustainable wave*.

5. Results

5.1. Corporate Sustainability and Returns

If CS affects firm performance and this relationship is fully incorporated by the market, then a stock price should quickly adjust to a relevant change in the corporate management and core business strategy. This is highly unlikely, because the implementation of sustainability at the micro level requires a systematic and long term approach and expected returns on the stock wouldn't only be affected within the event window. As such, realized returns on the stock would differ systematically from equivalent securities.

In this section, we examine the relationship between CS and subsequent returns. An investment of \$1 in the portfolio of firms with CS on December 30, 2005, when our data began, would have grown to \$1.59 by December 31, 2010. In contrast, a \$1 investment in the S&P 500 index would have grown to \$1.01 over the same period (Chart 1). This is equivalent to annualized returns of 9.57 percent for the sustainable portfolio and 0.15 percent for the market portfolio, a difference of more than 9.4 percent annually. The results also illustrate that investments in sustainable companies are connected with higher stock market crash resistance. In 2008, a decline in returns for the S&P 500 index was almost 38.5 percent, while the sustainable portfolio lost slightly more than 30.3 percent. The annual returns for both portfolios during the sample period are illustrated in Chart 2.

There are few explanations for the above mentioned disparity. One possible explanation is that the performance differences are driven by differences in the level of risk of the two portfolios. The related literature identifies several equity characteristics that can explain the differences in earned stock market returns. The most important aspect among them are the price to earnings ratio, book to market ratio, size and immediate past returns.

Several methods have been developed to account for these style differences in a system of performance attribution. We employ the model design by Carhart (1997), estimated by:

$$R_{it} = \alpha_{it} + \beta_{it} * RMRF_t + \chi_{it} * SMB_t + \delta * HML_t + \phi * PR1YR_t + \varepsilon_{it}, \quad (2)$$

Where: R_{it} is the excess return on a portfolio to an asset in month t , $RMRF_t$ is the market return minus the risk-free rate, and the terms SMB_t (small minus big), HML_t (high minus low), and $PR1YR_t$ are the month t returns on a zero-investment, factor-mimicking portfolios for size, book-to-market, and one-year momentum in stock returns, respectively. We interpret α_{it} as the abnormal return in excess of what could have been achieved by passive investments in the market portfolio.

Table 3 illustrates the results of estimating Equation (2), where the dependent variable, R_{it} , is the monthly return difference between the sustainable and S&P 500 index portfolios. For this specification, the α_{it} is 59 basis points (bp) per month, or about 7.37 percent annually. This point estimate is statistically significant at the one-percent level. Thus, very little of the difference in observed returns can be attributed to style differences in the two portfolios.

We also find that firms with balanced financial, social and environmental activities had lower daily stock return volatility over the years 2006-10 as compared to the S&P 500 index. Standard deviation in daily returns of the portfolio of the S&P 500 index was 0.000146, while for the sustainable portfolio it was 0.000142. This result is consistent with the overall concept of sustainable development.

5.2. Corporate Sustainability and Revenue Growth

Corporate revenue growth data provides us with important information about equity markets. It not only helps investors forecast future profits, but also determines the price they are willing to pay for equity. Revenue also play a central role in determining the capabilities of business to cover expenditures on fixed capital and research and development. The implementation of CS involves considerable costs. The adaptation of this concept should generate tangible opportunities to increase shareholder wealth. For instance, as we have seen in the former section, it is connected with abnormal stock market returns and lower stock price volatility. In addition, the revenue growth paths of sustainable firms should be different from the revenue growth paths of the unsustainable ones in the long term. According to the concept of sustainability, the former should be

slower. Firms who truly overcome the conflict of goals between financial, social and environmental perspectives should also be characterized by lower revenue growth volatility.

In this section, we examine the revenue growth paths of both sustainable and unsustainable firms. We find that the average annual rate of growth of revenue for the sample of sustainable companies between the years of 2006-10 was 4.5 percent, while for the unsustainable companies, it was 8.5 percent over the same time period. These results differ significantly. We also find that companies that adopt sustainability into their core business strategies and decision-making processes are characterized by a lower annual volatility of revenue growth over the years of 2006-10. The standard deviation in annual revenue growth of the sustainable corporations was 0.00121, while for unsustainable firms it was 0.00243.

Unsustainable firms among the S&P 500 companies are characterized by higher average revenue growth rates in years of economic prosperity. However, the results also illustrate that the revenue of sustainable companies are more resistant to economic meltdowns. In 2009, both groups experienced sharp declines in revenue growth. However, this decline for sustainable companies was a little lower. Chart 3 shows the results of annual revenue growth rates, comparing sustainable and unsustainable companies over the years of 2006-10.

5.3. Corporate Sustainability and Stock Market Cycles

An important question that we address in this paper is whether stock market cycles for the sustainable corporations has similar features to unsustainable ones. This is an important question to answer. If the adoption of sustainability into core business strategies and decision-making processes is characterized by any anti-cyclical patterns within the usual stock market cycle, then investment in these companies should protect shareholders against losses during stock market crashes. This is highly unlikely, because cyclicity is a permanent feature of the market. However, according to the concept of CS, firms that adopt it should be characterized by higher stock market crash resistance.

In this section, we examine the selected characteristics of CS within stock market cycles. We use monthly data on stock returns for the S&P 500 index and our sample of 85 sustainable corporations. The series runs from December 30, 2005 to December 31, 2010, thus yielding a total of 60 observations. The monthly returns for both portfolios during the sample period are illustrated in Chart 4. The small number of observations does not allow us to employ any sophisticated stock market cycle analytical tools and makes all the below findings less reliable.

The first finding that comes from inspection of the graph is that the sustainable company's portfolio is not characterized by any anti-cyclical patterns within the S&P 500 index stock market cycle. There are no significant time lags between peaks and troughs for both portfolios. Moreover, the market cycle for our sample of 85 sustainable companies tends to have a comparable duration. The second finding is that investment in these companies not only diminishes shareholders' losses during the stock market crash, but also ensures higher returns during the bull phase. Almost all of the monthly returns on the sustainable portfolio during the sample period are higher than the returns on the S&P 500 index. What is more, this difference is higher during the peaks than the troughs. We also find that sustainable companies tend to have higher monthly return amplitude and almost a seven times lower volatility, measured by the coefficient of variation, than similar returns for the S&P 500 index.

6. Discussion and Conclusions

The conduct of business activities with a view to enhancing corporate profits and shareholder gains is the canonical objective of the corporation. This does not mean that the above target must be realized during the short-run period. Instead, the opposite is true. Long-run profitability and shareholder gains are at the core of economic objectives. Activities in the areas of the social, environmental and financial aspects of CS that entail a short-run cost to achieve an appropriately greater long-run profit are therefore not a departure from the core economic objectives of the firm.

In this study, we made an attempt to establish a measurable concept of CS, which covers all major areas of a firm's activities at the same time. This concept can be seen as a transfer of the overall idea of sustainable development to a business level. Using our CS criteria for S&P 500 firms, we build a sample of 85 sustainable companies. We then analyze the empirical relationship between CS and the selected aspects of shareholder wealth in the years of 2006-10. We examine the relationships in a sequence of six hypothesis. The six hypotheses are as follows. First, we attempt to ascertain if the implementation of sustainability into corporate strategy leads to abnormal returns (Hypothesis 1) and lower stock price volatility (Hypothesis 2). Then we try to determine if CS is related to lower revenue growth rates (Hypothesis 3) and lower revenue growth volatility (Hypothesis 4). Finally, we attempt to collect some evidence on the cyclical patterns of investment in

sustainable companies within the usual stock market cycle (Hypothesis 5). We also examine if the implementation of sustainability into corporate strategy leads to different economic crisis resistance (Hypothesis 6).

We find that CS is strongly correlated with stock returns during the analyzed period. An investment of \$1 in the portfolio of firms with CS on December 30, 2005, when our data began, would have grown to \$1.59 by December 31, 2010. In contrast, a \$1 investment in the S&P 500 index would have grown to \$1.01 over the same period. This is equivalent to annualized returns of 9.57 percent for the sustainable portfolio and 0.15 percent for the market portfolio, a difference of more than 9.4 percent annually. The results are economically large and are robust in relation to many controls and other firm characteristics.

The relationship between valuation and CS was strong during the entire sample period. The surplus in the stock performance of the sustainable companies has increased significantly since the beginning of the global economic crisis. This indicates that more market participants started to pay close attention to sustainability in a firm's environmental, social and financial policies. The fact that this price adjustment is taking a long time is not surprising in light of the fact that the achievement of CS requires a combination of the proper management of all major areas of firm's activities. Interestingly, while these results are consistent with the idea that firms benefit from investing in CS, we still do not know what Hypothesis 1 implies about abnormal returns in the future. If we assume that CS becomes common practice, there is no reason to expect any first-mover advantages.

We also find some evidence in support of Hypotheses 2 and 6. Firms with balanced financial, social and environmental activities had lower daily stock return volatility over the years 2006-10 than the S&P 500 index. In 2008, a decline in returns for the S&P 500 index was almost 38.5 percent, while the sustainable portfolio lost slightly more than 30.3 percent.

In addition to the three hypotheses considered above, we also find some evidence in support of Hypotheses 3 and 4. For Hypothesis 3, we find that the average annual rate of the growth of revenue for the sample of sustainable companies between the years 2006-10 was 4.5 percent, while for the unsustainable companies it was 8.5 percent. These results differ significantly and illustrate that the implementation of sustainability is connected with lower revenue growth rates in the long term. For Hypothesis 4, we find that the analyzed modification in business strategy is connected with lower revenue growth volatility. The standard deviation in the annual revenue growth of the sustainable corporations over the years 2006-10 was 0.00121, while for the unsustainable firms, it was 0.00243.

We also find some evidence in support of Hypothesis 5. Companies that adopt sustainability into their core business strategies and decision-making processes are not characterized by anti-cyclical patterns within the usual stock market cycle. The market cycle for our sample of 85 sustainable companies' monthly returns tends to have a comparable duration, higher amplitude and lower volatility, than the S&P 500 index. Moreover, investment in these companies not only diminishes shareholders' losses during the stock market crash, which is also consistent with Hypothesis 6, but also ensures higher returns during the peak phase.

In our paper, we consider the relationships between CS and selected dimensions of shareholder wealth. Our results suggest that firms and shareholders generally benefit from investing in sustainability. Hence the clear message to policymakers is that public policy incentives and requirements for CS should be strengthened. This will tighten the link between commercial interests and companies' constituencies' well-being.

The chosen methodology has some limitations. Our sample is restricted to the U.S. financial market. Therefore, conclusions shouldn't be generalized to emerging markets. In addition, we only analyzed a selected group of financial, social and environmental activity aspects. Hence, it is possible that our results are driven by some unobservable or unconsidered firm characteristics. These multiple causal explanations have different corporate policy and investment strategy implications and stand as a challenge for future research. Our paper can be seen as an attempt to address this challenge.

7. Appendix

Table 1 The S&P 500 firms meeting corporate sustainability (CS) criteria

Ticker symbol↓	Company↓	Ticker symbol↓	Company↓
MMM	3M Co	MAR	Marriott Int'l.
ABT	Abbott Laboratories	MAT	Mattel Inc.
AMD	Advanced Micro Devices	MKC	McCormick & Co.

APD	Air Products & Chemicals Inc	MCD	McDonald's Corp.
AA	Alcoa Inc	MHP	McGraw-Hill
AIZ	Assurant Inc	NWSA	News Corporation
BHI	Baker Hughes Inc	NEE	NextEra Energy Resources
BLL	Ball Corp	NKE	NIKE Inc.
BAX	Baxter International Inc.	NSC	Norfolk Southern Corp.
BDX	Becton Dickinson	OMC	Omnicom Group
BMS	Bemis Company	PLL	Pall Corp.
BBY	Best Buy Co. Inc.	PH	Parker-Hannifin
BF.b	Brown-Forman Corporation	PEP	PepsiCo Inc.
CA	CA, Inc.	PCG	PG&E Corp.
CAT	Caterpillar Inc.	PNW	Pinnacle West Capital
CB	Chubb Corp.	PPL	PPL Corp.
CMS	CMS Energy	PX	Praxair Inc.
CCE	Coca-Cola Enterprises	PRU	Prudential Financial
CSC	Computer Sciences Corp.	RTN	Raytheon Co.
ED	Consolidated Edison	COL	Rockwell Collins
CEG	Constellation Energy Group	SHW	Sherwin-Williams
COST	Costco Co.	SIAL	Sigma-Aldrich
CSX	CSX Corp.	SO	Southern Co.
CMI	Cummins Inc.	SWK	Stanley Black & Decker
DE	Deere & Co.	SYN	Sysco Corp.
DOV	Dover Corp.	TGT	Target Corp.
DOW	Dow Chemical	TXT	Textron Inc.
DTE	DTE Energy Co.	TIF	Tiffany & Co.
EMN	Eastman Chemical	TJX	TJX Companies Inc.
ETN	Eaton Corp.	UTX	United Technologies
ECL	Ecolab Inc.	UNM	Unum Group
EIX	Edison Int'l	WMT	Wal-Mart Stores
ETR	Entergy Corp.	DIS	Walt Disney Co.
XOM	Exxon Mobil Corp.	WM	Waste Management Inc.
GD	General Dynamics	WHR	Whirlpool Corp.
GE	General Electric	WEC	Wisconsin Energy Corporation
GT	Goodyear Tire & Rubber	XRX	Xerox Corp.
GWW	Grainger (W.W.) Inc.		
HAS	Hasbro Inc.		
HON	Honeywell Int'l Inc.		

HRL	Hormel Foods Corp.		
INTC	Intel Corp.		
IBM	International Bus. Machines		
IPG	Interpublic Group		
JNJ	Johnson & Johnson		
JCI	Johnson Controls		

Table 2 Distribution of sustainable companies by Global Industry Classification Standard (GICS)

GICS Sector↓	S&P 500 companies	Percentage of all S&P 500 companies	85 sampled companies	Percentage of sample
Consumer Discretionary	82	16,40%	19	22,35%
Consumer Staples	41	8,20%	9	10,59%
Energy	37	7,40%	2	2,35%
Financials	81	16,20%	4	4,71%
Health Care	51	10,20%	4	4,71%
Industrials	60	12,00%	20	23,53%
Information Technology	72	14,40%	6	7,06%
Materials	31	6,20%	9	10,59%
Telecommunications Services	9	1,80%	0	0,00%
Utilities	36	7,20%	12	14,12%

sectors

Chart 1 The cumulative annual returns on \$1 investment on December 30, 2005 for the S&P 500 index and sustainable companies portfolio.

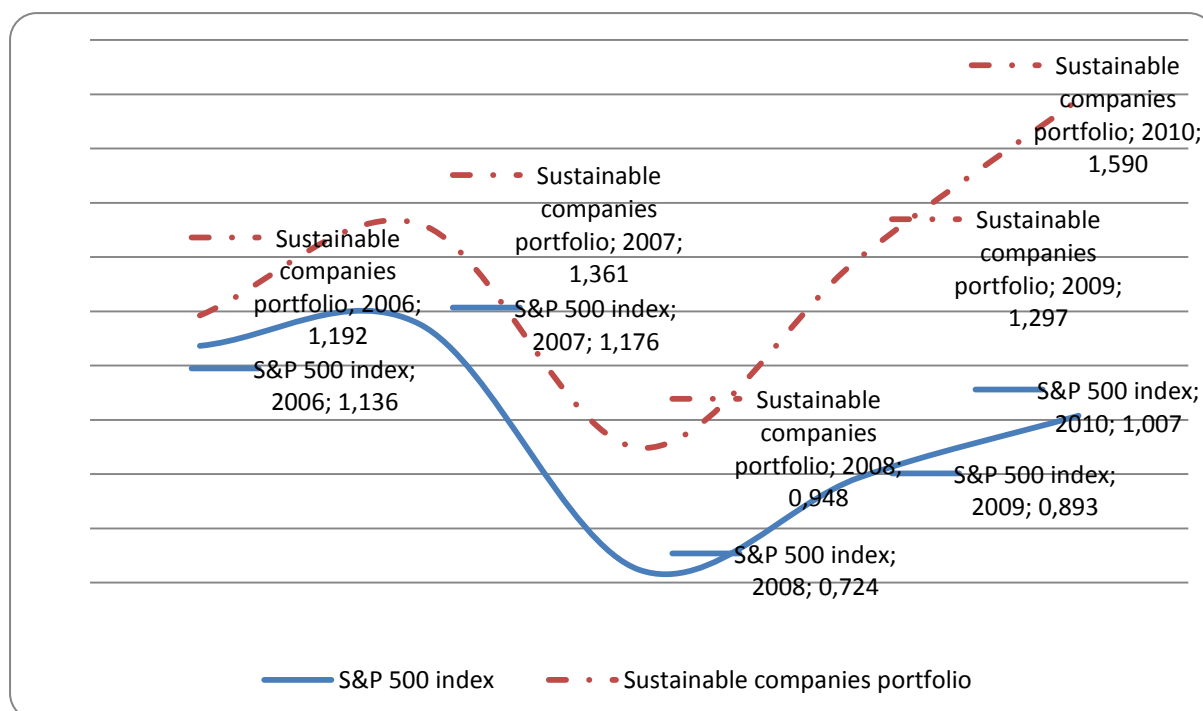


Chart 2 Annual returns for the S&P 500 index and sustainable companies portfolio during years 2006-10

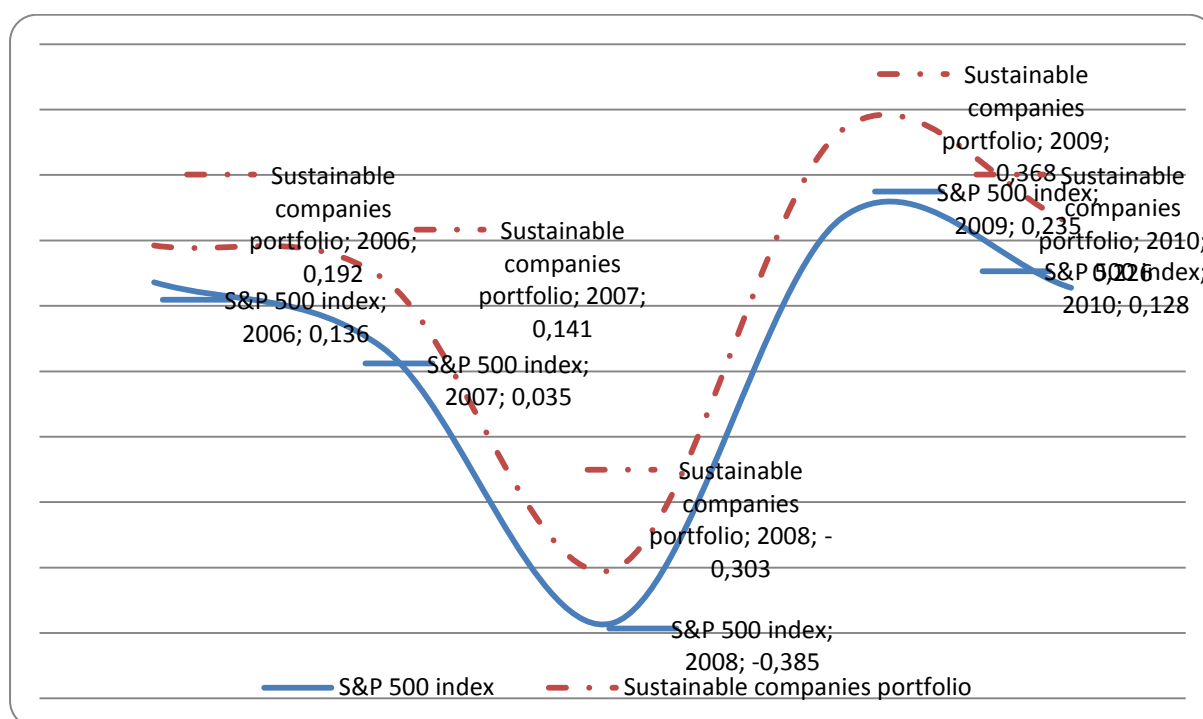


Table 3 Performance-Attribution Regressions for Sustainable Companies Portfolio

We estimate four-factor regressions (equation (2) from the text) of monthly returns for portfolio of sustainable companies. The table contains the results of investment strategy that bought firms with CS. The explanatory variables are *RMRF*, *SMB*, *HML*, and *Momentum*. These variables are the returns to zero-investment portfolios designed to capture market, size, book-to-market, and momentum effects, respectively. (See Fama and French [1993] and Carhart [1997] on the construction of these factors.) The sample period is from December 30, 2005 through December 31, 2010. Standard errors are reported in parentheses and significance at the five-percent and one-percent levels is indicated by * and ** respectively.

α	<i>RMRF</i>	<i>SMB</i>	<i>HML</i>	<i>PR1YR</i>
0,0059**	-0,0161	0,5970**	0,1465*	0,0145
(0,002)	(0,031)	(0,082)	(0,075)	(0,024)

Chart 3 Annual revenues growth rates for sustainable and unsustainable companies during years 2006-10

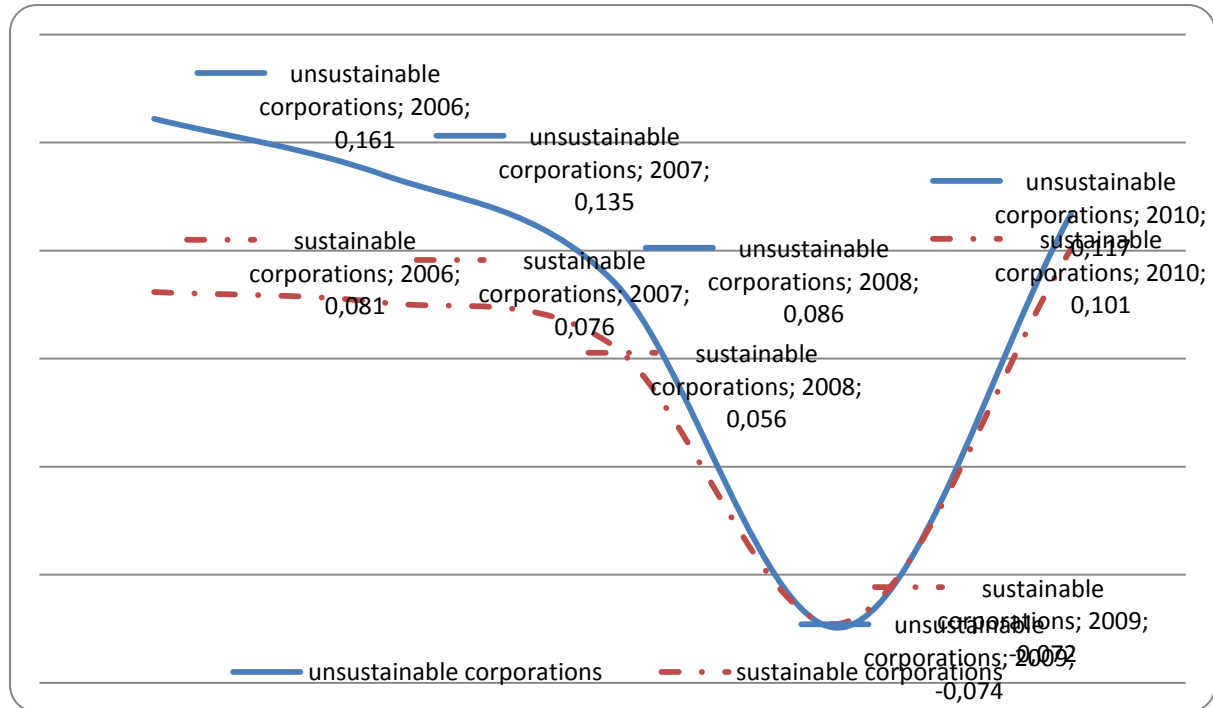
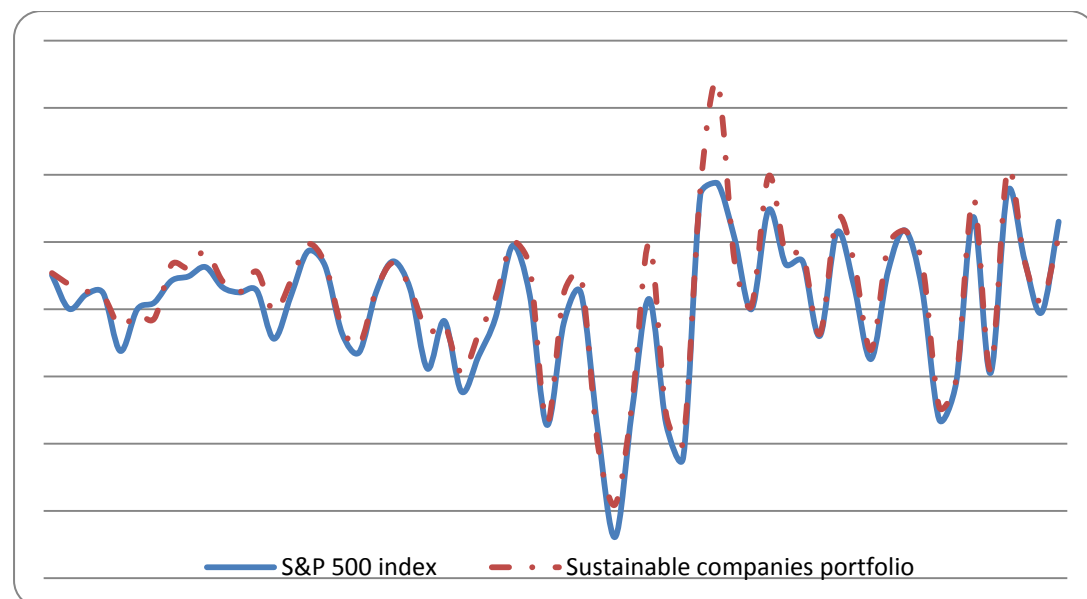


Chart 4 Monthly returns for the S&P 500 index and sustainable companies portfolio during years 2006-10



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DOES CSR REPORTING DESTROY FIRM VALUE?

EMPIRICAL EVIDENCE ON GRI-ALIGNED EUROPEAN FIRMS

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Summary

This paper contributes to the existing literature about the effects of Corporate Social Responsibility (CSR) on market valuation. In particular, we investigate the impact of sustainability reporting under the global reporting initiative (GRI) on the firm value of non-financial EUROSTOXX 600 firms. Our findings show that the highest level of GRI-aligned reporting (GRI A+) has a negative and significant influence on the firm value of smaller or less profitable firms. However, no significant impact is detected for larger and more profitable firms. These results may reflect the high costs of implementing GRI A+-level reporting for smaller or less profitable firms.

Keywords:

Corporate Social Responsibility; Sustainability Accounting; Global Reporting Initiative; market valuation; Tobin's q ; capital market

1. INTRODUCTION

Numerous academic researchers with various methodologies have attempted to answer the question of whether corporate social responsibility has a measurable impact on firm value. Several analyses, such as Guenster *et al.* (2011), refer to eco-efficiency, the ability to increase firm value while consuming fewer natural resources, as a proxy for CSR. Kempf and Osthoff (2007) suggest an approach based upon an independent rating service which focuses on the assessment of corporate social performance across a range of dimensions related to stakeholder concerns as provided by Kinder, Lydenberg, Domini & Co., Inc (KLD). Additionally, socially responsible investment (SRI) funds are used as a proxy for CSR. Kempf and Osthoff (2008) state that SRI funds have a higher ethical ranking than standard funds and find no evidence that these funds are being used as window dressing strategies.

This prior research has mainly concentrated on the impact of CSR measures on firm value. It is, however, still important to examine the influence of CSR reporting on firm value, which is the main objective of our study. Therefore we suggest using the Global Reporting Initiative (GRI) as a proxy for this. The GRI was set up with the aim of creating a standard for corporate reporting on environmental, social and economic performance. From the beginning, the objective of GRI has been to integrate sustainability into capital markets. Issues such as the protection of the biosphere, the sustainable use of natural resources, the reduction and disposal of wastes, energy conservation and the observation of human rights issues were as important as financial aspects. A standardized sustainability reporting framework was intended to promote environmentally and ethically responsible practices among firms. This framework is the most widely used standardized sustainability reporting framework in the world, used by over 3,000 worldwide organizations today. The fact that the GRI framework can be used by firms of all sizes, from small to multinational, means that data on a wide distribution of firms is available. The differentiation between three GRI application levels constitutes an objectively measurable indicator for three levels of CSR-reporting maturity.

Our empirical analysis is based on the years 2007 to 2010 and focuses on firms listed in the EUROSTOXX 600 excluding financial firms. We find evidence that reports providing the highest degree of GRI reporting (A+) result in an approximately 17% lower firm value, which is proxied by Tobin's q . It seems that the smaller or less profitable firms of our sample drive the magnitude of this finding, because our results show that the negative effect is only statistically significant for these firms alone. Therefore, extensive CSR reporting is not recommended, unless firms have reached a sufficient size and profitability. In contrast, we assume that investors in larger firms tolerate the costs of high CSR engagement and its reporting. As these firms are subject to greater media attention and are more frequently in the public eye, a loss in reputation could reduce firm value.

The remainder of the paper is organized as follows. In the second section, we give an overview of related research. In the third section, we describe ways in which CSR measures and reporting might influence firm value. Fourth, we describe the CSR data, the financial data and the research methodology. Subsequently, we present the results of our research and discuss the empirical analysis. The last chapter concludes the paper with recommendations for future research.

2. LITERATURE OVERVIEW

CSR and its impact on market valuation have been widely discussed in prior research. Apart from multiple qualitative research papers, many quantitative attempts have based their empirical analysis on regression models. The literature can be divided into three categories: acknowledging positive, negative or mixed/ neutral impact of CSR on firm value.

(i) Positive findings

Studies stating a positive relationship usually focus on management decisions, on environmental impact or on investors' point of view.

Moskowitz (1972), the pioneer of CSR research, examined the impact of CSR on management decisions. His investigation provides evidence for a positive influence of CSR on a firm's market value. Hence, CSR could be considered as an indicator for good management, which ultimately leads to better performance. Bowman and Haire (1975) took a different point of view and argued that CSR practice itself does not result in higher profits, but that it increases sensitivity for environmental factors. McGuire *et al.* (1988) find evidence that CSR is more

closely related to prior financial performance than to subsequent financial performance of the firm. They also measured a high interrelation between firms' systematic business risks and CSR. Using Tobin's q as criterion for financial implications, Wang and Choi (2010) more recently find a significant positive influence of CSR on a firm's financial performance, which is caused not only by the level of corporate social performance, but also by its consistency.

Another group of researchers focuses on environmental aspects. Blacconiere and Patten (1994) highlight the relationship between environmental disclosures and market valuation. They conclude that capital markets may view extensive environmental disclosure as an indicator for positive proactive management. Porter and van der Linde (1995) also interpret the way firms deal with environmental problems as an indicator for their overall competitiveness. Hart and Ahuja (1996) investigate the relationship between emission reduction and firms' performances. They conclude that efforts preventing pollution reach the highest yield for return on equity (ROE) within only one to two years after initiation. Russo and Fouts (1997) provide evidence for a positive link between environmental and economic performance. However, this relationship is biased by industry growth, with a higher return on environmental performance ratio in high-growth industries. Dowell *et al.* (2000) examine the influence of environmental disclosure on firm value and find that firms with a high level of environmental reporting have a higher Tobin's q . Konar and Cohen (2001) perceive an increase in firm value by the reduction of toxic chemicals emission. They find a negative correlation between bad environmental performance and intangible asset value. As already mentioned, Guenster *et al.* (2011) have also recently reported a positive relationship between eco-efficiency (leading to operating performance), and market values. Furthermore, they suggest that market's valuation of environmental activities is time variant.

Investors' interests in the topic would of course be strengthened if CSR activities would in fact regularly led to higher profits. Waddock and Graves (1997) find evidence for this empirical linkage between firms' corporate social performance and their prior financial performance, as well as their future financial performance. According to Collins and Porras (1994), visionary firms have a better relationship with their stakeholders. Graves and Waddock (2000) additionally acknowledge a financial outperformance of those firms. Moreover, Kempf and Osthoff (2007) analyse the effect of CSR on portfolio performance. Their results suggest a valuable effect of providing CSR information. These authors also show that a simple trading strategy based on this publicly available information leads to abnormal returns.

(ii) Negative findings

Based on the idea that CSR initially generates costs, some researchers provide negative results. Vance (1975) concludes that there is a negative relationship between marketplace performance and socially responsible firm rankings. He was followed by Mahapatra (1984), who examines investors' views on pollution control expenditures; he finds that they do not reward the firms for CSR activities. Wright and Ferris (1997) investigate the influence of divestment of South African business units on firm value and conclude that there is a negative effect on shareholder value. Boyle *et al.* (1997) analyse the defence industry from the investors' perspective and show a negative effect of CSR on future cash flows. Preston and O'Bannon (1997) analyse the data of 68 US firms and find a negative but insignificant relationship between CSR and financial performance. All these studies conclude that investments in social performance may lead to a lower financial value of the firm.

(iii) Mixed or neutral findings

In addition to the statistically significant positive or negative findings, there are some papers with both positive and negative effects and others with neutral findings: that is, neither positive, nor negative, nor any significant outcomes. Alexander and Buchholtz (1978) find no significant relationship between CSR and firm value. Confirming this result, Aupperle *et al.* (1985) do not find a relationship between social responsibility and financial performance. McWilliams and Siegel (2000) find evidence for a neutral direct relationship between CSR and profitability; however, according to their data, CSR seems to correlate highly with research and development (R&D) expenses, which complicates the isolation of the effect of CSR on firm performance. King and Lenox (2002) provide evidence for a positive relationship between pollution reduction and financial profits; however, they were unable to prove a direct causality. They show that firms in industries which cause less pollution have a higher Tobin's q , but confounding effects from fixed firm attributes may blur the relationship.

Hillman and Keim (2001) test the influence of stakeholder management and social issue participation on shareholder value. They conclude that shareholder wealth is increased by better relations to primary stakeholders, such as employees, customers, suppliers and communities. However, investing in social issues is not related to primary stakeholders and may therefore not create additional firm value. Renneboog *et al.* (2008) show that risk-adjusted returns of socially responsible investment (SRI) funds are not statistically different from the performance of conventional funds. From this point of view, potential underperformance of SRI funds is not directly caused by any ethical factors. Finally, Scholtens and Zhou (2008) reject a positive relation between financial performance and social strength. They also provide evidence that a firm's financial

risk is significantly related to its stakeholder concerns and conclude that this risk is highly affected by behaviour which is not perceived to be socially responsible.

3. THEORETICAL BACKGROUND AND DEVELOPMENT OF HYPOTHESES

Most of the studies from the literature review provide evidence for a positive relationship of CSR to firm value. We therefore start with the following hypothesis concerning GRI-aligned reports and its association to firm value.

H₁: The issuing of externally assured GRI-aligned CSR reports is positively related to firm value.

Creating trust among stakeholders and investment in social capital are crucial factors (Habisch *et al.*, 2004). Reliability, credibility and fairness are important but not easily measurable characteristics for signalling the intention of CSR awareness and the ability of CSR reporting. Customers are invariably attracted and retained by these “intangible” assets. We expect that the magnitude of a firm’s CSR awareness will increase with firm size. It seems logical that large firms with well-known brand names are more affected by this aspect than firms which receive less attention from the public and media, for example because they only address other firms as customers. The following aspects underpin this assumption.

Defending reputation. An increasing number of customers take the environmental and social responsibility of a firm into account during their purchase decision processes. In the past, firms which did not take such matters seriously have suffered dramatic consequences. Royal Dutch Shell’s plans to dispose of its oil storage buoy “Brent Spar” in the North Sea in 1995 and Nike’s manufacturing under inhuman labour conditions in sweatshops in the late 90s are just two examples of firms which underestimated customer reactions to controversial business decisions. With a growing social network mentality and an increasing number of globally active NGOs, customers today are even better informed of corporate actions. According to Fombrun *et al.* (2000), a firm that neglects the negative influence of reputation losses may face growing difficulties, including a decline in revenue or difficulties in accessing financial capital.

Developing reputation. Following Herremans *et al.* (1993) a firm should be aware that not only securing, but also developing reputation can be supported by CSR, in the sense of a steady corporate sustainable development. Competitive constraints lead to a continuous pressure to improve. This can lead to a growing perception of the subjective or the objective environmental and social needs of potential customers. A firm can demonstrate its sensitivity to welfare issues in order to stand out against its competitors.

War for talents. As assumed by Waddock and Graves (1997), CSR activities can also be an important success factor in a firm’s struggle for talents. According to Bhattacharya *et al.* (2008), both attracting new and motivating and retaining current employees is more challenging than ever before. The attractiveness of a firm as employer is based on not measurable attributes such as credibility, reliability and employee satisfaction, which may be supported by CSR activities. Consequently, as Hamann *et al.* (2009) show, employees are important addressees for CSR activities of small and medium firms.

The aspects mentioned above lead us to the conclusion that size might be an important influencing factor when considering the relationship between firm value and GRI reporting. This is reflected in our second hypothesis:

H₂: The influence of externally assured GRI-aligned reports on firm value is dependent on firm size.

At all stages of corporate strategic decision making, firms have to consider their profitability to survive in a competitive market environment. This also applies to CSR. Even beyond the more general factors mentioned above, reported CSR activities might have very tangible effects on profitability and growth. The following aspects should support this expectation.

Cost reduction. Critics of CSR argue that it is nothing more than a waste of money, which generates high costs and therefore negatively affects profitability (Friedman, 1970). Therefore, investors might punish that course of action by disinvesting. In contrast, according to McGuire *et al.* (1988), the financial advantages of CSR activities should be considered in the long run. In the case of product life cycle costs, there are several very tangible savings originating from CSR activity, for example the reduction of water and energy consumption, lower costs for transportation and packaging., These are obviously linked to less environmental pollution and a reduction of carbon dioxide emissions.

Financial resources. Critical accidents, such as the Exxon Valdez and the Deepwater Horizon oil spills cause tremendous financial damage. Financial losses also sensitize investors to risks arising from insufficient care about the ethical quality of a firm’s corporate actions. Hence, this will be capitalized in credit negotiations and will have an impact on interest rates and have economic consequences within the firm. On

the contrary, an adequate awareness of potential Environmental, Social and Governance (ESG) may also result in a better financial performance.

As already proposed, we assume that economic reasons for implying CSR in a firm's ultimate strategy depend on firm profitability. Therefore, with our third hypothesis we examine the interdependence between GRI reports and firm value, and how this is affected by firm profitability.

H₃: The influence of externally assured GRI-aligned reports on firm value is affected by firm profitability.

4. DATA AND METHODOLOGY

The empirical analysis of this study investigates the relationship between CSR reporting and firm value. Our sample includes 488 non-financial EUROSTOXX 600 firms²¹² and is based on the years 2007 – 2010.

(i) Global Reporting Initiative data

Issuing a dedicated CSR or sustainability report is a relatively recent corporate practice, having emerged only during the last 15 years (Bebbington *et al.* 2008). As already stated above, we find a body of literature examining the relation between CSR reporting and firm value. For the measurement of CSR awareness, we use dummy variables indicating GRI reporting of a firm. GRI published its GRI G3 sustainability reporting guidelines in 2006. Hence, we start our investigation in 2007, in order to ensure a representative number of reporting firms.

Besides GRI, researchers have used different measures for assessing a firm's CSR engagement, e.g. the KLD Index (Kinder, Lydenberg, Domini & Co., Inc.), the Fortune reputation survey or the DJSI (Dow Jones Sustainability Index). Following Gamerschlag *et al.* (2011) and Clarkson *et al.* (2008), we choose GRI here, because it is the world's most adopted sustainability reporting framework. Up to 2011, 80% of the world's largest 250 firms have provided a GRI-aligned CSR report (KPMG, 2011). Three different versions of GRI sustainability reporting guidelines have been published since its launch. Their latest update, the GRI G3.1-guidelines, was issued in March 2011. The next version GRI G4 is not expected to be published until 2013.

GRI guidelines provide a definition of relevant sustainability information for all stakeholders. They are divided into two parts, one part clarifies how firms have to report and a second part defines what firms should report about. The latter part is split into firms' profile disclosures, disclosures on firms' management approach and specified performance indicators regarding the following categories: economic, environmental and social (subclassified in labour, human rights, society and product responsibility). Furthermore, GRI provides industry-specific sector supplement performance indicators. According to the congruence between reported information and the above-mentioned requirements, firms have to state their GRI application level, "GRI A", "GRI B" or "GRI C", where "GRI A" indicates the highest level of sustainability reporting. It is recommended to seek external assurance of these reports. Firms which do so may add a "+" to their application level.²¹³

In order to ensure data quality and to eliminate a potential source of errors, we only use GRI A+, GRI B+ and GRI C+ as indicators for GRI application levels, thus external assured sustainability reports. Assuming firms' awareness of the importance of financial as well as sustainability reporting, we eliminate reports not attested by third parties. We believe that the assurance of sustainability reports should be treated in the same way as general financial reports. Consequently, stock-listed firms should have their CSR reports externally assured as a matter of course. The GRI G3 data is directly sourced from the GRI homepage.

Table 1 summarises the 1,926 GRI firm year observations included in our dataset. The number of firms reporting under GRI considerably increases over time, from 30 in 2007 to 89 in 2010. Overall, more than 12% of the observations refer to firms reporting under GRI application levels. Most notably, there is a significant rise of GRI A+ reports in the observed periods, from 16 in 2007 to 59 in 2010. The number of GRI B+ and GRI C+ reports is rather low, with 68 (28,3%) and 19 (7,9%) observations for all examined years, respectively, compared to 153 (63,8%) GRI A+ reports. This proportion is in accordance with GRI+ reports worldwide when considering the same period (GRI A+: 981 (58,4%); GRI B+: 494 (29,4%); GRI C+: 206(12,2%)).

Table 1
Summary of EUROSTOXX 600s' GRI reports (excluding financials).

	2007	2008	2009	2010	Total
Number of firms not reporting under GRI	451	426	415	394	1,686

²¹²Due to their unique balance sheet structure we exclude financial companies from the analysis.

²¹³For detailed information on GRI see: www.globalreporting.org.

Number of firms reporting under GRI	30	52	69	89	240
-GRI A+ application level	16	33	45	59	153
-GRI B+ application level	9	14	20	25	68
-GRI C+ application level	5	5	4	5	19
Total	481	478	484	483	1,926

Notes:

The table reports the number of non-financial firms reporting under GRI in general, as well as under GRI A+, GRI B+ and GRI C+, observed in the publishing years 2007, 2008, 2009 and 2010.

(ii) Firm value

We use the Tobin's q ratio of a firm (tq) for estimating firm value. Our tq -measurement is based on the procedure of Lewellen and Badrinath (1997). In addition to other existing approaches, they propose a proper identification of the vintages of fixed assets that allows an improved measure of fixed asset replacement costs. In doing so, we compute tq as ratio of the market value of the firm's financing divided by the amount of its net assets measured at replacement costs:

$$tq = \frac{\text{Total market value of outstanding securities}}{\text{Total replacement cost of net assets}} \quad (1)$$

The numerator for our tq is calculated as the sum of the market value of a firm's common stock and the book value of preferred stock, short-term debt and long-term debt. The denominator consists of the total value of a firm's assets, less the book value of inventories and fixed assets plus the estimated replacement costs of fixed assets less all liabilities other than short- and long-term debt.

According to Lewellen and Badrinath (1997), the replacement costs of fixed assets (RCF_t) is defined as the sum of new asset investments (I_t) made during the last five years ($n=5$), considering a characteristic five-year economic life, and taking into account an inflation rate of 10% p.a. (i). Hence, our RCF can be computed as follows:

$$RCF_t = \sum_{t=1}^5 \left[\left(I_t \times \frac{t}{n} \right) \times (1 + i)^{n-t} \right] \quad (2)$$

Alternatively, we use the average inflation rate in Europe from 2003 to 2010 of 2.1875% in a robustness test,²¹⁴ because it could be argued that 10% may be too high. Furthermore, we use different definitions for computing Tobin's q in order to further verify robustness. According to Bris *et al.* (2009) we use the total assets of a firm as denominator for our second Tobin's q measure ($tq2$). Based on prior research, $tq3$ is a simple market-to-book-ratio as used in Rountree *et al.* (2008) and $tq4$ is the price-to-book-ratio. Similar to Allayannis and Weston (2001) and Guenster *et al.* (2011), we finally apply an industry-adjusted Tobin's q (iq), which is measured by the difference between tq and the industry-mean q . The data for all Tobin's q variables is sourced from Thomson Reuters Datastream.

(iii) Model specification

The regressions of our empirical analysis are based on a Tobin's q framework, which is also applied by Yanbo and Jorion (2006), amongst others. In general, the model is able to estimate the relationship of a set of factors on firm valuation. For example, Rountree *et al.* (2008) investigate the impact of cash flow volatility on firm values. In our case, we begin our analysis by regressing Tobin's q on different GRI indicators. These univariate models can be written as

$$\ln(tq)_{it} = \beta_0 + \beta_1 GRI_{it} + u_{it}, \quad (3)$$

where tq is the above-mentioned Tobin's q as defined by Lewellen and Badrinath (1997). Due to the skewness of tq (mean of 1.90 vs. median of 1.46) we use the natural logarithm of the variable, which is consistent with prior research (Allayannis and Weston, 2001). In a first analysis, GRI refers to a dummy

²¹⁴Following equation (2) we take 2003 as starting year of computing RCF and 2010 as ending year. The source of inflation data is EuroStat.

variable signalling general GRI reporting of a firm, regardless of which GRI level has been applied. In subsequent analyses, GRI indicates firms reporting under the GRI A+, GRI B+ or GRI C+ application level, respectively. Based on prior research, we include a standard set of other determinants of firm value in a multivariate regression, which is shown in equation (4):

$$\ln(tq) = \beta_0 + \beta_1 GRI_{it} + \beta_2 \ln(sales)_{it} + \beta_3 div_{it} + \beta_4 growth_{it} + \beta_5 rd_{it} + \beta_6 debt_{it} + \beta_7 foreign_{it} + \beta_8 profit_{it} + u_{it}. \quad (4)$$

According to Bris *et al.* (2009) and Cheung and Wei (2006), amongst others, we use *firm size* as a control variable, which is proxied by the natural logarithm of total sales ($\ln(sales)$). We use this definition instead of total assets, because total assets are also included in the denominator of Tobin's q and might thereby lead to simultaneity problems. However, in a robustness analysis, the natural logarithm of total assets will also be applied. Based on prior research we expect a negative coefficient for this variable. We control for *access of a firm to the capital markets*, by including a dummy variable that equals one if a firm pays a dividend and zero, otherwise (div). If a firm intends investment projects and has restricted access to capital markets we expect a higher Tobin's q . Yanbo and Jorion (2006) argue that these firms will tend to select only projects with positive net present values. Dividend payments will reduce liquid funds that could – alternatively – be used for investments. Hence, a negative impact on firm value is expected. Firm value should further be related to *future investment opportunities* of a firm (Rountree *et al.*, 2008). Therefore, prior research often includes the capital expenditures of a firm divided by total sales as well as research & development (R&D) expenses divided by total assets. The R&D variable additionally controls for hidden assets as well as intangible assets. We will augment the model with both variables ($growth$ and rd) and expect a positive coefficient, respectively. Assuming *differences in the capital structure* of the firms of our sample, which might influence firm valuation, according to Bris *et al.* (2009), we use the debt-to-equity ratio as a proxy ($debt$). Most recent literature provides evidence for a negative relationship (e.g. Villalonga and Amit, 2006). In order to take *geographic diversification* into account, we augment the model with the ratio of foreign sales to total sales (Allayannis and Weston (2001)). Several theories, e.g. the internalization theory, indicate that geographic diversification increases firm values. Morck and Yeung (1991) provide evidence for this positive relation. Finally, we control for *profitability*, which is proxied by the return on assets of firm ($profit$). It seems logical that firms with higher profitability should provide higher firm value. Hence, we expect a positive sign of the $profit$ coefficient.

The data for all control variables is also sourced from Thomson Reuters Datastream. To eliminate the effects of outliers, we have winsorised our raw data (except the dummy variables) at the top and bottom 5%. All estimates are based on fixed effects regressions. We use this approach, because our GRI variables provide enough time variation and the F-Test, the Lagrange Multiplier and the Hausman test indicate that the assumptions of the pooled OLS regression and the random effects model have to be rejected, respectively (for example, estimating equation (4) including GRI A+, results in a p-value amounting to 0.0000 for all tests). According to the tests, our model/data is influenced by fixed firm-specific as well as time-specific effects. These effects have to be absorbed in order to avoid a correlation between the residual errors and other regressors. For example, if a firm provides a high degree of CSR without reporting under GRI, this effect should be captured by firm dummies. Furthermore, as suggested by Petersen (2009) and Gow *et al.* (2010) our regressions are based on firm-clustered standard errors, instead of White (1980) standard errors, Newey and West (1987) standard errors or Fama-MacBeth (1973) regressions.

Table 2
Summary of descriptive statistics

	Obs.	Mean	Std.	25%	Median	75%
tq	1,926	1.900	1.465	0.892	1.464	2.454
<i>gri=1</i>	240	1.711	1.184	0.990	1.373	2.002
<i>gri=0</i>	1,686	1.927	1.499	0.874	1.491	2.503
tq2	1,926	1.243	0.802	0.682	1.026	1.558
tq3	1,880	2.758	1.912	1.340	2.180	3.470
tq4	1,883	2.732	1.896	1.310	2.160	3.410
itq	1,926	-0.010	1.262	-0.893	-0.263	0.461
gri	1,926	0.125	0.330	0.000	0.000	0.000

<i>gria</i>	1,926	0.079	0.270	0.000	0.000	0.000
<i>grib</i>	1,926	0.035	0.185	0.000	0.000	0.000
<i>gric</i>	1,926	0.010	0.099	0.000	0.000	0.000
<i>assets</i> (€mn)	1,926	19.094	30.208	2.513	5.794	21.124
<i>sales</i> (€mn)	1,926	11.139	15.050	1.834	4.840	12.882
<i>div</i>	1,926	0.845	0.362	1.000	1.000	1.000
<i>growth</i>	1,926	0.072	0.078	0.022	0.042	0.089
<i>rd</i>	1,926	0.013	0.022	0.000	0.001	0.018
<i>debt</i>	1,926	69.961	69.259	21.372	49.036	91.689
<i>foreign</i>	1,926	0.567	0.308	0.366	0.617	0.826
<i>profit</i>	1,926	7.618	5.727	3.610	6.520	10.410

Notes:

The table reports the descriptive statistics for all variables included in our empirical analysis, where *tq* our main Tobin's *q* which is based on Lewellen and Badrinath (1997). For *tq2*, the denominator of *tq* is replaced by the total assets of a firm. *Intq3* and *Intq4* are the market-to-book ratio and price-to-book ratio of a firm, respectively.

itq is the industry-adjusted *q* which is the difference between *tq* and the industry mean of *tq*, respectively. *gri* is a dummy variable which is one for GRI reporters and zero otherwise. *gria*, *grib* and *grib* are dummy variables indicating GRI A+, GRI B+ and GRIC+ reporters, respectively. *sales* refers the total sales of a firm and *assets* to the total assets of a firm. *div* is a dummy variable which is one if a firm pays a dividend and zero otherwise. *growth* are the capital expenditures of a firm divided by total sales. *rd* are the research & development expenses of a firm divided by total assets. *debt* refers to the debt-to-equity ratio of a firm. *foreign* is the ratio of foreign sales divided by total sales of a firm and *profit* is the return on assets of a firm.

5. EMPIRICAL ANALYSIS

(i) Descriptive statistics

Table 2 reports the descriptive statistics of the applied variables. The mean of Tobin's *q* (*tq*) equals 1.90 for the whole sample. For GRI reporters, it amounts to 1.71 compared to 1.93 for non-GRI reporters. Considering *tq* over the time frame of our analysis, the ratio decreases from 2.29 in 2007 to 1.57 in 2008. It can be clearly seen that the financial crisis negatively influences firm value in 2008. In 2009 and 2010, the firm values rise to 1.85 and 1.91 respectively, which may partly be a result of the huge bailout and stimulus packages issued by the European governments. These events/effects should be absorbed by the time dummies of our estimation method.

Subsequently, we calculate the correlations between the different regressors and between the regressors and *tq*. We cannot observe any critical correlation between our variables. The correlation coefficients are far below the critical value of 80%. For example, for equation (4), the highest correlation amounts to 56%. Additionally, we calculated the variance inflation factors (VIF) for the equations. Considering equation (4), the mean VIF amounts to 1.16 and the highest VIF to 1.26. These values are far below the critical value of around 10.

(ii) Univariate and multivariate tests

The following univariate regressions analyse the mentioned *tq* difference between GRI reporters and non-GRI reporters. Table 3 presents the results for the different GRI variables. Model (1) regresses Tobin's *q* on the mentioned dummy variable indicating GRI reporting and zero otherwise. Model (2), (3) and (4) include dummy variables signalling application level GRI A+, GRI B+ or GRI C+ respectively. Model (5) includes all these three dummy variables.

Table 3
Results – univariate tests

Dep. Variable: <i>ln(tq)</i>	(1)	(2)	Model (3)	(4)	(5)
<i>gri</i>	-0.094*				

		(-1.91)			
gria		-0.166*** (-2.93)			-0.170*** (-2.73)
grib			0.02 (0.44)		-0.027 (-0.53)
gric				0.076 (1.13)	0.026 (0.37)
Constant	0.375*** (26.18)	0.378*** (28.45)	0.356*** (29.49)	0.357*** (29.70)	0.380*** (25.96)
R-squared	0.34	0.34	0.33	0.33	0.34
No of obs.	1,926	1,926	1,926	1,926	1,926

Notes:

The table presents the results for the equation $\ln(tq)_{it} = \beta_0 + \beta_1 GRI_{it} + u_{it}$, where $\ln(tq)$ is the natural logarithm of our main Tobin's q which is based on Lewellen and Badrinath (1997). In Model (1), *GRI* refers to a dummy variable indicating GRI reporters. Model (2), (3) and (4) use a dummy variable signalling GRI A+, B+ and C+, respectively. Model (5) examines all three GRI applications levels. The t-values are reported beneath the coefficient estimates in parentheses; they are computed using heteroscedasticity- and autocorrelation-consistent standard errors (standard errors clustered by firm as described in Petersen (2009)). The coefficient estimates are based on fixed effects within regressions including firm and time specific effects. Statistical significance at the 1%, 5%, and 10% levels is denoted by ***, **, and *, respectively.

Model (1) shows a negative relationship between *tq* and the GRI reporting. However, the coefficient is only significant to the 10% level. Therefore, we will not interpret this negative coefficient. In contrast, the results of model (2) clearly provide evidence that GRI A+ negatively affects firm values. This relationship is confirmed by model (5). The coefficient amounts to -0.17, in both model (2) and (5), and is negative and significant at the 1% level. For the GRI B+ and C+ application level, we cannot find a significant relationship (neither positive nor negative). However, one reason might be the low number of GRI B+ and C+ reporters within our sample.

Table 4
Results – multivariate tests

Dep. Variable: $\ln(tq)$	Model				
	(1)	(2)	(3)	(4)	(5)
gri	-0.097** (-1.98)				
gria		-0.167*** (-2.96)			-0.173*** (-2.80)
grib			0.004 (0.09)		-0.041 (-0.83)
gric				0.111** (2.09)	0.057 (0.94)
Insales	-0.170*** (-2.60)	-0.172*** (-2.64)	-0.169** (-2.57)	-0.172*** (-2.62)	-0.175*** (-2.67)
div	0.066* (1.78)	0.064* (1.71)	0.067* (1.80)	0.068* (1.81)	0.064* (1.72)
growth	1.483*** (2.91)	1.506*** (2.97)	1.438*** (2.83)	1.447*** (2.86)	1.517*** (2.99)

rd	1.912 (0.70)	1.971 (0.72)	1.839 (0.67)	1.832 (0.66)	1.969 (0.72)
debt	0.000 (-1.07)	0.000 (-1.05)	0.000 (-1.18)	0.000 (-1.20)	0.000 (-1.05)
foreign	0.107* (1.76)	0.106* (1.79)	0.108* (1.76)	0.109* (1.79)	0.107* (1.80)
profit	0.013*** (5.30)	0.013*** (5.29)	0.013*** (5.32)	0.013*** (5.34)	0.013*** (5.30)
Constant	0.280** (2.04)	0.285** (2.08)	0.268* (1.95)	0.272** (1.97)	0.290** (2.12)
R-squared	0.39	0.39	0.38	0.39	0.39
No of obs.	1,926	1,926	1,926	1,926	1,926

Notes:

The table presents the results for the equation $\ln(tq) = \beta_0 + \beta_1 GRI_{it} + \beta_2 \ln(sales)_{it} + \beta_3 div_{it} + \beta_4 growth_{it} + \beta_5 rd_{it} + \beta_6 debt_{it} + \beta_7 foreign_{it} + \beta_8 profit_{it} + u_{it}$, where $\ln(tq)$ is the natural logarithm of our main Tobin's q which is based on Lewellen and Badrinath (1997). In Model (1), *GRI* refers to a dummy variable indicating GRI reporters. Model (2), (3) and (4) use a dummy variable signalling GRI A+, B+ and C+, respectively. Model (5) examines all three GRI applications levels. *lnsales* is the natural logarithm of the total sales of a firm. *div* is a dummy variable which is one if a firm pays a dividend and zero otherwise. *growth* are the capital expenditures of a firm divided by total sales. *rd* are the research & development expenses of a firm divided by total assets. *debt* refers to the debt-to-equity ratio of a firm. *foreign* is the ratio of foreign sales divided by total sales of a firm and *profit* is the return on assets of a firm. The t-values are reported beneath the coefficient estimates in parentheses; they are computed using heteroscedasticity- and autocorrelation-consistent standard errors (standard errors clustered by firm as described in Petersen (2009)). The coefficient estimates are based on fixed effects within regressions including firm and time specific effects. Statistical significance at the 1%, 5%, and 10% levels is denoted by ***, **, and *, respectively.

Based on these first results, we have to reject our first hypothesis. We cannot provide evidence for a positive relationship. Instead, our results suggest a negative yet insignificant relationship between firm values and overall externally assured GRI reporting. Reporting under GRI A+ is associated with lower firm values of around 17%. Hence, firms with the highest CSR awareness seem to be punished by investors, due to their higher costs for e.g. more expensive CSR conform product cycles, switching costs for CSR or costs for the CSR training of their employees. However, this negative relation might result from the short time frame of our analysis. As already indicated in our data section and hypothesis development, the high awareness of CSR is a fairly recent development (GRI G3 has existed since 2006) and a negative relationship might turn into a positive one, when CSR actions, for example, lead to a reduction of water and energy consumption, lower costs for transportation and packaging in the long run.

The multivariate regressions confirm our univariate results, which is shown in Table 4. The variable indicating GRI A+ still amounts to around -0.17 and is still highly significant. For the general GRI indicator, the coefficient amounts to around -0.1 and is now significant to the 5% level. The results for GRI B+ are still in line with the univariate results. Regarding GRI C+, model (4) provides evidence for a positive and significant relation to *tq*. However, the results are not robust to model (5). Moreover, our estimates provide evidence for the expected negative effect of firm size (*ln(sales)*), which has been shown in prior literature (e.g. Lang and Stulz (1994) or Servaes (1996)). Furthermore, our results confirm the strong and consistent positive effect of growth on market valuation (e.g. Yanbo and Jorion (2006) or Yermack (1996)). The highly significant coefficient amounts to around 1.5 in all models. As expected, we find a negative relation between access to capital markets (*div*) and *tq*. However, the coefficient is only significant to the 10% level. Similar to Yanbo and Jorion (2006) our results cannot confirm a significant coefficient for the capital structure of a firm (*debt*). Our results cannot provide evidence for relationships between market values, and R&D (*rd*) and geographic diversification (*foreign*), respectively. However, we confirm the existing literature regarding a positive and significant influence of the profitability on firm values. The coefficient for profit amounts to 0.013 for all models and is significant to the 1% level, respectively. Including all these control variables, the R-Squared increases by around 5 percentage points to levels of 39%.

(iii) *Size analysis: larger vs. smaller firms*

In our second hypothesis, we state that the influence of externally assured GRI-aligned reports on market valuation is dependent on firm size. For this purpose, we estimate the two equations by dividing the sample at the median of total assets in order to be able to differentiate between larger and smaller firms. Additionally, we estimate the equations for the firms within the lowest and the highest quartile of total assets. As our univariate and multivariate tests only provide clear evidence for a consistent and significant relation between *gria* and *tq*, we will only run the size regressions for the GRI A+ variable.

The results are shown in *Table 5*. When dividing at the median we find evidence for both, the univariate and multivariate regressions that the GRI A+ coefficient is only negative and significant for the smaller firms of our sample. The coefficient is -0.31 for the univariate model and -0.32 for the multivariate model. These coefficients are much higher than those provided in *Table 4*. It seems that the smaller firms of our sample drive the magnitude of the initial coefficients. Considering the regressions based on the highest and lowest quartile of total assets, we can confirm the median analysis. The coefficient for GRI A+ application level even decreases to -0.57 and -0.58 for the univariate and multivariate model respectively. Regarding all other coefficients of the multivariate model, the results only confirm the significant relation between profitability and firm values. Taken as a whole, we can confirm our second hypothesis. The effects of GRI-aligned reports on market valuation are dependent on firm size, because we only find evidence for a negative relation when considering small firms. It seems that investors do not punish extensive CSR reporting of larger firms. These firms are more often in the public eye and receive more media attention than smaller firms. Therefore, investors anticipate that defending and developing a good reputation is very important issues for them. The past has shown that a loss in reputation resulting from a lack of interest in ecological sustainability could lead to a decline in revenue as well as firm value. In contrast, smaller firms reporting under GRI A+-level may also raise doubts about the seriousness of a CSR perspective which focuses on formal standards rather than on procedural implementation into a business culture. Hence, it seems that overambitious CSR reporting destroys firm value.

(iv) *Profitability analysis: profitable vs. less profitable firms*

In order to test our third hypothesis, we divide the sample at the median of return on assets of a firm. We also provide results for the lowest and highest quartile of return on assets. In doing so, we are able to investigate differences between profitable and less profitable firms of our sample. Our results (*Table 6*) only provide evidence for a negative and significant relation between market values und GRI A+ reporting when considering less profitable firms. The *gria* coefficient of the multivariate analysis amounts to -0.13 and -0.15 for the median analysis and quartile analysis respectively. They are significant to the 1% and 5% level, respectively. This result cannot be observed for the univariate model. Nevertheless, we consider our assumption to be justifiable. Several value relevance studies based on the Ohlson (1995) model found that observing datasets that include firms which are not profitable might lead to different results when comparing univariate and multivariate regressions. Risk factors captured by control variables play an essential role when considering this type of firm (Darrough and Ye (2007), amongst others). This aspect is confirmed by our coefficient for growth, which is only significant and positive for less profitable firms.

Table 5
Size analysis: larger vs. smaller firms

Panel A: Split at the median of total assets				
<i>Dep. Variable: ln(tq)</i>	univariate model		multivariate model	
	larger firms	smaller firms	larger firms	smaller firms
<i>gria</i>	-0.065 (-1.35)	-0.312** (-2.34)	-0.07 (-1.61)	-0.317** (-2.36)
<i>lnsales</i>			-0.141 (-1.57)	-0.234** (-2.21)
<i>div</i>			0.019 (0.57)	0.124* (1.89)
<i>growth</i>			1.573*** (2.77)	1.037 (1.11)
<i>rd</i>			-0.175 (-0.06)	1.956 (0.50)
<i>debt</i>			0.000 (-0.61)	0.000 (-1.60)
<i>foreign</i>			0.115 (1.32)	0.066 (0.89)
<i>profit</i>			0.011***	0.015***

Constant	0.242*** (16.16)	0.708*** (35.54)	(3.00) 0.328 (1.36)	(4.72) 0.613*** (3.47)
R-squared	0.34	0.38	0.4	0.44
Noofobs.	963	963	963	963

Panel B: Lowest and highest quartile of total assets

Dep. Variable: $\ln(tq)$	univariate model		multivariate model	
	larger firms	smaller firms	larger firms	smaller firms
<i>gria</i>	-0.084 (-1.50)	-0.569*** (-5.28)	-0.066 (-1.24)	-0.581*** (-5.21)
<i>lnsales</i>			-0.005 (-0.05)	-0.054 (-0.25)
<i>div</i>			-0.021 (-0.76)	0.158 (1.24)
<i>growth</i>			0.608 (0.82)	1.624 (1.03)
<i>rd</i>			4.5 (1.63)	-0.651 (-0.11)
<i>debt</i>			0.000 (0.45)	0.000 (-1.16)
<i>foreign</i>			-0.073 (-0.80)	0.16 (1.53)
<i>profit</i>			0.019*** (3.17)	0.017*** (3.57)
Constant	-0.039** (-2.03)	0.900*** (28.02)	-0.216 (-0.63)	0.436* (1.69)
R-squared	0.37	0.35	0.42	0.44
Noofobs.	481	481	481	481

Notes:

The table presents the results for the equations $\ln(tq)_{it} = \beta_0 + \beta_1 GRI_{it} + u_{it}$ and $\ln(tq) = \beta_0 + \beta_1 GRI_{it} + \beta_2 \ln(sales)_{it} + \beta_3 div_{it} + \beta_4 growth_{it} + \beta_5 rd_{it} + \beta_6 debt_{it} + \beta_7 foreign_{it} + \beta_8 profit_{it} + u_{it}$, where $\ln(tq)$ is the natural logarithm of our main Tobin's q which is based on Lewellen and Badrinath (1997). *GRI* refers to a dummy variable indicating GRI A+ reporters. *lnsales* is the natural logarithm of the total sales of a firm. *div* is a dummy variable which is one if a firm pays a dividend and zero otherwise. *growth* are the capital expenditures of a firm divided by total sales. *rd* are the research & development expenses of a firm divided by total assets. *debt* refers to the debt-to-equity ratio of a firm. *foreign* is the ratio of foreign sales divided by total sales of a firm and *profit* is the return on assets of a firm. The t-values are reported beneath the coefficient estimates in parentheses; they are computed using heteroscedasticity- and autocorrelation-consistent standard errors (standard errors clustered by firm as described in Petersen (2009)). The coefficient estimates are based on fixed effects within regressions including firm and time specific effects. Statistical significance at the 1%, 5%, and 10% levels is denoted by ***, **, and *, respectively.

Hence, it can be concluded that we can also confirm our third hypothesis. The results suggest that the influence of externally assured GRI-aligned reports on market valuation is affected by firm profitability, because only when considering less profitable firms, a negative relation between GRI A+ and firm values can be confirmed. In this case, investors penalise high CSR awareness. They seem to presume that unprofitable firms should concentrate on stabilising financial figures and invest their money in future investment growth instead. This assumption is supported by the highly positive and significant coefficient for *growth*, which increases from 1.5 (Table 4) to more than 2.6 in the quartile analysis.

Table 6
Profitability analysis: profitable vs. less profitable firms

Panel A: Split at the median of return on assets

Dep. Variable: $\ln(tq)$	univariate model		multivariate model	
	profitable	less profitable	profitable	less profitable
<i>gria</i>	-0.107 (-1.19)	-0.106* (-1.93)	-0.108 (-1.26)	-0.134*** (-2.61)

lnsales			-0.197 (-1.39)	-0.163 (-1.35)
div			0.114 (1.26)	0.036 (0.70)
growth			1.118 (1.07)	1.911*** (3.22)
rd			3.605 (0.71)	0.629 (0.16)
debt			0.000 (-0.70)	0.000 (0.06)
foreign			0.135 (1.64)	0.07 (0.90)
profit			0.015*** (2.70)	0.013* (1.89)
Constant	0.687*** (33.56)	0.079*** (3.95)	0.471 (1.50)	0.135 (0.54)
R-squared	0.43	0.26	0.47	0.32
Noofobs.	964	962	964	962

Panel B: Lowest and highest quartile of return on assets

Dep. Variable: $\ln(tq)$	univariate model		multivariate model	
	profitable	less profitable	profitable	less profitable
gria	-0.031 (-0.36)	-0.098 (-0.85)	0.033 (0.31)	-0.147** (-2.38)
lnsales			-0.232 (-0.82)	-0.089 (-0.43)
div			0.302 (1.11)	0.034 (0.31)
growth			0.377 (0.16)	2.626*** (3.43)
rd			2.733 (0.40)	-0.417 (-0.04)
debt			-0.001* (-1.87)	0.001 (0.63)
foreign			0.13 (0.84)	0.012 (0.11)
profit			0.015 (1.33)	0.006 (0.22)
Constant	0.865*** (21.85)	-0.287*** (-7.07)	0.51 (0.72)	-0.331 (-0.77)
R-squared	0.4	0.15	0.46	0.21
Noofobs.	481	481	481	481

Notes:

The table presents the results for the equations $\ln(tq)_{it} = \beta_0 + \beta_1 GRI_{it} + u_{it}$ and $\ln(tq) = \beta_0 + \beta_1 GRI_{it} + \beta_2 \ln(sales)_{it} + \beta_3 div_{it} + \beta_4 growth_{it} + \beta_5 rd_{it} + \beta_6 debt_{it} + \beta_7 foreign_{it} + \beta_8 profit_{it} + u_{it}$, where $\ln(tq)$ is the natural logarithm of our main Tobin's q which is based on Lewellen and Badrinath (1997). *GRI* refers to a dummy variable indicating GRI A+ reporters. *lnsales* is the natural logarithm of the total sales of a firm. *div* is a dummy variable which is one if a firm pays a dividend and zero otherwise. *growth* are the capital expenditures of a firm divided by total sales. *rd* are the research & development expenses of a firm divided by total assets. *debt* refers to the debt-to-equity ratio of a firm. *foreign* is the ratio of foreign sales divided by total sales of a firm and *profit* is the return on assets of a firm. The t-values are reported beneath the coefficient estimates in parentheses; they are computed using heteroscedasticity- and autocorrelation-consistent standard errors (standard errors clustered by firm as described in Petersen (2009)). The coefficient estimates are based on fixed effects within regressions including firm and time specific effects. Statistical significance at the 1%, 5%, and 10% levels is denoted by ***, **, and *, respectively.

(v) Robustness

All robustness analyses confirm the results regarding the negative effect of GRI A+ reporting on market valuation. *Table 7* reports the results for the mentioned alternative Tobin's q calculations. For the three completely different Tobin's q approaches (*Intq2-Intq4*) the coefficient for GRI A+ reporting is around -0.13. The analysis based on industry-adjusted q measures (*itq*), even provides a *gria* coefficient of -0.23, which is significant to the 5% level. The coefficient for firm size is also negative and significant for *tq2* and *itq*. We consider this result as robust, because *tq3* and *tq4* cannot really reflect the theoretical assumptions of Tobin's q . The positive and significant relation between firm values and growth can only be confirmed by the industry-adjusted q analysis. However, we find a positive and significant effect of *profit* for all dependent variables.

Table 7
Robustness tests – different Tobin's q

	Dependent variable				
	Intq	Intq2	Intq3	Intq4	itq
<i>gria</i>	-0.167*** (-2.96)	-0.135*** (-3.11)	-0.135** (-2.07)	-0.130** (-2.02)	-0.232** (-2.43)
<i>lnsales</i>	-0.172*** (-2.64)	-0.170*** (-2.87)	0.018 (0.25)	-0.009 (-0.12)	-0.258** (-2.29)
<i>div</i>	0.064* (1.71)	0.044 (1.36)	0.01 (0.31)	0.028 (0.90)	0.035 (0.70)
<i>growth</i>	1.506*** (2.97)	0.588 (1.38)	0.265 (0.65)	0.161 (0.39)	1.891** (2.00)
<i>rd</i>	1.971 (0.72)	2.349 (0.91)	1.212 (0.37)	1.584 (0.48)	2.1 (0.38)
<i>debt</i>	0.000 (-1.05)	0.000 (-0.31)	0.001** (2.56)	0.001*** (2.61)	-0.001 (-1.49)
<i>foreign</i>	0.106* (1.79)	0.128** (2.23)	0.130* (1.76)	0.115* (1.66)	0.220* (1.89)
<i>profit</i>	0.013*** (5.29)	0.014*** (6.26)	0.008** (2.58)	0.009*** (2.89)	0.019*** (3.90)
Constant	0.285** (2.08)	-0.002 (-0.02)	0.853*** (6.41)	0.879*** (6.77)	-0.092 (-0.38)
R-squared	0.39	0.43	0.48	0.48	0.30
Noofobs.	1,926	1,926	1,880	1,883	1,926

Notes:

The table presents the results for the equation $\ln(tq) = \beta_0 + \beta_1 GRI_{it} + \beta_2 \ln(sales)_{it} + \beta_3 div_{it} + \beta_4 growth_{it} + \beta_5 rd_{it} + \beta_6 debt_{it} + \beta_7 foreign_{it} + \beta_8 profit_{it} + u_{it}$, where $\ln(tq)$ (in the first regression) is the natural logarithm of our main Tobin's q which is based on Lewellen and Badrinath (1997). In the other regressions the dependent variable is replaced by *Intq2* (the denominator of tq is replaced by the total assets), *Intq3* (Market-to-book ratio of a firm), *Intq4* (Price-to-book ratio of a firm) and *itq* (Industry-adjusted q which is the difference between tq and the industry mean of tq , respectively). *GRI* refers to a dummy variable indicating GRI A+ reporters. *lnsales* is the natural logarithm of the total sales of a firm. *div* is a dummy variable which is one if a firm pays a dividend and zero otherwise. *growth* are the capital expenditures of a firm divided by total sales. *rd* are the research & development expenses of a firm divided by total assets. *debt* refers to the debt-to-equity ratio of a firm. *foreign* is the ratio of foreign sales divided by total sales of a firm and *profit* is the return on assets of a firm. The t-values are

reported beneath the coefficient estimates in parentheses; they are computed using heteroscedasticity- and autocorrelation-consistent standard errors (standard errors clustered by firm as described in Petersen (2009)). The coefficient estimates are based on fixed effects within regressions including firm and time specific effects. Statistical significance at the 1%, 5%, and 10% levels is denoted by ***, **, and *, respectively.

In addition to the fixed effects model we also estimate the random effects model via feasible generalized least squares estimation (untabulated). The coefficients for *gria* are similar to the fixed effects estimations. They amount to -0.15 and -0.12 and are significant to the 1% and 5% level for the univariate and multivariate model respectively.

As already mentioned, due to simultaneity problems regarding total assets, we have proxied *firm size* by the total sales of a firm. However, including the natural logarithm of total assets (untabulated) instead of total sales in a further robustness check leads to identical results for all coefficients of the multivariate model. The highly significant coefficient for *ln(assets)* amounts to -0.31 compared to -0.17 for sales in Table 4.

In a final sensitivity analysis, we compute *tq* based on another assumption for the inflation rate (2.1875%) and estimate the univariate and multivariate model without winsorising the data. Once again, the untabulated results are robust.

6. CONCLUSION

In the last decades, the awareness of CSR has raised in the world of business, politics and academic research. In particular, a growing need for transparency has changed the expectations regarding not only financial statements, but also CSR reports. This is shown in an increasing number of firm reports published in alignment with the GRI framework. Concerning our sample the EUROSTOXX 600, the number of examined non-financial firms reporting in alignment with GRI increased from 30 in 2007 to 89 in 2010. We are the first to provide an analysis of the interdependence between GRI-aligned reports and firm value measured by Tobin's *q*. Furthermore, we compare the effects of GRI-aligned reports on firm value for different firm sizes and for different profitability levels.

Our results provide evidence for a significantly negative influence of GRI A+ reporting on firm value. However, this influence only remains statistically significant for smaller or less profitable firms. It seems that the smaller or less profitable firms of our sample drive the results for the whole dataset. For larger or more profitable firms we cannot find a significant relation of GRI A+ to firm value.

Our results suggest that extensive CSR reporting is not to be recommended if firms have not reached a sufficient size and profitability. In these cases, the costs of implementing GRI A+ levels may simply be too high compared to the gains achieved from CSR reporting. Smaller and less profitable firms which focus on formal standards rather than on procedural implementation into a business culture seem to be punished by investors. In contrast to Dowell *et al.* (2000), we further suggest that substandard performers should not publish a high-level GRI report. However, it seems that investors tolerate extensive CSR measures of larger firms. These firms receive more media attention and publicity, and for this reason a loss of reputation due to low CSR awareness has a negative effect on firm value.

Further research is required to refine these results. Based on previous literature, benefits originating from CSR reporting may be time-variant. Due to the fact that GRI G3 guidelines have only been available since 2006, we suggest long-term studies as well as investigations of less detailed CSR reports such as GRI B+- and GRI C+-reports.

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CONSTRUCTING AN ENVIRONMENTAL ATTITUDE SURVEY

FOR FINNISH COMMUNITIES

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Summary: The aim of this paper is to discuss the use of the environmental attitude surveys as a part of corporate environmental management (CEM). In order to reach this goal this paper describes the development process of devising an environmental attitude survey indicator for Finnish municipalities and results of the first implementation round. Altogether 11,024 municipality employees answered the survey. The respondents had highly positive attitude towards environmental issues. The respondents were the least satisfied with municipalities' environmental actions. As the results of this survey follow those of the previous research this environmental attitude survey can be labelled as successful. Environmental attitude surveys used as part of CEM offer a good way of gathering feedback from the employees of the environmental work done in the company. Surveys are also a good way for the employees to participate in CEM. The practicalities of conducting the survey are also discussed.

Keywords: municipalities, environmental attitude survey, Finland, sustainable development, corporate environmental management

1. Introduction

1.1 Sustainable development in Finnish municipalities

The famous definition of sustainable development starts from the generations' possibilities to meet their needs: "to ensure that it [=humanity] meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987). The content of sustainable development is multidimensional but it usually covers social-cultural, financial-economic and ecological aspects (e.g. Rosenström and Palosaari, 2000; van der Werff, 2001; Välimäki, 2002; World Commission on Environment and Development, 1987). The different actors – corporations, governments, municipalities, consumers and non-governmental organisations – have their own role in promoting sustainable development. Especially the role of municipalities in environmental sustainability is interesting. They are important actors of the national environmental policy. Also, the activities of the municipality; such as offices, schools, hospitals, energy companies; cause environmental impacts and these impacts need to be decreased with corporate environmental management (CEM). Furthermore, the municipality employees put the municipality's environmental work into actions and in their free time the employees act as consumers.

As a part of sustainable development work, the six biggest municipalities in Finland (Espoo, Helsinki, Oulu, Tampere, Turku and Vantaa) have agreed upon a set of indicators that can be used to benchmark the development between these municipalities but also to show development inside one municipality. The municipalities have agreed primarily upon the indicators of environmental sustainability. These environmental sustainability indicators are divided into five groups (see Table 1 for more detail): general development indicators, land use and the sustainability of the urban structure, the load of the activities and eco-efficiency, the sustainability of transportation, and environmental friendly consumption and environmental education. Some of these indicators are such that the municipalities already collect data and the results of these are agreed to be presented yearly. Other indicators require more work (e.g. calculations, research projects) before they yield the results and they are agreed upon to give results every four years. (Kestävän kehityksen raportointiryhmä, 2004) Indicator "Environmental attitudes and awareness of the municipality employees" is one of the indicators that municipalities have not collected the data on and for that reason this paper focuses on the environmental attitudes and awareness of municipality employees.

Table 4 Examples of the environmental sustainability indicators of the municipalities (Kestävän kehityksen raportointityöryhmä, 2004)

The indicator group	Examples of the indicators
General development indicators	• Greenhouse gas emissions • Environmental attitudes and awareness of the municipality employees
Land use and the sustainability of the urban structure	• Percentage of recreational area • Percentage of protected area
Load of the activities and eco-efficiency	• Society's energy consumption • Specific energy consumption in municipality's own buildings
Sustainability of transportation	• Distribution of means of transportation • Amount of passengers in the public transportation
Environmental friendly consumption and environmental education	• Consumption of paper in municipality's operations • The percentage of green procurement

1.2 Aim of the paper

The aim of this paper is to discuss the use of the environmental attitude surveys as a part of corporate environmental management (CEM). In order to reach this goal this paper describes the development process of devising the indicator, an environmental attitude survey, for the Finnish municipalities and describes results of the first implementation round.

2. Environmental attitudes and environmental behaviour in surveys

2.1 The environmental attitude survey types

Measuring people's environmental attitudes has been a popular research topic. Typically environmental attitudes have been studied with self-report methods, such as interviews and questionnaires and much less often with observations (Milfont and Duckitt, 2010). This chapter categorizes the previous environmental attitude survey research and also reviews the typical content of the environmental attitude surveys.

The aims of the environmental attitude survey research can be divided into three groups. They are developing a survey method, modelling environmental attitudes and finding out environmental attitudes. Research of the first group is conducted e.g. by Bogner and Wiseman (2006), Dunlap et al. (2000) and Milfont and Duckitt (2010). Bogner and Wiseman (2006) revised the questionnaire for measuring adolescents' environmental attitudes. Dunlap et al. (2000) constructed the New Ecological Paradigm Scale. Milfont and Duckitt (2010) produced Environmental Attitudes Inventory for charting the attitudes. Modelling the construction of the environmental attitudes, the second type of environmental attitude survey research, has been conducted by Kaiser et al. (1999), Lin and Huang (2012) and Stern et al. (1993). Kaiser et al. (1999) found out that environmental behaviour can be explained with environmental knowledge, environmental values and environmental behaviour intension. Lin and Huang (2012) discovered that persons with high environmental concern are more willing to buy environmentally friendly products. Stern et al. (1993) model helps to understand the values, beliefs and intentions in relations to environmental behaviour. The third group of research, the previous environmental attitude surveys, can be broadly categorised into general public's environmental attitude surveys and corporate environmental attitude surveys and examples of both of these groups are looked into in the following.

The general public's environmental attitude surveys chart literally the environmental attitudes of a large group of people, the so called general public. The target groups of the surveys have varied. Fairly popular target groups has been the pupils or students (see e.g. Bogner and Wiseman, 1997; Costarelli and Colloca, 2004; Järvinen, 1995; Milfont and Duckitt, 2004). In Finland, surveys have been performed in order to find out the environmental attitudes of the citizens of various municipalities (Ronkanen, 2007; Veikkolainen, 1991), regions (Kokkonen, 1997; Nurminen and Aaltonen, 2005) or in whole Finland (Aalto, 1986; Elinkeinoelämän

valtuuskunta, 2001). Also the environmental attitudes have been surveyed in more restricted contexts, as in the case of campaigns: Clark et al. (2003) surveyed the attitudes of green electricity programme, Hanyu et al. (2000) the attitudes regarding recycled toilet paper and Heiskanen (1992) the consumers' attitudes of packaging waste recycling.

The corporate environmental attitude surveys focus on the attitudes of certain or multiple workplaces. Typically, managers' or employees' general environmental attitudes or their opinions of the company's environmental performance have been surveyed. Managers' environmental attitudes have been charted by Leszczynska (2010) by comparing the managers' opinions in Poland, Ukraine and Australia; by Lindell and Karagozoglu (2001) by comparing the managers' opinions in Nordic countries and USA; and by Sharma (2000) in the Canadian oil and gas sector. Employees' environmental attitudes in several companies have been surveyed by Madsen and Ulhoi (2001) in Denmark and by Ramus (2002) in 12 different countries. One particular industry sector has received a lot of attention in corporate environmental attitude surveys, namely the hotel sector. Bohdanowicz (2006) surveyed environmental attitudes of hotel managers in Poland and Sweden; López-Gamero et al. (2011) those in Spain; Min (2011) those in Xiamen, China; and Nicholls and Kang (2012) those in Michigan, USA²¹⁵.

Very seldom the environmental attitude survey research has targeted on surveying the attitudes of the employees in one company but a few exceptions exist: Koskela's (2004) Master's Thesis concentrated on the environmental attitudes of the employees of city of Tampere in Finland. Linnenluecke et al. (2009) focused on employees' sustainability attitudes as representatives of company's subcultures. Wehrmeyer and McNeil (2000) surveyed the employees' environmental attitudes in a large pharmaceutical company.

Based on the previous environmental attitude surveys, some common question types of the environmental attitude surveys can be identified. The typical questions could be labelled into four groups, which are residential environment, environmental protection, the role of the individuals and the responsibility for the environment (see Table 2 for more detail). The background variables that were most commonly asked in the previous environmental attitude surveys were occupation, type of housing, income, age and level of education. Milfont and Duckitt (2010) also provide a review of the previous surveys.

Table 5 Examples of the typical questions of the previous environmental attitude surveys

Residential environment • The speed limits should be reduced in order to decrease the environmental impacts. • Cities are better living environments than the country side. • Playground should be closer to the flat than the parking slot.	Environmental protection • The nature should be preserved although it would not increase human welfare. • Only the fortunate member of the society benefit from the environmental protection. • Plants and animals are for humans to exploit.
The role of the individuals • There is no point of me acting environmentally responsible if others do not do the same. • One person's energy conservation does not have a significant effect. • One person cannot do much to prevent the pollution.	The responsibility for the environment • The environmental non-governmental organisations are needed. • The political decision makers try to avoid their responsibility of environmental issues. • The main responsibility for environmental protection lies on the industry not on private persons.

2.2 Aspects affecting environmental attitudes

Different background variables have been found to affect the environmental attitudes. Most often, gender, age, education and place of residence are such variables.

The previous research has found women to be more environmental friendly than men. The surveys claim that women have more environmentally friendly attitudes (Aalto, 1986; Kokkonen, 1997; Milfont and Duckitt, 2004; Wehrmeyer and McNeil, 2000), women are more concerned for the environment (Bogner and Wiseman,

²¹⁵ The same popularity of the hotel sector is also visible in the general public's environmental attitude surveys, the examples of such research being that of Kang et al. (2012) and Han et al. (2011).

2006; Heiskanen and Timonen, 1996b; Tulokas, 1990), women act more environmentally friendly than men (Elinkeinoelämän valtuuskunta, 2001; Järvinen, 1995; Han et al., 2011; Nilsson and Küller, 2000; Veikkolainen, 1991) and women are willing to act more environmental friendly in the future (Koskela, 2004; Tulokas, 1990; Veikkolainen, 1991). However, not every research has received the same results. In Kempainen's (2005) research men were more environmental conscious than women. Worsley and Skrzypiec's (1998) results varied in the gender differences. Stern et al. (1993) did not report any differences in environmental values between the genders. Last, Kang et al. (2012) found that men are more willing to pay extra for environmental issues for hotel services.

In addition, the respondents' age has been found to affect the attitudes. However, the affect is not a straight forward one. Quite often youth have been found to have the most environmental friendly attitudes (Bogner and Wiseman, 1997; Costarelli and Colloca, 2004; Kokkonen, 1997; Koskela, 2004; Veikkolainen, 1991). Conversely, research also indicates that the youth's attitudes do not always convert into actions (Kokkonen, 1997; Koskela, 2004; Veikkolainen, 1991) and then elder persons have been found to act more environmentally friendly than young people (Heiskanen, 1992; Heiskanen and Timonen, 1996a). In other studies, the old people have been found to have the most environmentally friendly attitudes (Blaikie, 1992; Nummela, 2003).

The research indicates that respondents' education level has an effect on the environmental attitudes. Persons that have high education have usually more environmentally friendly attitudes (Bogner and Wiseman, 1997; Costarelli and Colloca, 2004; Elinkeinoelämän valtuuskunta, 2001; Veikkolainen, 1991) compared to persons who have low education. Lastly, respondents' living area affects also the attitudes. Persons living in urban areas are more environmentally friendly than persons living in rural areas (Heiskanen and Timonen, 1996b; Tulokas, 1990). Similarly, the persons living in rural areas are less active with environmental friendly actions than persons in urban areas (Heiskanen and Timonen, 1996b).

2.3 Environmental attitudes and environmental behaviour

Typically, the results in the environmental attitude surveys find that most of the respondents see the environmental aspects as important (e.g. Heiskanen, 1992; Kokkonen, 1997; Nurminen and Aaltonen, 2005; Veikkolainen, 1991; Worsley and Skrzypiec, 1998) and are concerned for the environment (Kaila-Kangas et al., 1994; Koskela, 2004). One possible explanation of these positive results is that the environmental protection can be considered of being a social norm and it would be regarded as objectionable to be against it (Järvinen, 1995).

The previous research of environmental attitudes has found a disparity between environmental attitude and environmental behaviour (Hodgkinson and Innes, 2000; Järvinen, 1995; Kokkonen, 1997; Lankinen et al., 2000; Viklund, 2004). For example, the research has shown that the persons that know the most of environmental issues – typically men with high education – are different than the persons that act most environmental friendly – typically women with low education (Heiskanen and Timonen, 1996b). Also, the people select the ways to be more environmentally friendly that are inexpensive (Kokkonen, 1997) and easy (Heiskanen, 1992): Recycling and energy savings are viewed positively (Koskela, 2004; Nurminen and Aaltonen, 2005) but changing own consumption habits is viewed less positively (Koskela, 2004).

3. Methods

3.1 Constructing the survey

The construction of the survey began with a literature review of previous environmental attitude surveys. Altogether 36 studies were selected to be looked through more carefully. The criteria of the selection were that the research report should include at least examples of the attitude questions, preferably the whole questionnaire. The review covered both Finnish and international research of environmental attitudes from the scientific journals and from the Finnish research institutions' databases. The first draft of the questionnaire consisted of the most often used attitude statements, altogether 107 statements. This draft was commented by the steering group and modified based on the feedback which consisted of the refinement of the wordings of the statements and the elimination of the unnecessary statements.

The main responsibility of the creating of the survey lied on the author. However, the work was followed and commented by steering group with representatives of the participating municipalities. The participating municipalities consisted of the six biggest municipalities of Finland (Espoo, Helsinki, Oulu, Tampere, Turku and Vantaa) together with the municipality of Jyväskylä. The steering group had three meetings during this

project. In the meetings, the content of the questionnaire was commented and developed. The steering group also agreed upon the scale of the response options (see “3.2 Analysing the survey” for more detail).

In the next phase, the questionnaire was piloted in order to ensure the suitability of the questionnaire, e.g. understandability of the statements and the length of the questionnaire. The piloting was done by the persons responsible for sustainable development of the departments of city of Jyväskylä. Altogether 13 persons answered and commented the questionnaire. In general, these persons were satisfied with the questionnaire. Most of the comments received regarded the wordings of single statements. Small adjustments to the questionnaire were made based on this piloting. Then the questionnaire was sent for approval to the steering group.

The last big change was to group the statements into two groups. First group consisted of statements addressing the respondents’ environmental attitudes (38 statements), divided into 9 subgroups based on the previous literature. Second group addressed respondents’ environmental actions (13 statements), divided into 2 subgroups. In other words, the questionnaire consisted of 51 statements²¹⁶. The groups of the statements are shown in Table 3. All of the statements had a 4-point Likert-scale: totally agree, somewhat agree, somewhat disagree and totally disagree; and “I don’t know” option. Gender, age, years of employment, supervisory position, level of education, municipality and the department were asked as background information.

Table 6 The structure of the questionnaire

	Name of the subgroup	Examples of the statements	Amount of the statements
Environmental attitudes	Value of the nature	- The environment should be protected although there would not be direct benefits to humans from the protection. - The environment gives me experiences and strengths.	4
	Effects of human actions on the earth	- We are about to reach the limit of human populations that the earth can take. - Humans should adjust their actions in the globe in such a way that the finite resources are not exhausted.	4
	Society’s aims	- The consumers’ consumption opportunities should be increased. - There should be more investments in the environmental protection.	4
	Environmental protection and economic growth	- It is possible to reach environmental protection and economic growth at the same time. - Economic growth should be preferred even though that would put pressure on the environment.	3
	Responsibility of the environmental matters	- The industry does not have a responsibility for environmental issues. - Only the experts need to worry about environmental issues.	4
	Knowledge of environmental matters	There is no point in starting the environmental protection actions before we have scientifically reliable	3

²¹⁶ The questionnaire is available in Finnish in Koskela (2008)

		information about the causes and consequences of the environmental problems. • Humans would act differently if they knew the true environmental effects of their actions.	
	Person's actions	• I follow the debate of the state of the environment. • There is no point of me acting environmentally friendly if others do not do the same.	4
	Environmental issues as a part of your work (attitudes)	• I would be ready to recycle more in the work place if there would be more possibilities for it. • I think it is important to save energy in the work place.	7
	Environmental protection and sustainable development in your city (attitudes)	• It is important that my city sets targets for environmental protection / sustainable development work. • In my opinion, I know a lot about my city's environmental protection / sustainability work.	5
Environmental actions	Environmental issues as a part of your work (actions)	• I often try to influence my colleagues on the importance of environmental issues. • I have made environmental proposals in my work place.	7
	Environmental protection and sustainable development in your city (actions)	• My city communicates its' employees enough about environmental protection / sustainable development. • Environmental issues are sufficiently taken into consideration in the city's procurement.	6

The survey was conducted as a web-based survey via software Webropol²¹⁷ in November 2007. The target group of the survey was municipality employees of the participating municipalities that had a work email address. The size of the target groups was estimated to be 75,170 employees, which is about 69% of the employees in the participating municipalities. The target group varied between about 50 and 100% of the whole workforce in the participating municipalities²¹⁸. Every municipality was responsible of informing the employees of the survey.

3.2 Analysing the survey

The analysing consisted of two phases. In the first phase, each response option was scaled in such a way that the environmentally best option received 4 points and the worst option 1 point. In most of the statements, the option "totally agree" was scaled with 4 points. If the option "totally disagree" would have received the maximum points, the scale was reversed. The option "I don't know" was not scaled. In the second phase, the averages of the responses were calculated. First, the averages of each subgroup were calculated and second, these subgroup averages were used to calculate the final averages of environmental attitudes and of environmental actions.

The software SPSS 15.0 was used to analyse the data. It was used to calculate the above mentioned averages and to find out whether there are differences in the answers when comparing with the background

²¹⁷ More information of the software www.webropol.fi

²¹⁸ The professions that typically do not have a work email are such as drivers in the public transportation, kitchen personnel, cleaners and gardeners. Also, in some of the units (e.g. in children's day care centres) have only one computer available for the employees.

information (municipality, gender, age, supervisory position, level of education and years of employment). The data was analysed with nonparametric tests such as Mann-Whitney and Kruskal-Wallis tests.

3.3 The respondents

Altogether 11,024 municipality employees answered the survey. Most of the respondents (73.6%) were female. Most of the respondents (80.2%) did not have managerial duties. The most common level of education was lowest level tertiary (26.3%) and higher-degree level tertiary (27.9%)²¹⁹. In average, the age of the respondents was 45.7 years (standard deviation 10.3 years). The respondents had worked in average 14.8 years in the municipality (standard deviation 10.5 years).

The amount of responses varied between about 1,000 and 3,000 in the municipalities (see Table 4 for more detail). The response rate is estimation because the amount of target group is estimation. The response rate varied between 10–30%.

Table 7 The amount of responses in the municipalities

Municipality	Amount of responses	Percentage of employees	Estimation of the response rate
Espoo	1,027	7.6%	9%
Helsinki	1,413	3.7%	7%
Jyväskylä	1,044	21.0%	21%
Oulu	1,680	17.5%	30%
Tampere	979	5.9%	7%
Turku	2,830	20.1%	26%
Vantaa	1,936	16.7%	29%

4. Results

In general, the respondents valued environmental issues highly positively. Also, their responses in environmental action statements were also very positive. The average in environmental attitude statements was 3.44 (standard deviation 0.28) and in environmental action statements 2.51 (0.48).

When comparing the responses with the background information some small differences emerged (see Table 5). Female respondents' averages were higher both in environmental attitudes and in environmental actions compared to males' averages. Persons with managerial duties had lower average in environmental attitudes but a higher in environmental actions compared to persons with no managerial duties. The highest average in environmental attitudes, when comparing the level of education, was with persons with doctorate or equivalent level of education. In environmental actions, the highest average was with persons with basic level education. Elder respondents yielded higher averages both in environmental attitude statements and environmental actions.

Table 8 The averages in environmental attitudes and actions according to some background variables

Background variable	Average in environmental attitudes	Average in environmental actions
Gender \ Significance	***	***
Female	3.48	2.53
Male	3.33	2.48
Supervisory position \ Significance	***	***
Managerial duties	3.40	2.58
No managerial duties	3.45	2.50
Level of education \	*	***

²¹⁹ "Lowest level tertiary" education equals to 2–3 years education after upper secondary education, e.g. qualification of technician engineer or diploma in nursing. "Higher-degree level tertiary" education equals to 5–6 years education after upper secondary education, e.g. Master's degree in university. (Statistics Finland 2012)

Significance		
basic level	3.46	2.66
upper secondary level	3.43	2.55
lowest level tertiary	3.44	2.52
lower-degree level tertiary	3.43	2.48
higher-degree level tertiary	3.44	2.48
doctorate or equivalent level	3.47	2.52
Age \ Significance	***	***
Less than 25 years	3.35	2.38
25–29 years	3.41	2.38
30–34 years	3.41	2.38
35–39 years	3.41	2.42
40–44 years	3.44	2.45
45–49 years	3.46	2.51
50–54 years	3.47	2.60
55–59 years	3.46	2.64
Over 60	3.41	2.65

The response distribution of the subgroups of environmental attitudes and environmental actions are presented in Figure 1. In the case of environmental attitude statements, almost all of the respondents agreed with the statements. For example with the subgroups of the value of the nature, society's aims, responsibilities of environmental matters and person's actions almost 60% of the respondents totally agreed with these statements. In the case of environmental action statements the deviation of the responses was larger: Already in the case of evaluating their own actions one third of the respondents' disagreed and in the case of municipalities' actions already two thirds of the respondents disagreed.

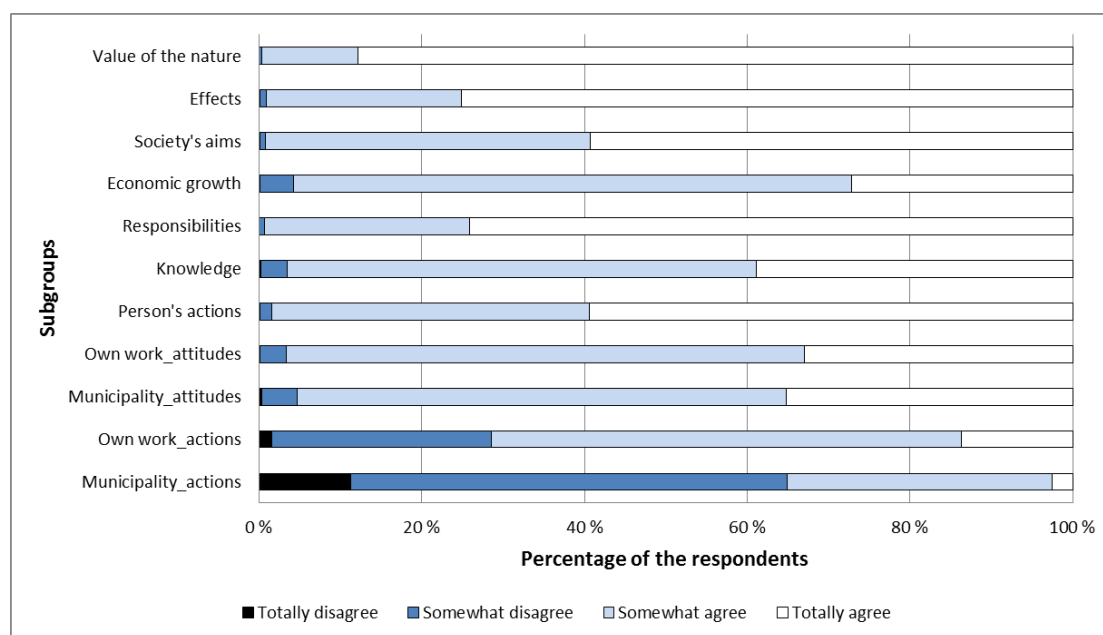


Figure 1 The response distribution in environmental attitudes and actions

5. Discussion

5.1 The evaluation of the research

The results of this research are concurrent with the results of previous environmental attitude surveys, although the differences in attitudes in this research were rather small. The very positive results of this research can be reasoned by the fact that the previous literature has found that environmental friendly people live in urban areas (Heiskanen and Timonen, 1996b; Tulokas, 1990) and have high education (e.g. Bogner and Wiseman, 1997; Costarelli and Colloca, 2004). The respondents of this survey all worked in cities and had relatively high education. The concurrence also exists with the environmental actions since there was

more deviation in this area. Also in this research the respondents were less eager to change their own actions.

The aim of the original research was to develop an environmental attitude survey for the Finnish municipalities. As this research provided concurrent results with the previous research it can be concluded that the aim of the research was fulfilled.

There are some limitations in the current research. First of all not all of the municipality employees had possibility to answer the questionnaire so these results cannot be generalized for the whole work force. The municipalities' aim was to create an easy-to-use indicator so therefore the use of web-based survey can be reasoned. The part of the workforce that easily gets neglected with this framing is the blue-collar workers as they lack the email address and/or a workstation with Internet access. Often times, they are the ones that make the decisions that have an impact in the environment so it would be important to reach these persons in the future implementation of the survey.

Second limitation was the low response rate in some municipalities. The main reason for the variation of the response rates was the different ways of communication of the survey in the municipalities. The differences related with the differences in the communication policies: e.g. mass emails were forbidden in some municipalities. Then again this is an aspect that needs further discussion in the future implementations of the survey and will also be discussed more thoroughly in the next chapter (see 5.2 The use of environmental attitude surveys as part of corporate environmental management).

Third main limitation of this research is that the results are presented as averages. To summarize attitudes as averages is not universally accepted way of operating but yet it is occasionally done in order to get a glimpse of the results. Since the standard deviation in the responses was low the use of the average does not "lose" too much information in this case. The averages, however, ease the use of this indicator as a tool in the sustainable development work in the municipalities.

Lastly, one possible explanation of the positive results of this implementation could have been that only those employees answered the survey that have very positive attitude towards environment. The possibility is supported by the fact that the response rate remained somewhat low in some municipalities. Although, the survey was tested with the persons responsible for sustainable development and they found the questionnaire understandable, the majority of the work force – i.e. persons without these duties – might not find so and therefore remain from answering the survey.

A few aspects of this research can be regarded as interesting. First of all, conducting a survey research in municipalities is highly interesting since municipalities employ a large amount of work force with multiple tasks. As the municipalities professions vary from a nurse and teacher to an office worker and an electrician, one survey can easily chart the opinions of multiple professions. Second, the interesting thing about the results was that the environmental action statements yielded dispersion. Evidently, the respondents had more to say about the environmental actions in the municipality than about the general environmental attitudes. The third interesting thing about the current research was that it reported a corporate environmental attitude survey as the majority of the previous research focuses on charting the general public's environmental attitudes. Also, interesting in this research was that the questions of this survey did not address solemnly environmental attitudes but also environmental actions.

5.2 The use of environmental attitude surveys as part of corporate environmental management

Based on the literature survey of the previous environmental attitude surveys, it seemed that this kind of research is not often performed in companies. An explanation of lack of research might be that it is performed but it is not reported in the scientific literature. Never mind the actual reason, this research will offer some thoughts of using an environmental attitude survey as a part of corporate environmental management (CEM).

The previous research has shown that role of employees in CEM is somewhat neglected at least when compared to the application of the traditional cleaner production actions. As Stone (2000) point out oftentimes the technical changes are not enough in order to achieve a good level of CEM but actions of the employees are needed. The same is also emphasized by Boiral (2002) and Perron et al. (2006). They all stress the fact that CEM requires a cultural change in the companies that employees understand that the company's good environmental performance requires actions from every employee. In the end, the employees put the CEM principles in actions as a part of their work tasks (Perron et al., 2006). Therefore it would be important to find

out how employees value the environment and what they think about the environmental actions of their company.

The employee environmental attitude survey gives important feedback of the environmental work done. It also brings the employees closer to the actual environmental work as the survey could be a channel for the employees to have their say of the environmental work in the company. This would give the signal to the employees that their role as a part of CEM is important as they ideas are asked for. Corporate environmental attitude survey provides e.g. information how well the employees know about the environmental work done in the company. It could also be a way to gather areas for improvement. This would also give the signal that CEM is not just the work of the department of environmental issues but that of each individual employee.

There are at least three important aspects that would need to be taken into consideration while using an environmental attitude survey as a tool of CEM. First, the selection of the attitude statements should be done with care. The development of attitudes cannot be seen with those statements that most respondents always agree upon. These questions might just represent issues that are generally agreed upon and valued (Lankinen et al., 2000). In this research more deviation and also more dissatisfaction was visible in the environmental action statements than in the environmental attitude statements. To summarize, the environmental actions of the company and of the employees are the place where the emphasis of a corporate environmental attitude survey should be.

Second, the aim of the survey should be carefully evaluated. A small, representative sample is sufficient when we are interested in the general attitudes of the employees while when the aim is the participation of the whole workforce then the survey should be open for every employee. If the whole workforce is targeted with the survey then attention should also be placed on the communication of the on-going survey. This research showed that active communication also raised the response rate. Also, if the whole workforce is targeted (and it can be expected that not everyone has an Internet access or capabilities of answering a web-based survey) then also a paper version of the survey should be administered. As the corporate environmental attitude survey can be used as an indicator of the importance of the environmental work, also the response rate of the survey would act as such an indicator. If the employees find the environmental work important and also the survey is such that it measures the work, then they would most likely also find the time to answer the survey.

Third, enough resources should be put aside. This is especially true if the paper questionnaires are administered. When a web-based survey, such as the survey performed here, is performed then the collection of data and also the analysing of the data go rather automatically. E.g. the Webropol survey tool can be used to construct the survey, collect and analyse the data and report the results. Of course the analysing the data and reporting the results are a bit limited with use of Webropol-type programmes but they could easily serve the needs that companies have. The amount of resources, of course, depends on the size of the company. As this research was conducted with seven organisations, this is a bit different from one company's need but still the current use of resources might offer some direction. The whole project lasted for 6 months. During that time one researcher worked for about four months which included the main tasks of reviewing the previous environmental attitude surveys, constructing the survey, collecting and analysing the data and reporting the results. These tasks were aided in the forms of comments by at least one member of each participating municipality. Lastly, the municipalities' communications departments took part in the research by communicating of the on-going survey.

6. Conclusions

The aim of this paper was to discuss the use of the environmental attitude surveys as a part of corporate environmental management (CEM). The aim was reached by describing the construction of an environmental attitude survey for the Finnish municipalities. The survey was based on the previous environmental attitude surveys publically available. The first round measurement was also conducted during the project. Altogether 11,024 employees answered the questionnaire. The respondents had highly positive attitude towards environmental issues and positive attitude towards environmental actions as well. No major differences emerged when comparing the results with the background information. As the results of this survey follow those of the previous research this environmental attitude survey can be labelled as successful.

The current research offers valuable insight in how to perform a corporate environmental attitude survey. This research emphasizes three aspects while using corporate environmental attitude surveys as part of CEM. The selection of the statements in the survey should be done carefully; the aim of the survey should be clear and enough resources should be put aside for the completion of the survey. Corporate environmental attitude

surveys offer a good way of collecting feedback from employees of the environmental work done in the company.

Further research in the use of environmental attitude surveys as a part of CEM is needed. One possible area of research would be the standardization of the questionnaire for companies as it has been a popular research area in the general public's environmental attitude surveys. Another interesting research area would be the reporting the development of the environmental attitudes and CEM in the companies.

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HIERARCHY OF GOALS AND OBJECTIVES IN AN ENTERPRISE STRATEGY IMPLEMENTATION PROCESS

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1. Introduction

Although Sustainable Development (SD) and Corporate Social Responsibility (CSR) have already been adopted to the management vocabulary and agenda in Central and East European countries (CEEC) there is still a discrepancy between the strongly related to PR activities symbolic construction of corporate identity, market image and reputation, and deliberate addressing sustainability issues to markets and societies through systematic actions. Strategy experts claim that in the XXI century the winners may take all of the markets undergoing globalization if they are able to advance their new standards making difference before rivals.²²⁰ The major question is: how such relatively new phenomena in business as SD and CSR inspire managers facing crisis impacts on sales, costs, productivity of resources, profitability and confronting rivalry from market global giants? Do they make a difference?

The Central and East European countries after joining the EU have reengineered their economies and institutions observing the social and environmental impacts of that framework change. However the scientific research activity in the area of strategy and CSR is rather restricted to focus groups, there is a large progress in running all sorts of surveys allowing for comparisons if they are professionally designed and repeatedly announced.²²¹ More and more companies are inviting to their websites, although the quality of information heavily differs and reporting sustainability issues is not yet the standard activity within corporate governance model.

In Poland 2011 small and medium sized companies account for 99, 8 % of total number of companies registered. SMEs that emerged from the systemic change rarely have business and reputational credentials stemming from continuous activity for years that allowed them to build a distinguished culture in the complex process of organizational learning. Regardless from their limited resources and competing against experienced giants in hard crisis times they forge their philosophy of survival and success. How durable is this growth? Is it sufficient to construct business models, strategies and operations only around tangible resources and results? Maybe in view of the obsolete strategies of mature companies new entrepreneurship patterns

²²⁰ Grant R.M. *Współczesna analiza strategiczna*, Oficyna Wydawnicza Wolters Kluwer, Seria Biznes, Warszawa 2011, p..32

²²¹ Journals and newspapers. Eg. Puls Biznesu, Rzeczpospolita, Forbes, organizations eg. Responsible Business Forum, Lewiatan (association of Polish private employers), Polish Business Council, Business Center Club, portals, eg. Biznes.pl.

developed in hard times in Poland and other CEE countries will become an engine of growth in Europe?²²² The discussion is mainly on the way of running business. The question, who can afford SD/CSR, appears with lower stress on values²²³.

This paper is aimed at analysis of the dominant logic behind the company strategy implementation process under the impact of turbulent environment and limited resources available at crucial moments²²⁴. It is assumed, basing on the secondary research in Poland in the field of strategy, operations, sustainable development and CSR, that in recent years more numerous Polish companies incorporate the SD and CSR issues in a very pragmatic business oriented way. So, business rules go first, other rules next, but the process of learning, especially of innovative best practices, inspires the growing number of others by the force of positive example.

There are 5 following specific questions one should ask in the situation where the dominating doubts still are: does it pay to be socially responsible and environmentally friendly?

- What is the relationship between the financial situation of a company and its propensity to increase SD/CSR activities?
- What are managers' key issues and priorities in the strategic management (short-, mid-term and long-term)?
- How global factors shape their strategic reactions?
- Are the fastest growing companies responsible and environmentally friendly?
- Who are the winners in rankings of responsible companies in Poland?

Value system is not a determining factor to force sustainability and responsibility. Knowledge and building new competences to win seem to be a driving force to combine those issues into one integrated and business viable concept.

2. Strategy in turbulent times – academic view on overcoming chaos

Turbulent environment has been well described in management studies, which are the point of departure in this paper. One of the key concepts used in strategic management textbooks is the rational prescriptive model of the strategy process consisting of analysis, design, choice and implementation stages. This model, although builds the common ground for understanding and communicating on strategy issues within an enterprise and with external stakeholders, has been undermined because of lack or too slow alignment of a company ventures with external context.²²⁵ Hamel referred to “grey-haired revolutionaries” in such companies as Charles Schwab, Cisco or GE Capital, the large and mature companies needing a fresh air to breathe, what meant passionate innovations and the end of “one - vision wonder”. Innovations however, despite of the idea and passion require adequate resources, disciplined implementation, and always mean the risk. SMEs are not buffered in such a process, so for them it is a Taoist question: how to maneuver between survival and extinction?

The key issue for the company is to keep pace with changes without sacrificing the competitive position what means an extreme stress on financial results. Strategy is no longer the “wish” thing, but more and more the “must” thing. New models have been proposed, incorporating continuous controlling activities of all strategic management process stages, scenario based planning, active experimenting, flexible operational systems to deal with change, especially in the field of building capacity needed to capture the temporary opportunity or to run large-scale processes or mega projects. From the resources point of view²²⁶ a company has to allocate and relocate tangible and intangible resources among diverse applications. The design of strategic management model should consist of three steps: setting up a consistent goals/responsibilities structure, developing scenarios and strategic objectives and, finally, developing action plans to be implemented²²⁷.

²²² L. Walesa comment to the book: A. Vizjak, A. Kwiatkowski, *Walka z rekinami biznesu. Sześciu wzrostu w konkurencji opartej na skali*, Studio Emka, ATKEARNEY, Warszawa, 2009.

²²³ Such books as S. Lachowski, *Droga innowacji*, Studio Emka, Warszawa 2010 stress the role of values in successful innovative businesses, but their impact still is marginal.

²²⁴ G. Leśniak-Łebkowska, *Zastosowanie komplementarnej logiki w integracji procesu zarządzania strategicznego. Zarządzanie strategiczne. Problemy, kierunki badań*, red. R. Krupski, Prace Naukowe Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości, Wałbrzych, 2009.

²²⁵ G. Hamel in his book *Leading the revolution*, published by the Harvard Business School Press in 2000 in the first chapter points out the end of progress, rising expectations and diminishing returns (pp.1-31) what business has to face and the answer is a revolution through innovations.

²²⁶ J. Barney, D. Ketchen Jr, M. Wright, *The Future of Resource-Based Theory: Revitalization or Decline?* Journal of Management, 10.03.2011 (on-line).

²²⁷ A. de Waal, *Strategic Performance Management. A. managerial and behavioral approach*, Palgrave, McMillan, 2007.

Fig.1. Organizational constituencies for strategy implementation (own elaboration)



In the figure 1 it is illustrated how the companies put together the needs for stability, order and control through setting up internal arrangements facilitating orientation, efficiency and effectiveness (left side). In turbulent environments the change is the king, so the forms of ventures, ranging from the lean processes up to temporary projects, should be intelligently designed as strategic vehicles of success through actions matched to perceived opportunities (right side). The management process starts from leadership, symbolic description of wishes, values, goals, etc. In the central “pipeline” there is a process of acquisition, distribution and transformation of resources into results. The key decision is about priorities in access to the most valuable tangible and intangible resources with their value being attributed in relation to the demand for them. The critical meter is time that affects all financial results: time to perceive the window of opportunity, time to mobilize forces to react, time of an operational cycle, time to get to the market with innovation, time to collect invested money back, and so on. Time-based competition became tougher with the IT and Internet solutions getting pace. The overall results represent the set of benefits, intended or unintended, each of them having

the different meaning for diverse stakeholders and influencing their decisions in next strategic cycles. The side-effects maybe positive or negative, what especially refers to environmental and social issues, frequently being followed by policy interventions.²²⁸

More universal approach than just the reactive or proactive strategy to crisis is to be considered. Management shouldn't be chaotic. Disturbed orientation may call for getting back to basics. Some will refer to goals, procedures and increased efforts to succeed, others to strengthening the base reinforcing the ability to understand, motivate, act and build conditions for smooth delivery with goals and methods being flexibly forged in this process. As a matter of fact learning needs experimenting and reflection. In business it means pragmatic, empirical and adequate strategies.

3. Three types of strategic goals – concept of staged development

In this paper three types of strategic goals are being considered, each of them reflecting major values and efforts behind them: survival, growth and sustainable development. (Fig.2). These goals refer to a company desired position on the market, in the country economy and society or, in the world. They evolve alongside with the industry life cycle, where the vast majority from the point of start is already a designated victim of the consolidation process. In four subsequent stages of the industry cycle, namely: opening, scale, focus, balance & alliance, the number of companies decreases due to concentration through M&A, amounting to 80% at the endgame.²²⁹ The only survivors are 3-4 market leaders and the same number of leaders in successful 9 types of niches.²³⁰ So, the survival is the priority, but one may survive the next stages of industry evolution only through simple growth and next by the growth building value to all important stakeholders, what implicitly means sustainability²³¹.

Fig. 2. Hierarchy and evolution of goals (own elaboration)

²²⁸ Study on the Competitiveness of the EU eco-industry, Final Report, part 2, ECORYS, Teknologisk Institut, Cambridge Econometrics, CES ifo, Idea consulting, Brussels, 22 October 2009 (ENTR/06/054). To provide the comparable approach in investigating diverse subsectors of eco-industry the methodology covers the following issues: 1. Sector overview with insight in its nature, 2. Micro data on major players in the field, 3. Competitiveness analysis and major competitiveness issues, 4. The sector and its supply chain with interrelation with other sectors (upstream and main customers), 5. The regulatory and other framework conditions (economic and social environment, regulations, labor market, R&D, innovation, technology, globalization impact), 6. A dynamic SWOT analysis, 7. An overview of potential policy issues and suggestions.

²²⁹ A. Vizjak, *Competing against scale. The growth cube in a scale-based competition. Založba, 2008*. See the fig.1.5 The consolidation endgame curve by ATKEARNEY, p. 31.

²³⁰ See: F. Kroeger, A. Vizjak, A. Kwiatkowski, *Sukces w niszach rynkowych. Strategie uzyskiwania globalnej przewagi konkurencyjnej*, Studio Emka, Warszawa, 2005.

²³¹ The concept of industry life cycles shows that at the endgame only leaders survive until the next cycle starts after a breakthrough. It gives advantage to diversified companies splitting their risks, but sustainability also means the set of competences enabling further evolution through innovativeness. So, the sustainability doesn't mean the state of everlasting safety, but the ability to go further, also through start-ups.



Each company plans to earn money from satisfying needs of customers and regardless of its size and market position, everyday fights for **survival** in a highly competitive environment. Nobody is protected against all risks. The criterion for survival in financial terms is solvency, i.e. the ability to pay all accounts. There is a set of business objectives and methods of attaining such a safe and comfortable state with accounting and financial management being the highly needed competences in management to navigate among perils. The survival issue is a must for small and medium sized companies until they find a relatively safe niche or, in case of broader ambitions, when they manage to build potential for growth. The large companies through all operations lead the survival game with their competitors, representing the comparable potential and determination to win. Sometimes the survival is at stake and the outcomes of business activities may take two forms: bankruptcy and dissolving all resources or M&A type of altering the configuration of resources (tangible and intangible) under the control of new management who proposes new strategy of market presence.

The second type of goal is **growth** in short-term, mid- term and long-term. The criterion in such a case is the company value creation, what turns attention to owners, shareholders and other stakeholders who enable the growth faster than organic, what requires external sources of capital, positioning in the marketplace, credibility, building new competences for growth enhancement. The consolidation process taking place in the global economy puts an immense pressure on companies: either they grow faster than competitors or will be marginalized to niches where they are also endangered by transnational corporations and an array of local entrepreneurs. At this stage there is a strong temptation to grow at any price. The scale of operations starts creating potential problems of business management, environmental and social impacts. The strain on the deterioration of these areas may be hampered either by ethical owners, managerial cadres and employees (endogenous factors) or by exogenous factors, such as legislation and social pressure, each of them having a variety of instruments to influence a company conduct. Growing companies are the objects of increased observation and in case of their success there is a public expectation/pressure of sharing their success with less fortunate. Then the ethics again is under contest, how much to share and with whom, so enterprises are

feeling more comfortably when adopting sponsoring policies reflecting their availability to share. It also means the development of more advanced instruments of aligning non financials with business success.

The goal of **sustainability** in a company development path requires systematic learning process and appropriate resources with the growing importance of intangibles. It is evident that large companies generating the free cash flow which can be used in diverse allocations (business, environment, society) are in a comfortable situation if it is only in line with shareholders values, agreed priorities and plans. It requires new corporate governance models and practices stretched "beyond business". Sustainable development, still is - after a long journey the business already made - a controversial and ambiguous term. Investors prefer the clear concept of ESG (Environment, Society, Governance), clearly addressing, what should be done strictly for business, what for environment, and what for society.²³² The goal of sustainability in order to be measured requires the extension of the paradigm of company value creation for the sustainable value creation. Here we are on the crossroads. Market leaders define their major responsibility as creating welfare for the society through delivering useful products and services, generating added value to be shared with stakeholders and secure the company further growth. This road leads inevitably to internationalization and globalization, with operational and financial criteria excluding any competition, what may reinforce the poverty in the world. The concept of sustainable value was introduced by Stuart Hart, the author of 70 academic papers and several books, who writes that "strategies for sustainability are often counter-intuitive: No is really yes, up is really down"²³³ From his work experience for China and India he made comparisons of the development paths and asks the question: which path will be more sustainable on the long run: to follow the OLD WAY growth of existing giants and developed countries or to base on existing values of transparency, entrepreneurship, local and rural dispersed communities to force: new urbanism, mass transit, sustainable agriculture, distributed generation, renewable energy, bottom-up entrepreneurship, IT-enabled development, inclusive wealth creation. He proposes on his blog: "Voice of the Planet" such entries as: *The New Dust Bowl*; *Decentralized, Distributed and Disruptive: the New Diseconomies of Scale*; *Beyond the Tyranny of Labor Productivity*. The choice, which way to support belongs to every individual. The practitioners investigate new ideas how to be sustainable and work out new practices. Numerous centers of excellence in scientific research are working towards proposing such a definition and based on verified cause-effect relationships model that can't be ignored by practitioners in business society, just because it is clear, opens new horizons of prosperity, although not without efforts. It has a lot in common with crisis prevention mechanisms, at least in the areas of non systematic risks. In case of systematic risks the companies strongly based on shared values are better prepared to cope with crisis and in case of large opportunities they are better prepared to jointly develop potential to make and discount a change. Such challenges made them develop more sophisticated set of incentives and instruments. They include integrated systems of management, adopting the top standards of transparency, reporting and building image of a responsible company, going beyond the regulations to prove their conduct is meeting the standards of corporate citizenship. It is more than the licensee to operate. It is the responsible partnership with other organizations and individuals who together care about sustainability having in mind the long term value of the whole civilization of Earth. Integrated strategy puts together: market position, investment objectives, society goals, value for customers, and compliance to legal regulations. In reward for its conduct the company may achieve: increased sales and profits (value for shareholders), better communication with all stakeholders and the market, increased innovativeness and more sustainable future.²³⁴

An organization usually has to pass through seven steps of CSR strategy implementation:

1. Identifying the most likely combined external triggers on the company activity,
2. Scoping what matters, what means the review of existing strategies potential to cope with perceived problems,
3. Making the business case of proposed initiatives basing on financial simulations (cost/benefit analysis) and other supportive functional strategies to choose the most attractive integrated strategy,
4. Committing to action stemming from social and leadership impact assessment on the consistency of a company strategy, fit to environment and culture,
5. Integration of existing resources and gathering lacking ones from identified sources,
6. Engaging stakeholders in the process of multilateral communication and influence,

²³² See reports on Socially Responsible Investing in publications of Social Investment Forum (USA) or Eurosif (Europe) which prove the growing importance of real investments in ECG, with SRI approaching the broad market scale from the niche position, thus becoming the feature of the modern financial market closely related to contemporary patterns of Corporate Governance, including the CSR and sustainable development reporting.

²³³ *Sustainability*, Stuart L. Hart's Monthly Newsletter, December 2011, e-mail direct message to friends.

²³⁴ Based on D.E. Hawkins, *Corporate Social Responsibility. Balancing Tomorrow's Sustainability and Today's Profitability*. Palgrave (Macmillan), NY, 2006, p.191-192.

7. Measuring and reporting that requires the indicators, data collection, review of results and lessons learned.²³⁵

4. Condition, strategies and goals of Polish SMEs in 2011²³⁶

The SMEs role in crisis is crucial due to their assumed flexibility. On the other hand their safety is endangered due to external impacts and internal weaknesses. In this point it is to be discussed the hierarchy of their goals with the use of conclusions from the PKPP "Lewiatan" 2011 report based on CBOS poll taking place on June 15- August 19 on the sample of 1501 active private companies employing 2-249 people on job contracts. The sample was divided into all 16 provinces, and into 9 sectors: manufacturing, water supply, wastes and waste water management, re-cultivation services, construction, wholesale and retail trade, transportation, storage and connectivity, lodging and catering services, information and communication services, real estate care services, professional, scientific and technical works.

In Poland there were 1,67 million companies registered accounting for 72,3% of country GDP and employing 6,5 million persons²³⁷. Their structure differs from UE average, is more dispersed: large companies (only 3,11 thousand), SMEs (share: 99,8%) , were dominated by micro firms (96%), with numbers of small (50, 2 thousand) and medium (almost 16 thousand). In terms of importance for the country economy measured by the contribution to GDP creation: large companies share was (24%) and SMEs (48,2%) with the shares of micro (30,5%), small (8%), medium (10%). Large companies employed 2,5 million persons (38,6%), medium 1,6 million (24,5%), small over 1 million (16,1%), micro 1,36 million (20,8%). The majority of SMEs were active in trade (30%), with manufacturing accounting for 11%, construction for 13%, and services for 45%.

Relatively good conduct of the Polish companies in 2011 was mainly attributed to their conservative strategies in financial management and low leveraging level with high focus on the Polish market. The drawbacks of such strategy are the limited openness to export, investments and innovativeness. The former competitive strategy based on low price (lower cost of resources, successful competition with low cost countries import and fit with local demand structure) declared by 52% of investigated companies allowed them for securing survival was supplemented with building relationships with customers and business partners at the same time followed by deliberate investments where the demand was well defined and solutions were well calculated. Present strategy, started in 2008, represents the shift from selling low cost into quality products and services for reasonable price (43, 3% respondents declared this priority against only 15,4% focusing on price) and 42,8% sustains this strategy for the nearest 2-3 years. In view of the growing adverse impact of external conditions (rising prices of energy and raw materials, demand factors, employment, inflation , exchange rates, more expensive and difficult external financing), accompanied by the country regulations, administrative procedures, fiscal policy, social costs, companies expect the drop of profits limiting the ability to grow. They will have to countervail their influence through cost rationalization, better risk management and stronger reliance on the human capital. The preferred business models are strongly dependent from knowledge and competences of cadres. That's why the respondents from all types of SMEs declare the needs in investing into human capital development (75,5-78,8%) rather than in employment cutting. The competence most searched is the experienced employee (55%). The cost cutting has a limited potential while innovativeness still is the weak side of this group. Small propensity to innovate stems firstly, from the risk awareness, second, from the shrinking profitability and increasing cost of money, except from the EU operational program "Innovative Economy" and other EU funds. There is also a limited knowledge and awareness of types of innovations. Many companies stick to their core products and services and adopt typical niche strategies available for SMEs, while ignoring the process and marketing innovations. Deep product and process innovations require stronger country platforms, as the SMEs with their individual potential are too weak to drive innovations.

These observations fall in line with the KPMG partners more detailed list of identified priorities of top managers in Poland and in the world.²³⁸ The most important priorities in Poland were:

- operations change aimed at cost efficiency (43%),
- Improved management of cash and capital turnover (32%),
- Growth through better transactions (30%),
- Preparing organization for important change of the business model (25%)

²³⁵ Based on P. Berrone, L. R. Gomez -Mejia, *Environmental Performance and Executive Compensation: An Integrated Agency-Institutional Perspective*. Academy of Management Journal, Vol.52, No.1, 2009, p. 103-126.

²³⁶ PKPP "Lewiatan", under the direction of M. Starczewska-Krzysztozek, the chief economist of Confederation, conducts a 3-year research project co-financed by European Social Fund *Monitoring the condition of the SME sector in 2010-2012*, the results each year are published and discussed during the conference.

²³⁷ December ,2009 (GUS 2011).

²³⁸ M. Grabarek, W. Stopka, A. Bernatek, HBPR.PL, maj 2012, s. 23.

- Human capital management and retention of the appropriate people (24%),
- Better risk management (21%),
- Searching for new opportunities on emerging markets (21%)
- Introduction of product innovations (20%).

10% of respondents declared incorporating of sustainable development into the company business model.

5. The growth challenge

The second type of goals becomes important in a company strategy implementation when the perceived opportunity is followed by exceptional internal motivation and potential to grow. Such companies are identified in the ranking of the most prospective companies quoted at the stock exchange, where the measure is the Total Shareholder Return (TSR).²³⁹ One may attempt to check the commitment of companies with the highest TSR to sustainability and social responsibility. The fast growth allows for generating cash that could be used for these purposes. The best WSE quoted company has earned for its shareholders during recent 3 years over 1200%. During the last 10 years the better investment for shareholders was 3000% return. TSR is based on two perspectives: internal (decision on dividends or increased value of shares) and external (share price established by the market). In general in years 2009-2011 the fastest growth rate was in food and chemical industry companies. The medium sized companies were the best handling market turbulences compared to small and large ones. Their market capitalization growth was faster than WIG, twice faster than small companies and more than twice faster as large ones. The companies most suffering from the drop of investors trust belonged to construction and development sectors.

The fastest growth rate achieved Cormay (1264%), Synthos (916%), Silvano (633%), Integerpl (598%), Kernel (465%), Abpl (454%).

When ones navigates the websites of these companies could be impressed by the core products and services, pace of investments into the future success through commercialization of innovative projects, building scale through M&A, building synergies, progressing with market consolidation, purchasing from developing countries. Products based on knowledge, in the prospective biotechnology area, like specialized medical analyzers and diagnostic laboratory tests (PZ Cormay) prove to be successful vehicle for increased value creation for shareholders. The production of unique material (like synthetic rubber in the form of emulsion for numerous industries at the top quality level, with all components of integrated system of management (quality, safety, environment), all top standards as it is in case of Synthos gives the company nr 1 in Europe and no 3 in special polystyrene, but in view of global competition requires further investments. Silvano, the producer of women underwear from Estonia, with the sales growing in central and east Europe with extentions to Asia (Russia, Kazakhstan) offers interesting returns to shareholders meeting the expectations of customers due to good business management practices. No information on sustainability issues are available. Integer.pl is a the group that grows due to the weaknesses of the Poczta Polska (state postal service), successfully developing the postal services to 500 locations in Poland from its central magazine, very efficient delivery systems allow the for dispatching the promo materials and addressed letters within 48 hours. Kernel, agricultural holding from Ukraine does not provide information, except from the financial data from the stock exchange. AB.PI is one of the Polish champions investing abroad in their area of expertise, that is the distribution of IT products, hardware, software and home appliances based on digital technology.

What turns attention in this category of companies, is that they also undergo market fluctuations and are aware of the necessity for further growth depending from the continuous flow of money from investors to support the new ventures. Their competences are mainly business ones but sustainability related to business specific features is also there, especially reputation and accountability for investors, clients and business partners. These companies are not seen in CSR rankings.

The separate ranking of the companies the fastest increasing their market value is also proposed by "The Forbes" magazine, as "The Diamonds of Forbes"²⁴⁰ in cooperation with Dun & Bradstreet Poland business intelligence agency who provided methodology and surveyed the official reports of companies delivered to KRS²⁴¹ in 2011, that met the criteria of EBIT, ROA, solvency, not lagging with taxes and exhibiting positive financial results and value of capital assets. The Swiss method combining the assets and revenues valuation allows for weighted average calculation overcoming weaknesses of just one method. The Forbes Diamond has to prove as minimum 15% -growth of market value. Companies are divided into revenue level categories,

²³⁹ Ranking TSR: Złota Akcja Biznes.pl. Poznaj 100 najlepszych spółek giełdowych. Biznes.pl/rynki/gielda/.../ranking-tsr-zlota-akcja-biznespl-poznaj-100-najlep.5106523., 19.04.2012.

There is also the ranking of the newspaper "Puls Biznesu" conducted from 13 years by PENTOR. The criteria: growth perspectives, investors relationships, management competences, quality of products and services, market success evaluated by 180 specialists from the financial market institutions.

²⁴⁰240 Diamenty Forbesa, Forbes 2012.

²⁴¹ The Country Registry Court.

grouped into provinces. The analyses are deepened by the experts look at the contingencies. The publication includes all observations of what happened recently, all new phenomena, like care for eco-innovations, logistics and wastes management, energy efficiency, changing the local business and social environment, barriers hampering development, commitment to traditions, the safest sectors in crisis, the most affected by crisis, the benefits from industry clusters, etc.

6. Business social responsibility and sustainability initiatives

The leadership in promoting CSR activities in Poland belongs to Responsible Business Forum (FOB), the nongovernmental organization that started seeding the idea of incorporating business ethics, social responsibility and environmental care into business strategies. At the beginning they mobilized the top ranking companies and popularized their responsible business practices proving that it's feasible. By force of positive examples and rivalry the innovative responsible business practices started, embracing the growing number of companies that this way could strengthen their position on the market and image in the society. At present FOB forces through their mission the concept of responsible business as the standard practice strengthening competitiveness, social satisfaction and environmental stewardship. The scope of their activity is broadening all the time, thus securing them the position of leading platform for cooperation, dialog of stakeholders and support to companies interested in CSR. One of the most popular initiatives of FOB is the ranking of responsible company. Six Rankings as so far conducted by the newspaper "Gazeta Prawna" under the auspices of FOB allow to increase the number of companies who care, the majority being constituted by large companies. The growing number (already 17) of repeatedly high position (5 times) of such companies as Schenker, Danone, Kompania Piwowarska (SAB Miller branch), TPSA (now Orange), GlaxoSmithKline, PKN Orlen, Cemex, City Handlowy, Lotos Group, Nestle PI and other prove the popularity of this initiative that every year reports attracting new debutants. Another important initiative from the point of view of this paper is the research project Managers500/Leader CSR, aimed at investigating the CSR priorities of the largest companies in Poland. The results of the 2010 survey indicates that brand and image remain the main motive behind engagement in CSR (76%), but the growing importance gain two other motives: building better relationships with local societies (76%) and long-term financial benefits (56%). It shows that the ways of achieving such goals as sustainability and responsibility are numerous and evolving over time with correspondence to business context²⁴².

The second type of agents promoting responsible and sustainable business is the association of employers.

The most representative and complex opinion survey on the CSR in Polish companies, their business environment and society in general has been done in the project "Coalition for Responsible Business" launched by the association Employers of the Republic of Poland in 2010 and financially supported by EU through European Social Fund. Six industries were investigated: ICT, pharmaceutical, FMCG, finance & insurance, construction and fuels & energy, all of them being "socially fragile" and having high impact on the economy, society and environment. The results show that only 3% of adult Poles from the representative sample heard about the term "CSR", 4% were not sure, 93% gave negative answer. The main issue in questioning respondents from 20 companies (employing apx. 100 thousand employees, selected as the representative sample) was their opinion whether their employers are responsible and how the responsible company should look from the inside. Deepened questionnaires were addressed to 126 representatives of major stakeholders: government and self government administration, legislators, industry/sectoral associations, media, science centers, key suppliers and customers, NGOs and presidents of companies. The results enabled with the use of expertise of PWC the attainment of the major goal: supporting of enterprises in implementing CSR with the use of specially constructed tools: CSR Code defining major principles, implementation manual and 6 sectoral manuals covering industry specific issues. Due to the broad media campaign 43 firms declared to join the coalition, 32 of which passed the CSR audit of PWC. Thus the new differentiating feature has been established, inspiring not only large companies with foreign capital, but also numerous Polish companies of all sizes, some of them being new, other old after deep restructuring.²⁴³

Another type of initiative belongs to Polish Confederation of Private Employers "Lewiatan" which in partnership with NSZZ "Solidarność" trade union and consulting company Deloitte organized the competition for the CSR activities the best integrated with the business strategy. Participated leading companies of the

²⁴²²⁴² www.odpowiedzialnybiznes.pl

²⁴³ www.koalicjacr.pl/badania.html (15.06.2012)

Polish economy, 20 of them won the competition achieving almost maximum scores. The idea of competition was based on the strong conviction that CSR should have strategic dimension to bring long-term results.²⁴⁴

The same moves are observed on the Warsaw Stock Exchange where some of the companies quoted there apply to be registered under the RESPECT index, meeting its requirements concerning responsibility, ecology, sustainability, participation, environment, community and transparency. Altogether Socially Responsible Investments account in Poland only for 0,3% of total assets under management (AuM). According to Eurosif during the next three years their growth will be mainly fueled by the demand from institutional investors, participation in international initiatives (e.g. UN PRI, Global Compact, ISO 26 000, UNDP regional conference on CSR- system of measuring CSR in 5 CEE countries enabling benchmarks for companies and countries)²⁴⁵ and external pressures from social groups.

So, considering the goal of sustainability/CSR, one should note that it gains popularity due to exogenous initiatives, mainly in large companies, frequently being the branches of international or global industry leaders, followed by the growing number of aspiring Polish companies looking for recognition and brand.

7. Conclusions

As the environment of business is not likely to dramatically improve and on contrary, the evolution of crisis is expected, the most important issue is how companies tackle problems and create foundations of long-term success. How many have found the strategies and business models that fit to the market, provide growth and profits due to management excellence and using the levers of sustainability and social responsibility?

The hypothesis on three types of strategic goals finds its justification in the analyzed material, despite of the secondary type of research. Crosschecking the different sources shows that some conclusions concerning the business environment are consistently repeated, regardless of the source, declared strategies and effectively implemented ones differ due to management weaknesses and unexpected or unavoidable external impacts. On the lists of winners one can find not only the same names of global leaders, who enjoy unquestionable positions in the area of applied electronics, PCs, credit cards, some cosmetics due to quality of products, strong brands and long lasting reputation. They continuously pay efforts to keep their position strong. On the move up are the young aggressive regional leaders and most dynamic specialists gaining international recognition. Polish customers highly value domestic banks, insurance companies, fuel stations, travel offices. Services evidently become the strong offer complementing the international product portfolio with value added. The growing number of successful domestic companies in the rankings illustrates their intelligent discovering of existing gaps. The listings are different, so the method of data selection matters and the way of data presentation also counts. Numerous companies still ignore the power of transparency, reporting and participating.

The institutional development brings a lot of valuable initiatives that help companies to understand more about the present rules of the business and going-beyond business game, enable them positioning themselves in the competitive settings, show the direction other companies are choosing to grow, methods they apply, some of them becoming the best practices. The positive examples reduce the risk of followers and still their diffusion brings positive impacts on the economy, society and environment.

The complex and dynamic competitive landscape is not easy to analyze and navigate on daily basis. So, the companies looking for visibility and image of high reputation encounter more problems with costs of effective marketing communication. If the information is "not organized" under the more visible initiative like a countryside ranking, it is not reaching the target. There is nothing strange that companies are more and more interested in building their position not only through just business but also through "starring" at diverse galas. Such organizations as FOB, confederations of employers, trendsetting magazines like prestigious Harvard Business Review Polska or more widely Forbes, Puls Biznesu, or coalitions of expert organizations with media partners, state agencies and business offer popularity on larger scale, multi access channels, and strengthened recognition in case of repeated success, what by definition has a lot in common with sustainability, when the criteria are more ambitious.

²⁴⁴ www.pkpplewiatan.pl; www.csrinfo.org.

²⁴⁵ www.undp.org/tools/publications.

CREATING ORGANIZATIONAL SUSTAINABILITY THROUGH AN ALIGNMENT OF STAKEHOLDER VALUES

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Summary

All organizations face the challenge of developing a sustainable strategy that will ensure the growth and survivability of the firm. To meet this challenge, several factors need to be examined. This paper attempts to address the question of organizational sustainability from the perspective of the stakeholder. An alignment of values between the organization and stakeholder is necessary to creating a strategy of sustainability. To highlight this concept, a review of the extant literature was performed and key ideas on leadership-stakeholder value alignment were identified. This discussion formed the basis for future research questions on the topic.

Key Words: Organizational Sustainability, Stakeholders, Values, Leadership

Introduction

Human society has been built around organizations. As the fundamental element of construction, organizations are as diverse as the cultures of the human experience. Within the economic sector, three primary models co-exist. Business, governmental, and non-profit comprise the three organizational types which constitute the private, public, and non-profit sectors.

The three primary models have historically existed in a mutually exclusive environment. Within the last ten years, the boundaries between the private, public, and non-profit sectors have been blurring. Businesses that were focused on profit creation are now shifting resources to the creation of social benefits while non-profit organizations have become more business-like by adopting commercial enterprise strategy and market orientation (Foster & Bradach, 2005).

All businesses face the challenge of developing organizational sustainability. Regardless of the sector in which they are grounded, all enterprises must address both internal and external factors if they are to attain any level of organizational success. Within each sector, the factors are unique, but overlap can exist.

The key to all corporations in the for-profit sector is value maximization (Wallace, 2003). The fundamental basis for this concept is maximizing value for shareholders. A shareholder mentality is moderated and in many instances replaced by the needs of a much broader group; stakeholders

Stakeholders are key constituents for all types of enterprises. Their involvement with organizations has been explored in the concept of stakeholder theory (Freeman, 1984). While stakeholder theory has been important to understanding how they interact with organizations, there exists minimal research to understand their overall impact on organizational performance (Ridley-Duff & Bull, 2011). Stakeholders represent one factor that may be related to organizational success. Additional internal factors also contribute to the sustainability question.

Leaders and leadership styles are important internal factors which exist in any organization. Their impact on organizational sustainability is a key theme in current research (Feyerherm & Breyley-Parker, 2011). Research by Hubbard (2005), and Jackson and Parry (2008) have made the distinction between leaders as people and leadership as a process. This is an important distinction for it will frame a central theme of this paper.

In examining the extant literature, a number of gaps emerge related to the impact of leadership styles and stakeholder involvement in the creation of organizational sustainability in organizations. One element in this gap analysis is the issue of values alignment between leaders and stakeholders and how a convergence in this behavior and belief system can lead to and enhance organizational sustainability.

This paper will examine the question of how the alignment of values between leaders and stakeholders can lead to promoting organizational sustainability. It will begin by developing the concept of organizational sustainability focusing on the impact of both stakeholders and leaders. Theoretical foundations of stakeholder theory will be reviewed to frame the importance of this group in the overall question. The impact of leaders

will be studied from the point of view of the leader-stakeholder perspective. Within this discussion, the idea of a values-aligned organization will be examined. The concept of values will be developed through an examination of the extant research and an identification of the potential gaps which can create the foundation for future research efforts.

Literature Review

Organizational Sustainability

All organizations, whether private, public, or non-profit must develop a strategy for ensuring sustainability. Organizational sustainability is a major challenge for all enterprises. For organizational sustainability to be created, they must clearly define how to create it.

The creation of organizational sustainability is a challenge regardless of the business model. In the for-profit sector, sustainability is built around competitive advantage, profit generation, and shareholder wealth creation (Pride & Ferrell, 2006). Sustainability is the primary objective for any organization (Moizer & Tracey, 2010). In the non-profit sector, shareholders are replaced by stakeholders.

Stakeholders are composed of groups who use the services or products of an organization, supporters who provide funding or donations, and in some markets competing organizations (Shoham, Ruvio, Vigoda-Gadot, & Schwabsky, 2006). The multiple stakeholders influence both the services delivered and the overall strategic direction of the organization (Weerawardne, McDonald, & Mort, 2010). From an organizational perspective, one may consider stakeholders as external and internal factors that influence the success of the organization.

From the previous description, one could conclude that the concept of stakeholders could be extended to all types of organizations. Stakeholders are key to organizational sustainability for they impact the overall survival of an enterprise (Ridley-Duff & Bull, 2011). Grey (2005) articulated that organizations need to develop strategies around sustainability that focus on systems that can manage competing stakeholder expectations. While one may assume that stakeholders are the key to overall organizational sustainability, other factors exist which must be addressed.

All organizations are multidimensional and are composed of social, cultural, physical, economic, and political components. Each of these dimensions is continually changing and therefore impact the composition of the organization (Clifton & Amran, 2011). Within this changing environment, organizational sustainability is a process of evolution which is based on new learning and finding the intersection of different needs (Mitleton-Kelly, 2011).

Coule (2008) has developed a model for sustainability based on the intersection of external stakeholder expectations with those of internal stakeholder expectations. Figure 1 highlights the basic relations postulated by Coule and how they meet to form a state of equilibrium.

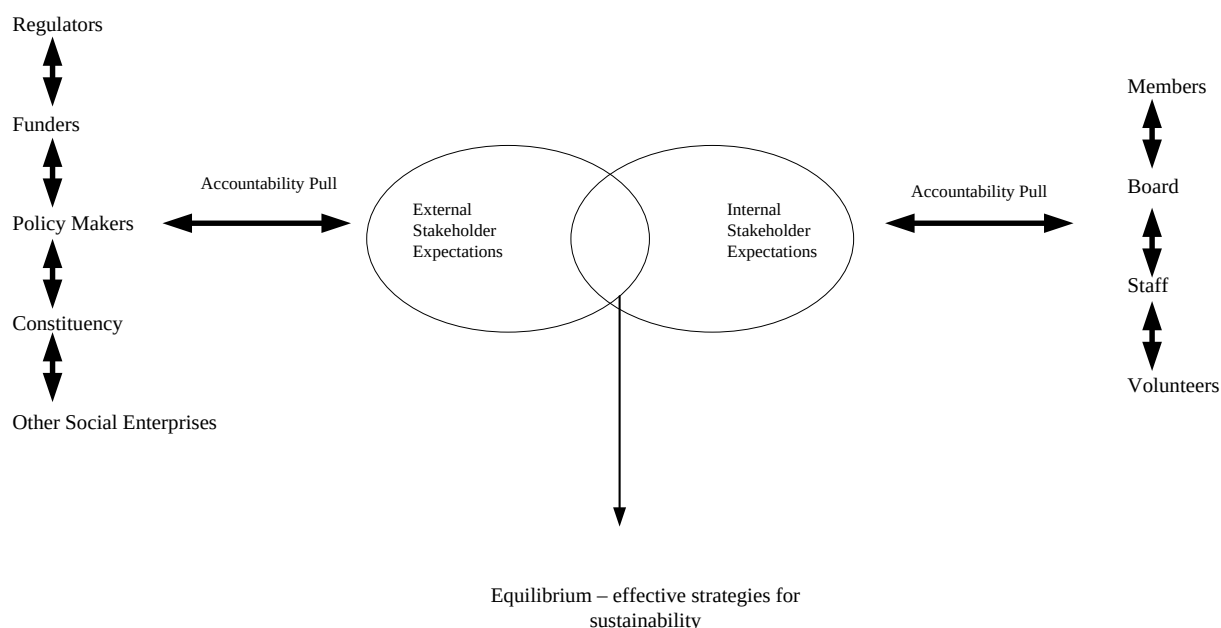


Figure 1. Developing effective strategies for sustainability. Adapted from “Understanding Social Enterprises: Theory & Practice,” by R. Ridley-Duff and M. Bull, 2011, p.190, Copyright 2011 by Sage Publications.

While the Coule model was developed for the social enterprise sector, the same basic concepts could be applied to any business type whether they are private, public, or non-profit. Based on this definition, Coule’s model has a number of elements which need to be examined.

In the Coule model, stakeholder expectations are divided into two groups: external and internal. External stakeholders, while they will vary based on the industry and business model, are considered a very important part of the overall discussion. Equally important is the group of internal stakeholders. Depending on the type of business model, one may argue that the internal stakeholder group would be more important than the external, while in another model, the power distribution would be reversed. For the purposes of developing a global idea of organizational sustainability, Coule (2008) concludes one should treat both groups in an equal manner.

The intersection of external and internal stakeholder expectations is an area of interest. One may argue the region could be a space of agreement or conflict, but Coule (2008) identifies it as an area of equilibrium. Within this space are the strategies and actions which lead to sustainability. From this diagram emerges a question on the importance of leadership and its impact on the concept of equilibrium. “To successfully make sustainability an organizational reality, leadership must put forth bold visions while engaging their organization in different, deeper conversations about the purpose and responsibility of business” (Amodeo & Cox, 2010, p. 412). This perspective lends an insight into the actions occurring at the intersection of internal and external stakeholder expectations. This is the space where leaders and stakeholders meet to create the frameworks for an organization’s overall sustainability strategy.

To understand the creation of sustainability through the interaction of leadership and stakeholder responses, both areas will need to be explored more fully. An understanding of the theoretical motivations will establish a foundation for identifying interactions for future study.

Stakeholder Perspective

Theoretical Concepts

The seminal work on stakeholder theory is grounded in a concept proposed by Freeman in 1984. The original idea of stakeholder theory as postulated by Freeman articulated that a business is responsible for the well-being of its stakeholders. To achieve this objective, leaders of the organization should manage in a manner which addresses the interest of this key group (Freeman, 1984).

While this concept created the basis for stakeholder value, the work by Tanpong, Li, and Johns (2010) identified that managing stakeholder relationships can create a competitive advantage for firms. A competitive advantage, based on stakeholder involvement, is a valuable resource for a firm due to the difficulty for competitors to duplicate (Galbreath, 2006; Hillman & Keim, 2001). The exact benefit derived from stakeholder involvement was identified by Margolis and Walsh (2007) who established a link between corporate social performance (CSP) and financial performance of the firm. Orlitzky, Schmidt and Rynes (2003) supported the findings, but found a smaller degree of positive significance between CSP and year-over-year financial performance.

The concept of stakeholder theory leads to an examination of how stakeholders actually create value for a firm. The next question is what attracts stakeholders to engage with a firm to create value? Tanpong et al. (2010) identified the concept of the norm of reciprocity as a key theoretical foundation for examining what leads to stakeholder engagement within an organization.

The norm of reciprocity is composed of two parts. The first is that people should help those that have helped them while the second is people should not injure those who have helped them (Gouldner, 1960). Reciprocity is a pattern of relationships based on exchanges. In part it implies a practical and moral component which leads to establishing commitments based on trust and mutual interest.

The work by Lawrence (2002) used the idea of reciprocity as a starting point for examining stakeholder engagement. The four key drivers he identified were cultural affinity, recognition of mutual legitimacy dedicated to building trust, a common goal set, and a capacity to act. The driver associated with legitimacy is the one concept which has been found to be important to establishing stakeholder engagement (Lawrence, 2002). Mozier and Tracey (2010) highlighted the need for organizations to build and maintain legitimacy with stakeholders if they are to create sustainability. In subsequent work, legitimacy has been found to be one of the elements necessary to meet the needs of stakeholders (Dart, 2004).

To gain a thorough understanding of stakeholder engagement and legitimacy, one must dissect the idea to see if different types of legitimacy exist and how they influence stakeholder behavior. Suchman (1995) identified three types of legitimacy which work to enhance the impact and involvement of stakeholders. Pragmatic legitimacy is based on the premise "if we get anything out of this, then we consider it legitimate" (Suchman, 1995, p. 576). Moral legitimacy frames the question from the perspective of whether an activity of an organization is proper with respect to external norms. The third idea, cognitive legitimacy, is based on stakeholder beliefs that the organization will always fulfill their expectations.

Suchman's legitimacy levels identify a number of key concepts. If organizations do not produce outcomes of perceived value for stakeholders, their pragmatic legitimacy is questioned. The idea of a cognitive legitimacy causes stakeholders to view the firm as an entity of last resort or one that will always address their needs. The moral claim of legitimacy is perhaps the strongest and most compelling. It explains the emergence of a social benefit in firms, while at the same time creating a sense for its future (Suchman, 1995).

While most of the work on moral legitimacy has occurred within the last 20 years, one can examine the writings of Plato to find similar comparisons. Plato's *Republic* addresses the need for moral legitimacy if the city is to engage all who are bound to creating a successful future. Plato further expands the idea to encompass the idea of values and how the city's leaders need to be the keepers of this key element (Plato, 1906/1935).

Plato's idea of leadership and moral focus is highlighted in the work of Maak and Pless (2006). They highlight the need for a firm to act responsibly to all stakeholders if they are to achieve long term success. The basis of their argument is the involvement of leaders in creating a concept of responsible leadership. Groves and LaRocca (2011) expanded the idea to include a discussion on values and ethics. Their focus is on the creation of a values-based relationship between stakeholder and leadership which ties together the needs of both groups.

All firms need to develop organizational sustainability. Stakeholder involvement is critical to the development of a sustainable model. Stakeholder engagement is predicated on the idea of legitimacy. Legitimacy can have a number of traits, but moral legitimacy is the strongest driver. To achieve a degree of moral legitimacy, firms must consider creating values-based relationships. To understand how leaders and leadership traits can positively impact the creation of value-based relationships we must examine what are values and what are their various elements. To continue the discussion, one needs to focus on the impact of leaders and specifically the styles which can lead to developing a values alignment with stakeholders.

Leadership Perspective

What is leadership and what defines a leader? Bass (2008) states that leadership is one of the most widely studied constructs in the field of management. The writings of Plato identify a leader as a weaver whose main task was to weave together different kinds of people into the fabric of society (Plato, 1906/1935). The fabric of society forms social relationships that require management or as Balkundi and Kilduff (2005) argue, leadership.

According to Smircich and Morgan (1982), leadership has two main components. It is values-based and it is related to the societal norms of the organization of which it is a part. The interdependent relationship of an organization to a leader and to a style of leadership is very important. A leader's judgment affects the culture of an organization while the cultural components of the organization influence a leader's decisions (Hitt, Ireland, Simon, & Trahms, 2011). To this point, the terms leader and leadership have been used somewhat interchangeably. It is important to note the work of Hubbard (2005) along with Jackson and Parry (2008) made the distinction between leaders as people and leadership as a process. With this clarifying definition in place, one can move forward to identify leader traits and leadership styles that impact stakeholder engagement.

Leader-Stakeholder Interface

How leaders interact with stakeholders is in an era of transition. Leaders are moving to rely on nonhierarchical relationships (Schneider, 2002). This transition directly addresses how leaders interact with stakeholders. Groves and LaRocca (2011) highlighted effective leaders are moving toward cooperative stakeholder relationships.

A refocusing of leadership efforts to address stakeholders is being viewed as critical to developing long-term business success (Maak & Pless, 2006). A number of studies highlight the practical implications of how cooperative stakeholder relationships can facilitate positive outcomes for organizations (Groves & LaRocca, 2011; Windsor, 2010). The attention to the world of the stakeholder creates a stakeholder society based on a system of balances. Leadership in this new society is a balance between "external pressures of conflicting interests and demands of stakeholders and internal tension of being a consistent person that leads with integrity" (Maak & Pless, 2006, p. 101).

To achieve this balance, leaders must build enduring and mutually beneficial relationships with all relevant stakeholders. They must be able to determine and assess a stakeholder's ability to influence and affect the overall performance of the organization so as to develop a working balance (Schneider, 2002). The search for balance leads to the conclusion that leaders must be sensitive to the world in which they operate (Wheeler & Sillanpaa, 1997). This sensitivity is achieved through engaging stakeholders in an active dialogue designed to understand their needs and interests. A process of reflection is used to assess these needs and to align them with the needs of the organization (Mittleton-Kelly, 2011). In the end, stakeholder relationships should be a priority for a leader. To achieve this ability of building bridges to stakeholders, it is necessary to identify the key traits and style that align leaders with stakeholders (Maak, 2007).

Traits and Styles

To be able to identify a key style or styles that would predispose a leader to be stakeholder focused, it is necessary to first examine the global set of traits inherent in all leaders. This global view can then be focused to identify those traits which lead to a values-centered orientation.

All leaders regardless of the organization function in complex environments of competing demands. A key trait of leaders who operate in an environment of paradoxes is the ability to juxtapose contradictory elements. To effectively achieve this goal, a leader must have complex emotional and cognitive capabilities. They must possess a keen set of problem solving skills coupled with the ability to quickly identify competing points of view. Added to the aforementioned traits is the quality of mindfulness coupled with the ability to avoid defensive behaviors (Smith, Lewis, & Tushman, 2010). The work of Schneider (2002) identified a similar linkage to cognitive, emotional, and behavioral abilities as being essential for leaders to cope with complex environments.

To begin to focus on value-centered traits, one can examine the work of Ciulla (2006). This research effort identified three traits key to a values-centered orientation. Ciulla found leadership takes place in relationships that are grounded in ethics. The second tenant is leadership is based on values derived from the ethical orientation of the leader and society. The final trait is to build ethically sound relationships toward all stakeholders. These findings relate to the original concepts identified by Smircich and Morgan (1982) that all leadership is values based.

Efforts to identify effective styles related to stakeholder engagement have resulted in the identification of two styles. Adaptive leadership is a style that is required in response to situations where no clear expertise or no

single person has credibility. In the case of stakeholder theory, this style of leadership can arise when organizational legitimacy is lacking (Feyerherm & Breyley-Parker, 2011). From the standpoint of a values-based construct, adaptive leadership provides minimal insight.

The second potential style is transformational leadership. From a purely theoretical perspective, transformational leadership motivates followers by raising their level of awareness about the importance of designated outcomes and by transforming follower's personal values to support the collective vision of the organization (Bass & Bass, 2008; Coule, 2008; Groves & LaRocca, 2011; Maak & Pless, 2006). Can this single construct of leadership align a values-centered approach to engaging stakeholders in an organization with the end result being sustainability? Pless (2007) argues that transformational leadership aims to examine and understand the dynamic process between leaders and stakeholders that leads to responsible behavior and action for social change. The conclusion is the creation of leaders and stakeholders who are connected through a shared sense of meaning and purpose. While the comments by Pless offer a promising direction, the current body of literature lacks consistent evidence to support the conclusion in part due to a lack of empirical research (Groves & LaRocca, 2011).

Values Alignment

All organizations must develop a strategy for sustainability. To achieve this objective, the involvement of stakeholders is a required element. To understand this concept, one must identify the factors that aid in engaging stakeholders with an organization. The role of the leader and the style is critical to developing an environment in which stakeholders wish to participate. While traits, needs, and importance of creating a values-aligned organization are key, a need exists to examine what are values and how are they manifested within organizations.

When one asks the question, "What are values?" numerous answers are offered. Values are both multidimensional and multidisciplinary in nature. On a personal level, Meglino and Ravlin (1998) offer a value as a person's internalized belief about how he or she should behave. Feather (2003) viewed values as a set of beliefs that describe a desirable way of behaving. Both of these definitions look at values on a personal level. While values exist on a personal level, they can also be assumed to guide behavior when placed in the context of other situational factors (McShane & Glinow, 2001).

Situational factors lead to a further refinement of the definition of values. Furst, Cable and Edwards (2001) refine the situational question to state values are either espoused or enacted. Espoused values are what people say whereas enacted values are based upon what people do. Both lead to the classic definition of values.

Rokeach (1973) offered the seminal definition of values as an "enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state" (p. 167). By offering this definition, Rokeach identifies values as having both a personal and social component. From an organizational sustainability perspective, how does this align with the idea of leadership, as a personal effort, and stakeholder involvement, as a social framework? To understand this question, one must examine the hierarchical nature of values.

Hierarchy of Values

The idea of values forms a construct that is hierarchical in nature. Agle and Caldwell (1999) offered the first understanding of this structure. Their work identified five interdependent levels of values. Their research identified values being aligned along individual, organizational, institutional, societal, and global groups. Within these five groups, they found interconnections between the various levels. Other researchers found similar groupings with the exception of institutional. This element was further refined to be an identification of group values (Maierhofer, Rafferty, & Kabanoff, 2003). To understand how values contribute to creating organizational sustainability within the context of a leadership-stakeholder exchange, one must first understand the value alignment at the individual, group, and organizational level.

The individual value grouping is the foundation for the overall hierarchy of values. An individual's values can be influenced at many points in their development. At the time of entry into an organization, a firm can influence the work values that individuals develop and the degree to which new members endorse the firm (Agle & Caldwell, 1999). Once an individual is part of an organization, values are important for they influence behavior in an ongoing and consistent fashion. This is extremely important as individuals face periods of change within an organization.

Boxx, Odom, and Dunn (1991) examined the congruence between an individual's perception of their organization's values and their ideal preference regarding these values. This examination was done to assess how the alignment of an individual's values might influence their reaction to and a willingness to

participate in change. They found a high correlation between individual's whose values aligned with their organization and their willingness to support periods of change.

The next level of values alignment is at the group level. Groups should not be confused with the organization as a whole. Groups exist within organizations and serve to create identities which are both unique, but closer to individual value alignments than may be found throughout an organization (Feather, 2003). In establishing groups, an identity is created that forms a shared reality where values become a part of the group (Groves & LaRocca, 2011). Once group values are established, an internal resistant to changing the values due to external pressures develops. Group values have been shown to change throughout the life span of the group, but these changes are initiated from within the group (Maierhofer et al., 2003).

While we know how and why groups establish values, little research exists on the influence of group values on organizational outcomes. Jehn, Chadwick, and Thachter (1997) examined how group value content influenced group outcomes. The limitations to their study made it impossible to generalize their findings to a wider population. In a subsequent study, Jehn, Northcroft, and Neale (1999) examined value convergence within groups. Like the earlier study by Jehn, the results of this study could not be extended to the organization as a whole.

As we move from individual to group values, the impact on organizational performance and outcomes becomes diluted. At the organization level, the linkage becomes even more indiscernible. Jung and Avolio (2000) posit that values congruence describes the shared values between leaders and their respective followers within an organization's culture. While their claim appears to be sound, research on values congruence at the organization level is very limited. Work by Rosseau (1990, 2006) identified that when an individual's values fit the organizational value system, they are more satisfied and display a greater commitment to the organization. The missing part of the equation continues to remain the research linking organizational values and indicators of performance success (Groves & LaRocca, 2011).

The Open Questions?

What can we conclude as we examine the question of creating organizational sustainability through an alignment of leader and stakeholder values? The extant literature offers a premise that for an organization to create a sustainable strategy there must be an alignment between leadership and stakeholders. The work by Coule (2008) demonstrates a focus on both internal and external stakeholder groups. To build these key relationships, leaders must display certain traits and styles that cause stakeholders to become engaged. The key element to the style development is values.

In examining the question of values, one can segment them into three key areas: individual, group, and organizational. The existing research highlights how values are formed and their importance in causing individuals to become engaged. At this point, a series of questions begin to emerge.

The existing literature is vague on exactly how an alignment of values with those of an organization leads to operational success. Groves and LaRocca (2011) make a compelling argument based on a number of key points from their study. They identify that no empirical research exists to support the linkage between leader values, leadership style, follower value congruence, and outcomes. They further posit that the field is lacking in empirical studies that examine values as a key driver in organizational processes.

The literature review presented in this paper highlights a number of gaps. The gaps are further supported by the work of other researchers who also identify similar, yet different opportunities. To move forward, the author offers the concept map in Figure 2 as a potential for future research agendas.

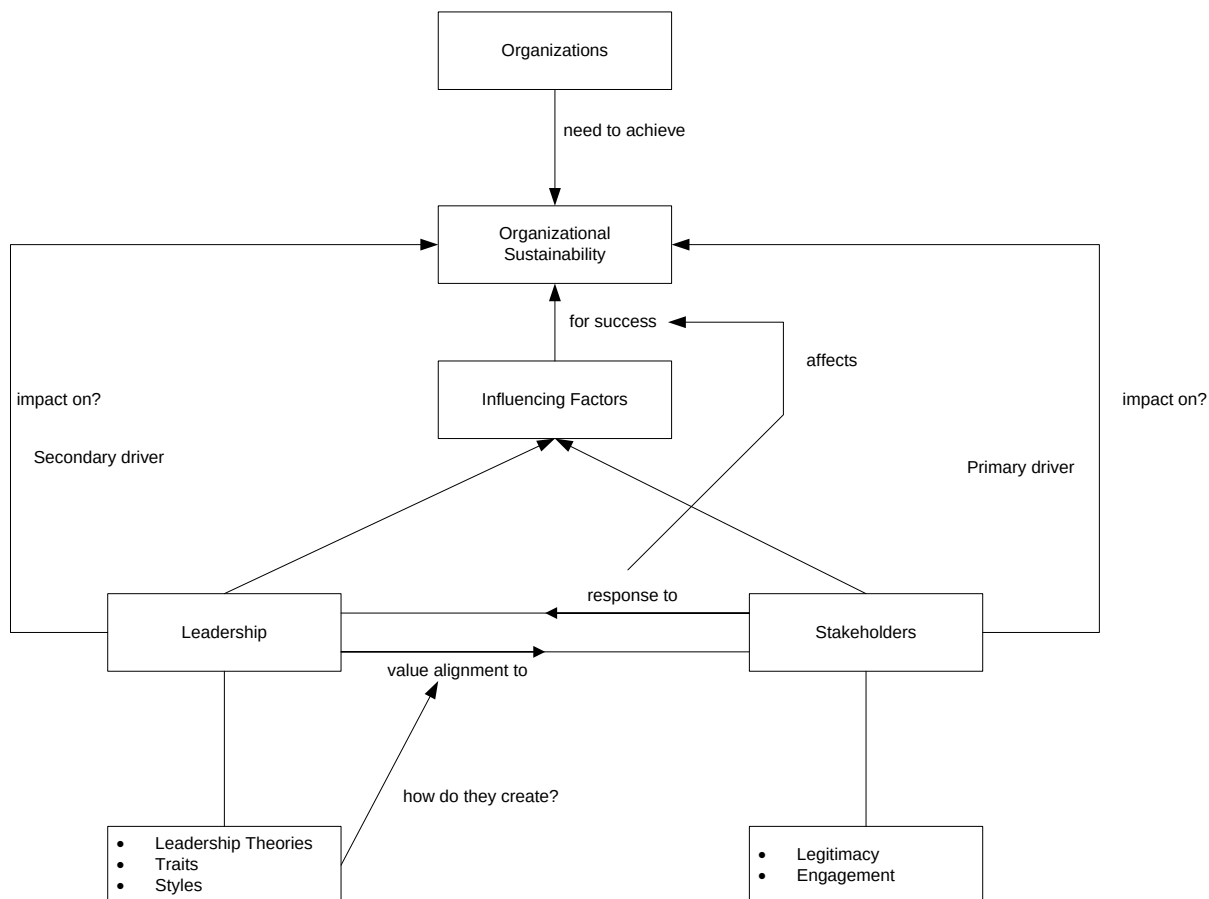


Figure 2. How do stakeholder responses to leadership styles affect organizational sustainability? Miklovich, 2011.

While the focus of this paper is centered on the value alignment between leadership and stakeholders, the map highlights the overall context of the research agenda. Further refinement of key areas is required, but based on the review of the existing literature; a number of gaps may be addressed with future opportunities presented.

Human society has been built around organizations. As the fundamental element of construction, organizations are as diverse as the cultures of the human experience. To understand how to create successful, sustainable organizations, an examination of values alignment between leaders and stakeholders is not only necessary, but warranted, given the lack of empirical research.

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THE GLOBAL - LOCAL DIMENSION OF CORPORATE SOCIAL RESPONSIBILITY REPORTING - EVIDENCE FROM CENTRAL AND EASTERN EUROPE

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Summary

While CSR concept might be of global nature, recent research suggests that it is applied differently across different social, economic, cultural, legal and political contexts. The undertaken research project aspires to make a contribution by adding the perspective of transition economies from Central and Eastern Europe

(CEE) to the already well established view on CSR in Western Europe and the USA. Its main purpose is to determine whether local or global orientation dominates in CSR strategies and consequently, social reporting, in case of global corporations operating in the CEE region.

Corporations selected for the study, being direct foreign investors in the region, are listed in the annual ranking Fortune 500 and included in the Global 100 Most Sustainable Corporations in the World. For comparative purposes the companies' websites in 179 countries were searched systematically for reference to CSR. Findings show that differences in the approach to reporting and information policy between the corporations result from their own initiative and governments' requirements.

Keywords: Corporate social responsibility, social reporting, global and local approach to CSR

Corporate social responsibility is in many ways linked to the process of globalization with the world's biggest corporations remaining the main players in instituting the CSR programmes. The global features of CSR, such as concern for issues like climate change, labour standards and human rights might lead to the assumption that national dynamics are secondary or even irrelevant when developing CSR strategies. However, while CSR might be of a global nature, recent research suggests that it is applied differently across different social, economic, cultural, legal and political contexts (Gjølberg, 2008, Matten and Moon, 2004).

Issues of local responsiveness versus global integration have received considerable attention in the international management literature (Douglas and Wind, 1987, Bartlett and Ghoshal, 1989). This is however not the case in relation to corporate social responsibility, despite growing recognition of its importance as a strategic decision making dimension (Porter and Kramer, 2006). Many authors underline the increasing meaning of the CSR as a core component of the corporate strategy. Becchetti, Ciciretti and Hasan (2007) highlighted the necessity of including social responsibility goals in overall strategy to direct more attention to maximizing stockholders' wealth – especially in view of cases such as Enron, Worldcom and other financial scandals. Positive relation between implementing CSR standards (e.g. human rights, product quality, employee relations) and reducing costs (as well as improving productivity), makes inclusion of responsibility issues evident. CSR activities influence enterprises' actions and decisions. New technologies reducing environmental impact or using recycled materials affect the production cycle and products. The evidence of Lopez-Perez, Perez-Lopez and Rodriguez-Ariza (2007) showed that companies belonging to Dow Jones Sustainability Index consider their CSR strategy as a key factor in achieving competitive advantage and generating profits. Similar conclusion results from Bansal study (2002) – innovations make the production less energy- and material consuming, but at the same time give the company a chance to build competitive advantage. Hence, it is the main reason why enterprises consider CSR as an integral part of their main strategy (Choi, Kwak, Choe, 2010).

According to the last KPMG International Survey of Corporate Responsibility Reporting (2011), about 95% of Global Fortune 250 companies have defined and published CSR goals and strategy, a noticeable increase since 2008, when this share equaled 75%. Results of the Economist Intelligence Unit's 2007 research show that nearly one-third of the surveyed executives assign CSR the highest priority from all of the issues in their organizations, and more than 40% - high priority (The Economist, 2008). New employee posts, such as chief responsibility officer or chief sustainability officer are the next examples of the growing importance of CSR in the companies (Deutsch, 2007). Rapidly appearing movements, like Socially Responsible Investment, which combine investors' financial objectives with environmental, social and ethical issues, also show the relevant influence of the CSR on companies' strategy. Reports present that one out of nine dollars invested in the stock market is invested in a socially responsible company (SRI Research, 2001-2006).

Perspectives however differ on whether MNCs should apply centralized CSR strategies or develop them locally in cooperation with the local stakeholders (Muller, 2006), as both approaches present distinct advantages as well as particular risks. Increasing international involvement of MNCs means greater exposure to a wide range of potentially conflicting stakeholders and possible pressures across home and host countries. As a result truly locally responsive CSR approach based on extensive subsidiary autonomy involves a number of risks, such as fragmented and inconsistent CSR strategy, tensions within the organizations as well as an approach of living up to only the minimum of host-country requirements (Christmann, 2004). On the other hand developing a mutually beneficial relationship with the stakeholders at the local level requires local engagement and consequently CSR strategies to be contextual and locally responsive.

None of the CSR activities would be known without the companies communicating about them. The importance of reporting environmental and social impact arises from i.e. society and governance of the countries, and on the other hand, brings benefits for those societies, stakeholders and other organizations (Hooghiemstra, 2000). The fair content of the reports is dependent on the different social expectations all over the world. Among others type and size of the company and the country's rules of law influence the reporting frames (Deegan, 2002; Guthrie and Parker, 1990). Multinational surveys have shown many significant

differences in the case of presentation particular CSR issues in different regions of the world (Arthaud-Day, 2005). For example, companies in Australia report more information on environmental impacts than on the social impacts of their business (Tsang, 2004). Moreover, a lot of legislative regulations have been provided by the government and Australian organizations, and the Business Council of Australia supports CSR approach in managing business. In comparison, other research showed that reporting in Slovenia is not sufficient – only public companies are committed to communicate in their annual reports about safety and environmental aspects of their activity, while other areas are voluntary (Golob, Bartlett, 2007). In other CEE countries, such as the Czech Republic and Romania corporate sustainability reporting remains a voluntary exercise on the national level (Jindrichovska, Purcărea, 2011). Despite the fact that a lot of circumstances and differences make reporting diversified, there are a few global frameworks whose main goal is to provide international CSR reporting standards. One of them is the Global Reporting Initiative which presents reporting guidelines created in cooperation with the Organization for Economic Cooperation and Development (OECD), United Nations Environment Program (UNEP) and the United Nations Global Compact (UNGC). Beyond the reporting structure and principles, GRI provides indicators for the social, environmental and economical spheres (Owen, 2003). High substantial quality of the GRI framework is mirrored in its practical use by 660 companies from 50 countries (Kolk, 2005).

The undertaken research project aspires to make a contribution by adding the perspective of transition economies from Central and Eastern Europe (CEE) to the already well established view on CSR in Western Europe and USA. Although the markets of CEE are characterized by significant diversity regarding their size, population and economic potential, cultural factors, and a different relation to the European Union, they still constitute a special case among emerging markets. The double transformation processes, involving simultaneous changes of the political and economic systems, created basis for observing substantial similarities as far as the motives and barriers of international corporations' entrance into the region. According to research it is most often foreign, multinational companies with long-term commitments to local and global economic success that are key drivers of the social agenda (UNDP, 2007). The results of the baseline study on CSR practices in the new EU members and candidates conducted in 2007 by the UNDP, confirmed that due to the socialist heritage, there is a general perception, both in the business community and the public at large, that social responsibility and welfare is the primary role of government. Most companies consider their responsibility to operate in compliance with the legal and regulatory environment of the given country (UNDP, 2007).

The corporate social responsibility concept is relatively new in Central and Eastern Europe, but is rapidly spreading as a part of the European integration and under the influence of multinational corporations and foreign investors. Unfortunately activities under the CSR banner are mostly perceived as a part of public relations and not integrated with the overall company's strategy²⁴⁶. In most countries in the region, CSR is generally seen as an addition to the core business activity of companies, and is often connected with philanthropy and sponsorship. It is not seen as central to risk management and stakeholder relationships.

The purpose of this paper is to determine whether local or global orientation dominates in CSR reporting in case of international corporations' operation in the CEE region. Ten companies selected for the study are all major multinational corporations, listed in the annual ranking of the world's largest corporations Fortune 500, as well as included in the Global 100 Most Sustainable Corporations in the World, by Corporate Knights. At the same time all of the selected companies are direct foreign investors in the Central and Eastern European region. The last criterion of selecting the companies for the study is especially important as only direct involvement in the host country is likely to result in further engaging in CSR actions. The aim of the study is to compare the attitude towards CSR activity reporting of those corporations in the CEE countries, as well as other countries of their business activity. Reaching this goal may present the companies' reference to the society, environmental and economic sphere, as well as pressure on the CSR reporting in the region.

The research methods involved searching, compiling and critically appraising publicly available materials from the selected companies, published literature and other sources according to the key themes of this investigation. The website analysis took place in January 2012 and was further updated in May. For comparative purposes the selected companies' websites in 179 countries²⁴⁷ were searched systematically for any reference to CSR. In particular the following issues were investigated:

- whether the company has a separate section of its website addressing CSR issues,
- does the company publish an up to date CSR/social/ sustainability report,
- is the report focused on issues pertaining to the particular country, or is it a global report,

²⁴⁶ „Społeczna odpowiedzialność biznesu w Polsce. Wstępna analiza”, UNDP, Warszawa 2007, www.odpowiedzialnybiznes.pl

²⁴⁷ All the websites of the ten selected companies indicated in their home page were investigated.

- if reports prepared for a particular country exist, is there any explanation why the report was prepared for the particular country,
- what is the nature of issues covered in the report – is there any connection to the company's overall strategy or does it mostly cover philanthropic issues,
- does the company reference the GRI framework or any other recognized assurance standard,
- does the company report sustainability goals and benchmarks,
- does the report fulfill the 'triple-bottom line' by presenting a social, environmental and economic activity of a company.

Contemporarily, Internet is a main channel of communication with stockholders and stakeholders as well. Information presented on corporate websites should not only be complete but also clear, easy to find and legible to the receiver. In our opinion, companies as direct investors in particular countries should provide the particular country's society with specific data about their activity, including CSR reports in a given language. However, the research conducted has proved that such practice is not common.

Research results showed noticeable difference in terms of reporting and CSR information policy between CEE countries which belong to the European Union and those which are not a member of the EU. The latter are mostly omitted and only Ukraine and Russia are positive exception in this case. Corporate social responsibility as a keyword emerges mainly in less developed countries – in Western Europe and North America companies more often relate to 'sustainability' and 'environment', rarely 'citizenship' or more developed phrases like 'Building a better world' (Danone UK²⁴⁸). General Electric conducts 'citizenship' policy in most of the countries of operation but also introduced new ideas such as 'Ecomagination' and 'Healthymagination', which are the main components of the overall strategy but lack of precisely defined CSR reference. GE underlines the meaning of expectations on CSR in its report but only in the context of China (GE 2010 Citizenship Report²⁴⁹). Only 11 local GE websites use 'Corporate Social Responsibility' or 'Social Responsibility of Business' sections, what seems to be an individual initiative of particular boards.

Companies from the food industry put greater emphasis on sustainability and CSR communication. Unilever is the most focused on popularization of its CSR activity in the CEE and developing countries: almost all African, South American and CEE countries have separate CSR sections on their home website (footnote 13, Table 1; see: Appendix). Kraft Foods presents its CSR activity in 6 CEE countries (footnote 11, Table 1; see: Appendix), Danone in 4 (footnote 12, Table 1; see: Appendix). GlaxoSmithKline prepared separate section in 6 CEE countries and 6 developing countries out of all 20 (footnote 14, Table 1; see: Appendix). Samsung and HP focused on this matter only in the 'second level' (footnote 25 and 23, Table 1; see: Appendix).

The only companies which divided 'Sustainability Development' section into local and global activity are Unilever and GSK: Unilever on Belgian website ('What we do – local activity'²⁵⁰, 'What we do – international activity'²⁵¹), and GSK on Turkish one ('GSK Turkish Projects'²⁵², 'GSK Global Projects' – redirection to the global site²⁵³). Noticeable lack of local CSR/SR initiatives can be find on Johnson Controls websites but sustainable policy is managed very well in general. Hence, receivers can easily find information about this activity of the company.

From among 21 Danone websites (Dannon in the US), only two CEE countries present global (Romania²⁵⁴) or local (Poland²⁵⁵) report on their websites. Toyota's separate reports were issued in 15 countries and regions (e.g. in Argentina, Australia, Brazil in reference to GRI framework, China, Europe, India, Japan, Malaysia, New Zealand, The Philippines, North America/Canada, South Africa, Taiwan, Thailand and Vietnam) with digital versions on particular countries websites²⁵⁶. Kraft Foods presents report only on a few local websites in one language (English) and there is distinct lack of the report on its main corporate website.

The main limitation in the reception of CSR policy of the Statoil company is the language barrier: some information on the company's website is available only in Norwegian²⁵⁷, whereas almost all corporate websites are in English (Danone has a French option, Statoil – Norwegian, HP – Chinese). The biggest

²⁴⁸ <http://www.danone.co.uk/BetterWorld/>

²⁴⁹ Available at www.gecitizenship.com

²⁵⁰ <http://www.unilever.be/nl/duurzaamheid/lokaal/>

²⁵¹ <http://www.unilever.be/nl/duurzaamheid/internationaal/>

²⁵² http://www.gsk.com.tr/sosyal_sorumluluk/projeler/gsk_turkiye_projeleri.aspx

²⁵³ <http://www.gsk.com/community/index.htm>

²⁵⁴ http://www.danone.ro/danone_se_implica

²⁵⁵ <http://www.danone.pl/Spoleczna-odpowiedzialnosc-CSR/Czym-jest-CSR/Raport-CSR-2010>

²⁵⁶ websites specified in 'Sustainability Report 2011' available at <http://www.toyota-global.com/sustainability/report/sr/>

²⁵⁷ <http://www.statoil.com/en/environment/society/environment/impactassessments/pages/default.aspx>

difficulty for most of African Internet users can be one version of the local GE website, which is in English²⁵⁸. The main language in the most of global reports is also English, with the exception of Johnson Controls whose 'Sustainability Report' is available in 6 languages (English, German, Spanish, French, Chinese and Japanese)²⁵⁹. Russia does not have local reports but its CSR section on the HP website is in Russian²⁶⁰ (the rest of HP's local websites redirects Internet users interested in CSR to the global site).

Most of the reports use GRI framework (Johnson Controls), Global Compact principles (Unilever) or ISO 14001 guidelines (Kraft Foods) in reporting companies' activity. Toyota had used to develop their own framework which was not comparable, and also could be misused. The last report is based on the ISO 26000 standard.

It is worth to highlight that all of the investigated companies link their overall strategy with CSR policy. Unilever connects its social activity with overall strategy by fulfilling 'Code of Business Conduct and Ethics for Directors' and 'Corporate Governance Guidelines' (Creating a more delicious world. Our 2010 Report²⁶¹). GE integrates all spheres of activity with the main strategy, hence its reports are characterized with completeness²⁶². Statoil's 'Policy and Principles' presented as a part of 'Society' section shows social responsibility approach and commitments but the information should be developed and updated²⁶³. Presenting information on local engagement in the Internet may serve as some kind of substitute for local reporting. Such a solution has been used by Statoil, which has not prepared any local reports, but presents some online information about countries where the production takes place, namely Azerbaijan²⁶⁴ and Canada²⁶⁵.

Research of 945 websites of 10 selected investors in the CEE region, listed in the annual ranking of the world's largest corporations Fortune 500, may draw the following conclusions (see: Table 1, Appendix):

- the number of investigated corporate websites which present an up to date (not dated back more than 2 years) CSR global report increased by 20% (from 60% in January 2012 to 80% in May 2012),
- 7 out of 10 investigated companies have a CSR notion on a home site – it is more than in January when only 5 websites had such a notion,
- 20 countries (out of 179 investigated) have a local CSR report (not dated back more than 2 years). At the beginning of 2012 only 15 had their own report but still the only country from the CEE region, in which a local report has been published is Poland;
- none of the investigated reports have precisely described CSR activities in particular country of operation.

Nine out of ten examined corporations use some assurance standard like GRI, Global Compact or ISO 14001. The tendency to dividing CSR activities on the local websites into global and local dimension decreased: in January 2012 6 websites of 3 different companies presented such a division, while in May 2012 only 2 websites of 2 companies show such information in this way. The need of creating local reports is well seen in Toyota's fulfilled statement from January 2012 about preparing regional CSR reports for 2011 (in May 2012 these reports have been launched) and presenting 6 local reports by Unilever. However, among the CEE countries only Poland differentiates among others with two local reports presenting responsible activities of Danone and GSK. In Latvia, Lithuania, Ukraine and Russia older reports can be found (2003-2008). The most positive conclusion is the fact of CSR section occurrence on a home website of developing countries like Kenya, Angola, Nigeria or Pakistan which helps in popularization of the CSR initiative.

In order to get some insights into local reporting in Poland content analysis was applied to compare in detail the local versions of the CSR reports among the investigated companies. As only two of them published such report, the table below compares the approach of Danone and GlaxoSmithKline to local reporting.

Table 2. Comparing Danone's and GlaxoSmithKline's approaches to corporate social responsibility local reporting in Poland

²⁵⁸ <http://www.ge.com/ae/directory/index.html>

²⁵⁹ http://www.johnsoncontrols.com/content/us/en/sustainability/reporting/business_sustainability.html

²⁶⁰ <http://h41110.www4.hp.com/csr/index.html>

²⁶¹ available at: <http://deeu.kraftfoodscompany.com/KFE/Responsibility/index.aspx>

²⁶² www.gecitizenship.com

²⁶³ <http://www.statoil.com/en/environmentsociety/society/pages/strategyandpolicy.aspx>

²⁶⁴ <http://www.statoil.com/en/EnvironmentSociety/RelevantTopics/LandOfFire/Pages/default.aspx>

²⁶⁵ <http://www.statoil.com/en/environmentsociety/relevanttopics/oilsandincanada/pages/default.aspx>

List of factors	Danone	GlaxoSmithKline Group
Name of the report	Report on social and environmental responsibility	Social report
Length and format of the report	Standalone PDF, 88 pages	Standalone PDF, 88 pages
Time period	2006-2009	2009-2010
Language	Polish	Polish
Number of employees, 2009, full-time job	1372	1692
Statement concerning the selection of topics	Stressing strategic approach to CSR (CSR strategy integrated with the development strategy of the company for the years 2008-2013), 3-stage selection process of crucial CSR topics – in cooperation with an external advisor, employees of all departments, representative of labor unions and external stakeholders (suppliers, local community, consumers, etc)	Stakeholders' expectations were taken into account based on opinion research, concerning responsible business as integral part of company's activity in Poland
Merits-related contents	- Managing corporate social responsibility - Society - Environment - Workplaces - The market	- Building relationships - Patients - Society - Employees - Local communities - Natural environment
Reporting in accordance with GRI	Report prepared according to GRI guidelines	Report prepared according to GRI guidelines
Reference to global report	No	Yes
Other information	Number 1 in the fifth ranking of responsible companies in Poland in 2011, second report prepared by Danone in Poland, the plan is to publish a CSR report in Poland every two years	First report prepared By GlaxoSmithKline in Poland and the first one in the pharmaceutical industry, so called "opening report", best debut award for CSR report in Poland in 2011

Source: Own elaboration

The two reports are prepared according to GRI standards and identical in length. The GlaxoSmithKline report has a bit more educational character, which can be explained by the fact that it is the first report in the pharmaceutical industry integrating social and environmental issues. What they have in common however is that the two reports present a very positive picture of the companies' operations in Poland without mentioning any problems and hardships and not taking any standpoint on controversial issues, related to the activities of both companies on the Polish market. In both cases the negative aspects of the companies' functioning in Poland are omitted.

In order to obtain a broader perspective content analysis of press articles published online and selected social portals was undertaken. The results prove that the general image of big pharmaceutical concerns in Poland is rather negative. The fact, that medicines in Poland are too expensive for an average buyer and that the health service sector is not functioning properly is, in the view of public opinion, often blamed on the pharmaceutical

concerns (Czajczyk, 2012). They are perceived solely as money-makers and their social initiatives are equated with marketing actions, as in case of annual "yellow week" in Poland, when people can get vaccinated against hepatitis B. The GSK vaccine's name is Engerix and although it is true that the vaccine costs less during this particular week in all outposts within the promotion program, it is still possible to obtain cheaper equivalents offered by competitors (Bielicka, 2006). It is therefore in the interest of the companies to do their best to improve that image. The fact that GSK was awarded price for best debut in social reporting in Poland might not be enough, as average client is not really able to get to know the content of the report.

Furthermore, in the GSK report the company skips some hot issues in Poland, such as the problems with the Advertising Ethics Board, concerning rotavirus and pneumococcal vaccine commercials. One of the company's TV spots entitled "Include me in the vaccination scheme" was accused of threatening parents with child's illness and possible death. GSK defended the spot stating that it had in mind parent's education and encouragement to vaccinate their children against diseases, however the Advertising Ethics Board advised the company to remove element that could evoke such emotions (Gazeta Wyborcza, 2010).

The Danone's report focuses on the main goal of social engagement of the company in Poland, which is fighting malnutrition of children²⁶⁶. The campaign is very well known and the company has been praised for it on various occasions. At the same time however the nutritious features of some of the company's products, especially those targeting small children is questioned. It seems as if social media in Poland were totally ignored by the Danone company, especially forums full of young mothers' concerns about the amount of sugar and additives included in one of the brands called Danonino²⁶⁷. Also controversies connected with advertising two of Danone's best selling brands: Activia and Actimel were not mentioned. Activia is promoted for its health benefits such as regulating the digestive system and Actimel, a probiotic drinking yogurt with L.casei Imunitass bacteria cultures is claimed to help the body's defences. In the USA the company agreed to pay 21 million USD fine for broadcasting commercials misleading consumers. In Poland Danone's advertisements have been debated on by the Advertising Ethics Board several times and the company has only been officially criticized, but not charged any fines²⁶⁸.

This raises the question whether companies should reveal such issues in their CSR reports. The requirement of thoroughness and objectiveness would expect both: the positive and the negative aspects of a company's activities, as this increases the credibility of such publication. However it must be stressed that negative aspects of the companies' operations in Poland were presented only with regard to those companies who already present local reports and show their concerns for acting responsibly. One may ask what is the attitude of those companies that do not publish any information on corporate social responsibility.

One important conclusions from the research is that the picture we obtained from our research in January was completely changed a few months later. This proves huge dynamics in the area of social responsibility reporting on the global level. The notion of corporate social responsibility is referred to in different ways and it is crucial to define CSR concept precisely and use uniform terms globally. Research results also showed noticeable differences in terms of reporting and CSR information policy between CEE countries which belong to the European Union and those which are not a member of the EU, with the latter being mostly neglected. Further research should include investigation of the aspects which influence the tendency (or necessity), scope and quality of reporting. The results of the study suggest that different stakeholders influence CSR reporting to a different extent, with the country's authorities and the multinationals in the region being the most influential in setting relevant standards. Based on the research conducted in Poland it may be concluded that society's opinions and concerns are not really reflected in the local reports. Local CSR reporting is still a rare case among multinationals operating in the CEE region. Further monitoring changes in this regard through international comparative research would be beneficial.

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²⁶⁶through its "Share your meal" programme, Danone has provided thousands of children with meals and developed new programmes to fight malnutrition in Poland

²⁶⁷www.edziecko.pl, www.dobramama.pl, www.rodziceradza.pl, www.babyboom.pl, www.mamazone.pl, abckarmienia.pl, www.maluchy.pl, www.forum.dzieciowo.pl, www.przedszkolak.pl and others

²⁶⁸Resolution No ZO 46/09 of 12 August 2009, <http://www.radareklamy.org/>

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APPENDIX

Table 1. Comparative website analysis of 10 companies listed in the annual ranking Fortune 500 and included in the Global 100 Most Sustainable Corporations in the World

Researched aspekt	Statoil ASA	Toyota	General Electric	Johnson Controls	Kraft Foods	Danone	Unilever	HP	Glaxo Smith Kline	Samsung

Separate CSR/SR section on a home global website	Yes ²⁶⁹	Yes ²⁷⁰	Yes ²⁷¹	Yes ²⁷²	No	Yes ²⁷³	Yes ²⁷⁴	No	Yes ²⁷⁵	No
Separate CSR/SR on a home local website	Yes	Yes ²⁷⁶	No ²⁷⁷	Yes ²⁷⁸	Yes ²⁷⁹	Yes ²⁸⁰	Yes ²⁸¹	No	Yes ²⁸²	Yes ²⁸³
Separate CSR/SR section on a global website	No	Yes	Yes ²⁸⁴	Yes	Yes	Yes	Yes	Yes	Yes	No
Separate CSR/SR	No	Yes ²⁸⁵	Yes ²⁸⁶	Yes ²⁸⁷	Yes ²⁸⁸	Yes ²⁸⁹	Yes ²⁹⁰	Yes ²⁹¹	Yes ²⁹²	Yes ²⁹³

²⁶⁹ 'Environment & Society'

²⁷⁰ 'Sustainability'

²⁷¹ 'Citizenship'

²⁷² 'Sustainability'

²⁷³ 'Sustainable development'

²⁷⁴ 'Sustainable living'

²⁷⁵ 'Responsibility'

²⁷⁶ - 'Environment' in France, Finland, Denmark, Cyprus, Croatia, Belgium, The Netherlands, Montenegro, Malta, Macedonia, Luxemburg, Lithuania, Latvia, Italy, Ireland, Hungary, Germany, Austria, Greece, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, England, Angola, Burundi, Comoros, Djibouti, Egypt, Eritrea, Madagascar, Liberia, Gabon, Mauritania, Mauritius, Mozambique, Somalia, Sierra Leone, Seychelles, Rwanda, Uganda, Zimbabwe, Bermuda, Dominica Republic, French Guiana, Grenada, Guadeloupe, Guyana, Haiti, Jamaica, Suriname, Trinidad and Tobago, Antigua and Barbuda, Bahamas, Grand Cayman, Grenada, Haiti, Martinique, Canada, Montserrat, St. Kitts and Nevis, Saint Maarten, St. Vincent, Sri Lanka, India, Nepal, Bhutan, Bangladesh, Brunei Darussalam, China, Hong Kong, Israel, Kazakhstan, Republic of Korea, Saudi Arabia, Thailand, American Samoa, Fiji, Kiribati, New Caledonia, Papua New Guinea, Samoa, Solomon Islands, Tahiti, Tonga, Vanuatu, Australia (Environment and Sustainability), New Zealand;

- 'Ecology' and 'Sustainability Development' in Moldova and Russia,

- 'Social Engagement' in Algeria and Vietnam

²⁷⁷ Ecomagination: Angola, Kenya, Kuwait, Ghana, Jordan, Lebanon, Oman, Qatar, Saudi Arabia, United Arab Emirates;

Healthymagination: Algeria, Iraq; Sustainable Solutions: Nigeria

²⁷⁸ Mexico, Canada, Argentina, Belgium, Spain, France, Ireland, Austria, Switzerland, China, Japan, Singapore, Australia

²⁷⁹ China, Japan, Philippines, Estonia, Latvia, Lithuania, Romania, Turkey, Ukraine, Brazil, Canada, Europe, Germany, Belgium, Denmark, France, Austria, Greece, Italy, Netherlands, Norway, Spain, Sweden, United Kingdom, Switzerland

²⁸⁰ Russia, Romania, Portugal, Poland, Netherlands, Italy, Hungary, Germany, Denmark, Brazil, Austria, Turkey

²⁸¹ Kenya, Angola, Burundi, Ghana, Malawi, Mozambique, Nigeria, Rwanda, South Africa, Sudan, Tanzania, Tunisia, Uganda, Zambia, Zimbabwe, Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Trinidad and Tobago, Puerto Rico, Guatemala, Honduras, Mexico, Venezuela, Nicaragua, Panama, Paraguay, Peru, Uruguay, USA, Australia, Bangladesh, China, India, Indonesia, Japan, Korea (South), Malaysia, New Zealand, Pakistan, Philippines, Russia, Singapore, Sri Lanka, Thailand, Turkey, Taiwan, Vietnam, Austria, Belgium, Netherlands, Czech Rep., Denmark, Finland, Germany, Greece, Hungary, United Kingdom and Ireland, Italy, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Ukraine, Israel; Middle East (Bahrain, Iran, Iraq, Jordan, Kuwait, Oman, Lebanon, Palestine, Qatar, Saudi Arabia, Sudan, Syria, United Arab Emirates, Yemen)

²⁸² Greece, Ireland, Italy, Lithuania, Poland, Romania, Serbia, Slovenia, Spain, India, Korea, Pakistan, Nigeria, Turkey, Sweden, Ukraine, US, Mexico, China, Hong Kong

²⁸³ Hong Kong

²⁸⁴ separate website for Corporate Citizenship: <http://www.gecitizenship.com/our-commitment-areas/>

²⁸⁵ Czech Rep., Norway, Turkey, Canary Islands, Kenya, Ghana, Nigeria, Tanzania (under construction), Panama, Venezuela, Mexico, Indonesia, Japan, Malaysia, Pakistan, Philippines, Sri Lanka

²⁸⁶ Argentina, Chile, Finland, France, Japan, Mexico, Peru, Poland, Venezuela, Taiwan, Switzerland

²⁸⁷ Mexico, Canada, Argentina, Brazil, Belgium, Czech Rep., Denmark, Germany, Spain, France, Croatia, Ireland, Italy, Hungary, The Netherlands, Norway, Austria, Romania, Switzerland, Finland, Sweden, Macedonia, Russia, Ukraine, China, Japan, Australia; redirection to the global website: Poland, Turkey, Portugal, Slovenia, United Kingdom, China, India, Korea, Singapore

²⁸⁸ China, Romania, Turkey, Ukraine, Brazil, Mexico, Canada, Europe, Germany, Belgium, Denmark, France, Austria, Greece, Italy, Netherlands, Norway, Spain, Sweden, United Kingdom, Switzerland;

redirection to the global website: Asia Pacific Region, Philippines, Estonia, Latvia, Lithuania

²⁸⁹ Romania, Portugal, Poland, Netherlands, Italy, Hungary, Germany, Denmark, Brazil, Belgium, Austria

²⁹⁰ Kenya, Angola, Burundi, Ghana, Algeria, Libya, Malawi, Morocco, Mozambique, Nigeria, Rwanda, South Africa, Tanzania, Tunisia, Uganda, Zambia, Zimbabwe, Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Trinidad and Tobago, Puerto Rico, Guatemala, Honduras, Mexico, Venezuela, Nicaragua, Panama, Paraguay, Peru, Uruguay, USA, Australia, Bangladesh, China, India, Indonesia, Japan, Korea (South), Malaysia, New Zealand, Pakistan, Philippines, Russia, Singapore, Sri Lanka, Thailand, Turkey, Taiwan, Vietnam, Austria, Belgium, Netherlands, Czech Rep., Denmark, Finland, Germany, Greece, Hungary, United

section on a local website										
Global CSR report (not dated back more than 2 years) on the global website	No	No ²⁹⁴	Yes ²⁹⁵	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Global CSR report (not dated back more than 2 years) on the local website	No	Yes ²⁹⁶	Yes ²⁹⁷	Yes ²⁹⁸	Yes ²⁹⁹	Yes ³⁰⁰	No	No	Yes ³⁰¹	Yes ³⁰²
Local CSR report (not dated back more than 2 years) on the local website	No	Yes ³⁰³	No	No	No	Yes ³⁰⁴	Yes ³⁰⁵	No	Yes ³⁰⁶	No
Link on a local website to a	No	No	Yes ³⁰⁷	Yes ³⁰⁸	No	No	Yes ³⁰⁹	Yes ³¹⁰	Yes ³¹¹	No

Kingdom and Ireland, Italy, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Ukraine, Israel; Middle East (Bahrain, Iran, Iraq, Jordan, Kuwait, Oman, Lebanon, Palestine, Qatar, Saudi Arabia, Sudan, Syria, United Arab Emirates, Yemen)

²⁹¹ Canada, Caribbean, Chile, Colombia, Ecuador, , Mexico, Paraguay, Peru, Puerto Rico, Uruguay, Venezuela, China, Japan redirection to the global website: America Central, Argentina, Bolivia, Brazil, Africa, Austria, Russia, Belgium, Bulgaria, Croatia, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Kazakhstan, Kosovo, Latvia, Lithuania, Macedonia, Middle East, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom, Australia, Bangladesh, Hong Kong, India, Indonesia, Korea, Vietnam, Malaysia, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand

²⁹² Austria, Bulgaria, Denmark, France, Germany, Greece, Ireland, Italy, Lithuania, Poland, Romania, Serbia, Slovenia, Spain, Ukraine, US, Mexico, Bangladesh, Korea, Pakistan, Taiwan, Nigeria; Japan, Turkey

²⁹³ Africa, Egypt, Australia, China, Hong Kong, India, Indonesia, Japan, Korea (South), Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam, Austria, Belgium, Bulgaria, Croatia, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Kazakhstan, Latvia, Lithuania, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine, Latin America (Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Republica Dominica), Argentina, Brazil, Chile, Colombia, Peru, Venezuela, Pakistan, United Arab Emirates (Bahrain, Kuwait, Oman, Qatar, UAE, Yemen), Levant (Iraq, Jordan, Lebanon, Palestine, Syria,), Iran, Saudi Arabia, Canada, Mexico, USA

²⁹⁴ two other reports: 'Sustainability Report' and 'Environmental Report'

²⁹⁵ Citizenship report 2010

²⁹⁶ Netherlands, Hungary, Sweden, Brazil, Japan, Australia

²⁹⁷ Citizenship Report: Argentina, Belgium, Australia, Brazil, Canada, India, Luxembourg, Hungary, Indonesia, New Zealand, Philippines, Romania, Taiwan, Vietnam, Thailand, Singapore, United Kingdom; Ecomagination Report: India, Japan, Korea (South), Netherlands, Russia

²⁹⁸ Mexico, Canada, Argentina, Spain, France, Ireland, Austria, Switzerland, Japan, Australia

²⁹⁹ Europe, Germany, Belgium, Denmark, France, Austria, Greece, Italy, Netherlands, Norway, Spain, Sweden, United Kingdom, Switzerland

³⁰⁰ Romania, 'Sustainability Report'

³⁰¹ Pakistan

³⁰² China, Austria, Belgium, Bulgaria, Croatia, Czech Rep., Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Norway, Poland, Portugal, Romania, Serbia, Slovakia, Spain, Sweden, Switzerland, Korea (South), USA

³⁰³ Environment & Society'

³⁰⁴ Poland

³⁰⁵ Argentina; Brazil; Caribbean Report (Trinidad and Tobago, Dominican Republic); Greece; Pakistan (without a framework)

³⁰⁶ Denmark, Poland

³⁰⁷ Ecomagination Report: Argentina, Algeria, Belgium, Cambodia, Chile, Colombia, Finland, Angola, Australia , Bahrain, Brazil, Canada, Egypt, France, Iraq, Kenya, Kuwait, Luxembourg, Ghana, Hungary, Indonesia, Jordan, Lebanon, Netherlands, Nigeria, Oman, Peru, Qatar, Russia, New Zealand, Norway, Philippines, Romania, Saudi Arabia, South Africa, Sweden, Taiwan, Vietnam, United Arab Emirates, Thailand, Singapore, Venezuela, United Kingdom

³⁰⁸ Brazil, Belgium, Czech Rep., Germany, Croatia, Italy, Hungary, The Netherlands, Norway, Singapore

³⁰⁹ Hungary, Romania, Sweden

³¹⁰ Canada, Caribbean, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Puerto Rico, Uruguay, Venezuela, Japan

³¹¹ Germany, Lithuania, US, Japan, Taiwan, Ireland, Sweden, Ukraine, Mexico, China, Hong Kong

global CSR report										
Connection to the company's overall strategy	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Reference with the GRI Framework (or other assurance standard)	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fulfillment the triple-bottom-line	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Reference in a report with all operate localizations of a company	No	No	No	No	Yes	No	No	No	No	No

SUSTAINING THE SUSTAINABLE: CREATING THE CULTURE OF SUSTAINABILITY

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Abstract

The present article points out the challenges of developing a culture of sustainability, given pressures in organizations. The authors explore how environmental issues have been treated since early signs of life were recognized. The worldly planned use of scarce natural resources lead to a new order of decisions: international policies and agreements, technology development, innovation in processes and products, research, reports, among others. In a concrete international joint effort, sustainability should not mean fear for any stakeholder in organizations. The authors analyze sustainability officers' perspectives to enforce a sustainable culture in the enterprises, compared to the experience of business ethics officers.

Keyword list: sustainability; culture; culture of sustainability; social changes; values and principles; business ethics.

The Rio+20 event of June 2012 follows the United Nations Organizations' traditional model of sustainable development: economically viable, socially fair and environmentally correct. Lélé (1991) and Boff (2012) criticize this *Triple Bottom Line*, as it eases accumulation of wealth, lack of equilibrium in the ecosystems and does not alleviate poverty. These pillars are not adequate or sufficient for the complexity of sustainability issues.

The present article points out the challenges of developing a culture of sustainability, given pressures in organizations. Sustainability should neither be considered fashion or fear. The authors explore how environmental issues have been treated since early signs of life were recognized. Dealing with the nature as an important resource for society is not a new concern, is not only fashion. The worldly planned use of scarce natural resources lead to a new order of decisions: international policies and agreements, technology development, innovation in processes and products, research, reports, among others. In a concrete international joint effort, sustainability should not mean fear for any stakeholder in organizations.

Customized strategies and actions should be developed to each group of stakeholders. Creating the culture of sustainability is a responsibility of anyone in the organization, but it has been concerted by leading professionals indicated to this specific task. (Henshaw and Woods, 2011.) The objective of this article is to analyze how to create the culture of sustainability. The concepts of sustainability and culture will be discussed with a literature review.

Understanding Sustainability

Principles and guidelines are necessary to live in a society with more justice and equilibrium. In this paper, sustainability implies positioning the human being in its relationship with the traditional pillars of environmental, the social and economic resources, but broadening the concept. Sustainability embraces values that draw, approve and adopt these principles and guidelines, building a new model of life in society. For this reason, the cultural pillar, the newest support for sustainability, together with the three traditional pillars, is a conductor cord of this process of social building and transformation. (Lavorato, 2012)

Understanding Culture

Back in 1952, Kroeber et al. found more than 167 different definitions of Culture. Much has changed and the concept is broader in the scientific literature, often mixing notions of development, education, good manners or habits, etiquette and behavior. In this article, a short literature review will be presented, so that Culture will be clearly defined for the purpose of the study on sustainability, based upon recent references. As culture emerges from a dynamic context, the environmental contingencies impact the society in different ways. The authors understand the challenge of corporations in leading the transformation in social conscience.

Certo and Peter (1993) focused social responsibility as the managers' level of awareness aiming to protect and enhance society beyond the minimum technical and economic interests of the organization. They consider that corporate social responsibility involves the performance of activities that can help society, even if they do not directly contribute to the company profits.

Stoner and Freeman (1999) recalled how Andrew Carnegie, founder of the U.S. Steel Corporation, in 1899 supported the social responsibility of large corporations upon two main pillars: charity and custody. The principle of charity requires that wealthier individuals should help less fortunate members of society, even directly or indirectly through institutions as churches or homes. Thus, in the early twentieth century, charity was considered an individual's responsibility, not the organizations'. As for the custody principle, Carnegie understood that either companies or wealthy individuals should see themselves as guardians, keeping their properties in custody for the benefit of the society as a whole. In this sense, it was the organizations' role to multiply the wealth of society, increasing their own through prudent investments of resources under their custody. The mentioned virtue of prudence recalled the first commitment of business leaders with the ethics.

Culture of Social Obligation

The social obligation approach suggests that the main goals of the organization are related to its economic nature: profit maximization and stockholders' assets, not the fulfillment of social obligations, which should be limited to what the legislation requires. Nowadays, the organizations face a number of laws enforcing the companies to control pollution, to create and maintain safe work environments, or to equally treat the employees, among others.

In 1970, the polemical Friedman's article "The Social Responsibility of Business Is to Increase Its Profits" emphasized the government's role in caring for society needs, considering the corporations unprepared to successfully manage social programs. The companies should pursue their goal of profit maximization under the rules of the society, providing jobs and salaries, and assuring that their taxes would provide resources for

the government to develop the needed social projects. If the business leaders drove their attention to defining social interests, they would not be as effective and would strongly jeopardize their competitiveness and results.

Culture of Social Responsibility

In the opposite direction, many other authors and practitioners have understood that it is theoretically of the company's best interest to enhance the conditions of the communities around, to avoid little problems that could become large and serious. It would be a matter of ethics, the correct thing to do. Also, showing sensitiveness to social issues would avoid unnecessary governmental intervention in the enterprise. Thus, a more generalized value system based upon the Jewish-Christian tradition strongly encourages actions of charity and social concern. (MONTANA, CHARNOV 2003)

The social responsibility approach aims at both economic and social benefits of organizational decisions. There is concern about maximization of and stockholders' assets, but there is a serious consideration about the supervision of social programs. The companies adopting this approach actively seek for the community's approval and involvement, to the point that they can be recognized as *politically correct*. Montana & Charnov (2003) stated that these companies will practice reactive and/or corrective adaptation when they see that their actions are useful to solve current social problems.

According to Campos (1992), an honest organization could only survive in a society if it cooperates for the satisfaction of people's expectations and needs. "This is its main objective. Would this be an assumption the first concern of business administration should be to satisfy the needs of people affected by its existence" (p.41). Thus, the organizations should meet the expectations and needs of consumers, clients, employees, stockholders and neighbors of the company, i.e., internal and external stakeholders.

Culture of ethics

VanDerWall (1999) summarized several years of academic discussion around ethical culture, pointing out how developing a system of moral principles or values was not an easy task and how enforcing such a system can be even harder. The most difficult challenge of all seemed to be developing and enforcing an international code of ethics, because cultures around the world view business ethics differently. Managers should then discover and articulate organizational values, develop clear ethical codes and policies, to ensure that such codes are clearly communicated and correctly implemented throughout the company.

As example, VanDerWall (1999) mentioned how Russians differentiate between business ethics and corruption whereas Americans do not. The author shows how to build a map for navigating through cross-cultural ethics. The individual, organizational and global/cultural perspectives should be used for the horizontal coordinates. The vertical coordinates consist of illegality, fraud or corruption; personal and organizational values; "unfairness" that is deeply rooted in capitalism; and "inappropriateness" that is the result of cultural judgments. The map would lead to survival, understanding and knowing. Survival means simply letting business behaviors exist and not going the extra mile. Understanding involves acknowledging another person or party. Knowing means putting knowledge about one person and another or a party into action. For this, the role leadership plays in cross-cultural ethics is crucial. Leaders must work hard at setting a good example for their organization. They must also learn to trust themselves, their organizations and their global partners.

Culture of Environment.

By late 1990s the academic literature started to discuss how the companies impacted the environment. Klassen and Whybark (1999) looked for a relationship of business performance and the development of new environmental technologies. A reduction of environmental impact responded to a social demand, to a point that the companies were impelled to define specific corporate policies since the beginning of their strategic planning. Although investments in good environmental practices seemed not conclusive at the time, not much later the concern became crucial to several industries.

Culture of Sustainability

Nowadays, a rationale that is similar to the previously mentioned can be used for the culture of sustainability. It is necessary to develop a system of principles or values that assure the enforcement of assumptions, processes and procedures that benefit economic, socially responsible and environmental goals of the company and of the society as a whole. A difference in the approach is the focus on the short and long run, specific concern of sustainability. Even if cultures around the world aim at the future differently, the perspective of sustainability has become mandatory in either business or public policies. For instance, Norway is considered a developed country in this sense mostly because of its energy plans, while Brazil, other South

American and Southeast-Asian countries also drive attention to maintenance of all natural resources: preserving the diversity and holding reduction of rainforests, planning the efficiency of the agricultural development in such a way that the population can properly be fed now and in the future.

According to Lavorato (2012), the culture of sustainability will be responsible for the needed and expected advancements in issues that challenge the society today. Without awareness, involvement and action (through processes,) sustainability will not become reality and will remain a desire of consumption to humankind.

The culture of sustainability embraces perception, understanding, motivation and final adoption, which is the continuous and perennial action. The process of internalizing values starts with the perception, is developed with the understanding, is incorporated with practices and perpetuates as a habit. It starts individual and ends collective. It goes from generation to generation. Characterizing diffuse interest, the benefits are for one and for a billion. (Lavorato 2012; Boff 2012)

Upon this, it is necessary that actions carry information, concepts and values to large masses. Topics may diverge, but remain close to the reality, in the case of sustainability. Creating critical masses, calling the attention, advertising and motivating people for sustainability values is the great challenge. It may last decades, or it can be accelerated with the support and participation of local leadership.

Good Practices for the Culture of Sustainability

In this article, the authors consider good practices of sustainability those actions and achievements that bring positive results to the practitioner and his/her environmental, social and economic contexts. When replicated, even if adapted, they enable similar results to their adopters. The importance of sharing and replicating the good practices seems unquestionable.

The culture of sustainability leads this transformation process toward a more sustainable and fair model of life. As example, the culture of peace is a social process based on values and policies that guide people's behavior toward harmony and safety. Similarly, in the culture of sustainability, once its principles are internalized, the practices will drive to the expected results in a cleaner, greener and fair future. In order to accelerate this process, critical masses will have to be built, so that these values and practices can be replicated to the whole society.

The culture of sustainability offers a large and necessary contribution for the future. It will be responsible for the expected development of social and environmental issues that challenge the society today. (Lavorato, 2012)

Products and services are offered in a seductive way and perhaps consumers and customers do not know how they effectively need them. Marketers are then considered unfair, as they persuade and pursue unnecessary consumption. Consumerism is not active enough to encourage changes in lifestyle. The corporations are working to "sell" sustainability, helping people to make lasting changes in their lifestyle through levers: make it understood, make it easy, make it desirable, make it rewarding and make it a habit. (Baker, 2011)

Promoting Changes From and Within the Organization

Top managers perhaps drive less attention to sustainability because of the pressure suffered to reach better financial results. Shareholders may be resistant to making changes that somehow might impact the short term results. They are constantly invited to think over the barriers to develop a new behavior toward decision making in sustainable matters.

Nevertheless, good practices usually indicate leaders' attitudes towards ideas that revealed to be right and therefore are worthy of being adopted by other persons or organizations. Benchmarking has been addressed as a positive management tool in Brazilian corporations. For-profit- or non-for-profit organizations, public or private, independently of the size or industry, can assess their processes through benchmarking.

The Brazilian Environmental Benchmarking Program was created to select the best corporate social and environmental practices, considering their effective benefits to the society and to the natural environment, as well as the competitiveness of the organizations that adopted them. This paper will analyze a few cases of the largest digital bank of social and environmental practices with open access in the Internet in Brazil, focusing the outstanding performance of the professionals in charge of these sustainability cases. Sharing knowledge and experiences served as good technical and managerial development for a significant group of "sustainability officers", never named so.

An exploratory study with six managers of the 198 best social and environmental corporate cases was selected and in the BenchMais1 (2003-2006) and BenchMais2 (2007-2011) Reports. The survey indicated the profile, perceptions, activities, responsibilities, challenges and acknowledgments of some of the new “sustainability officers.” Given the diversity and extension of the geopolitical characteristics of the nation, and the responsibility of all leaders and citizens, the Brazilian Government may need to recognize sustainability officers’ activities as those of a regular, formal and legal profession. The experience of ethics and compliance officers has driven good efforts in this sense. Their role is certainly seen as crucial to lead the changes towards a culture of sustainability required in all organizations.

A group of professionals was interviewed, using a questionnaire as script (Exhibit 1). They were two female and four male managers, with the following age:

Age	N
25 or less	1
26 to 35	2
36 to 45	2
More than 45	1

Their educational profile was:

Educational level	N
College	2
MBA/specialization	2
MS. or PhD	2

Their time occupying this professional position was:

Time in the position	N
Less than 1 year	2
1 to 5 years	1
6 to 10 years	2
More than 10 years	1

Their companies operate in the following industries:

Sector of Activity	N
Manufacturing - Beverages	1
Manufacturing – Food	1
Manufacturing – Wood	1
Agribusiness	1
Infrastructure	1
Government (Health Dpt.)	1

Concerning their professional legal condition, five respondents were employees and one was a government agent.

Table 1 offers a description of some of the respondents’ perceptions, opinions and/or ideas that can be useful for future studies, with no intention of assuming any of the results as conclusive. It is interesting to notice that, even being a quite diverse group in terms of age, gender, educational level and experience in the position, the

feeling is that there is a lack of qualified professionals in the market. In the same direction, the sustainability area seems to need more dialogue with the other areas of the company. Apparently, the sustainability professionals have to work hard to get more recognition from top managers and from other departments, mainly due to the existing trust related to position towards the future. These eventual trends may indicate a new and still weak culture of sustainability in Brazilian companies, differently from what already happens with business ethics.

Table 1 - As a sustainability manager, how challenging is your role?

Questions / Respondents	1	2	3	4	5	6	Average
Top managers are not aware of our role	5	4	2	5	5	3	4.0
Top managers do trust the contribution or value generated with this new competence in the organization	2	2	1	0	6	3	2.3
There is prejudice related to NGOs	0	1	2	2	8	5	3.0
There is prejudice related go social and environmental issues	2	0	1	0	9	2	2.3
There is lack of information about environment, dealing with it as costs, trouble and fines	0	7	1	6	1	3	3.0
Take working conclusion about environment, looking at it as costs, issues and fines	0	2	1	6	2	3	2.3
Lack of qualified professional in the market	5	6	4	8	7	5	5.8
Lack of investment in training	5	4	4	6	3	4	4.3
Lack of dialogue of this area with the others in the company	5	2	2	9	10	2	5.0
No awareness about the potential of this competence	5	3	3	7	4	5	4.5
Perception that the area will no longer exist soon	0	0	1	0	0	0	0.2
Average	2.6	2.8	2.0	4.5	5.0	3.2	-

Source: Survey with sustainability managers in Brazilian organizations (collected data, 2011)

The lack qualified professionals, as well as low investment in specific training, suggests that sustainability practitioners, either as officers or as consultants, need special attention from top managers in Brazilian corporations. Strong motivation for this can doubtless be found in economic reasons, in reputation as benchmarking, in social inclusion and in an environmental concern translated into processes and procedures that lead the companies from *greenwashing* into *bluwashing*.

The outstanding performance of sustainability managers attracts other professionals' attention. They can then share their knowledge and experiences, opening access to good technical and managerial development of other areas. Their visibility and reputation will empower them and this process can be associated to the effort of building a critical mass, crucial to generate social changes, basis for the sustainability culture.

Sustainability Practitioner: the culture promoter

As the ethics and compliance officers, the sustainability managers ought to be highly responsible professionals. Working directly with the main board of the organization, these professionals explore activities that will make a significant difference to the shareholders' values. In order to accomplish this important task, they often review the company's management of its impacts and risks to reputation and therefore they operate with a larger and stronger scope, authority, experience, challenges and acknowledgments. Several initiatives have been created throughout the world, aiming at adequately qualifying professionals to promote the culture of sustainability in the companies.

An example is the Center for Sustainability and Excellence (CSE) that organized the Global Certified Sustainability (CSR) Practitioner Training, designed to support the implementation of effective CSR strategies and reports. The CSE has hosted these training activities for over three years, with sessions at Brussels, Athens, Dubai, Abu Dhabi, Kuala Lumpur, New York, Chicago and Toronto. The program has attracted executives from FT500 companies, government and learning institutions, including Lloyds Banking Group, BP, Aldar, EIB, Savola Group, Dubai Government Executive Council and Stanford University and have certified over 300 practitioners from leading organizations from all sectors. Out of the five thousand professionals that participated, more than 300 professionals from five continents and twenty five countries across North America, Europe, the Middle East and Asia have become Certified CSR Practitioners. As an Approved Training Provider under the Institute of Environmental Management & Assessment, CSE offers intensive learning opportunities for professionals across sectors and industries on CSR and sustainability strategy, design, management and communication. This initiative certainly promotes the culture of sustainability in the companies and respective countries.

Looking at a more tropical environment, where complex sustainability topics emerge, a variety of issues in different companies demands a qualified professional to manage the specific programs. Independently of their size, the companies have to rely on mature and experienced strategies, methods and procedures. Multinational companies face one more issue that is the adaptation of the criteria and policies to the specificities of the region or country. The several stakeholders' engagement seems to be essential in this process and the respect to cultures and legislation becomes imperative. All these challenges end up building excellence in the area and deep changes in the organization culture. As a result, the brand image is strengthened and the company's reputation is enriched.

Getting to understand the culture of a corporation allows the sustainability manager to better report what is done, achievements, challenges and trends according to global, regional or local frameworks. The Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP) and indexes as the Dow Jones Sustainability Index (DJSI) and the Brazilian BOVESPA-ISE (Índice de Sustentabilidade Empresarial) soon have to enter the systems routine in the organization, to assure measurability and control. Training programs should continuously support the advancements of the sustainability area, aligning the organizational culture and priorities.

Final comments: Towards a culture of sustainability

Principles of logics and coherence are crucial for the success of the area. Sustainability is neither fear nor fashion. The challenge is to develop technologies that will allow enable better results with less resources and efforts. This means a change of culture. *Greenwashing* implies in communication, which is the first step for culture changes.

Those who act correctly have not been enough to communicate their good work to the society as a whole. They reach a few people, but the experts can go further. According to social communicators, if 25% of the population is impacted, the social transformation has started. Today, about 5% of the critical mass in Brazil is sensitive to sustainable practices. There still is a lot to walk. The sustainability manager or officer will have to find ethical, logical and educational means to communicate the difference of being sustainable because of the *universal value* implicit: "it is worthwhile paying the price" will have to be the rule for opinion leaders.

In this sense, the sustainability professional could never be extinguished. The perpetuity of his/her activities is crucial to the social changes required by international agreements and commitments as those of Rio + 20.

The environmental value is built in decades and once it is built it is not easy to destroy. Therefore, what has to be definitively changed is the society's lifestyle. This will only happen if communication and educational efforts go intensely together. This process does not go faster because of a loss of moral values throughout the world. It is worthwhile being ethical. In this sense, the sustainability manager is reaching what the ethics officer was never able to get.

The ethics and compliance officer could not make the economy tangible. The sustainability manager can convince that the change brings return (around 4% of the GDP in the United States). For this reason so

specific indicators were created: economic, social and environmental. The green economy concept looked more at the economic advantages than to the ethical. On the other hand, the sustainable development assumes the priority of the ethical. The important for businesses is not so much the discussion around concepts, but the economic result. Therefore, the sustainability professional has to deal with numbers with the ability of a finance manager: business ethics implies in using the economic logics for the good. Logics and coherence are the ethical basis for sustainability. Unnecessary to say how mature this professional ought to be. He/she will be one who continuously builds the legacy of sustainability. They ought to reach the 25% of the population that will make the difference.

As a final consideration, it is curious and interesting to notice that with this rationale, the culture of sustainability will be enforced with the focus on results, which every business leaders deeply and sincerely appreciates, that will bring along the business ethics as a gift.

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Exhibit 1

ISBEE QUESTIONNAIRE (Translated into English)

Questionnaire about Managers of Sustainability Programs in Enterprises (or equivalent)

Please, consider your every day work as the manager of sustainability and indicate your priority in the scale from zero to 10, being 10 the most important challenge, or what you perceive as most frequent in your company. Zero would be the least important or the less frequent:

- ☐ Top managers are not scientifically aware of our role
- ☐ Top managers do not trust the contribution or value generated with this new competence in the organization
- ☐ There is prejudice related to NGOs
- ☐ There is prejudice related to social and environmental issues
- ☐ There is lack of information about environment, dealing with it as costs, trouble, fines
- ☐ There are wrong conclusions about the environment, looking at it as costs, issues, fines
- ☐ There is lack of qualified professionals in the market
- ☐ There is lack of investment in training
- ☐ There is lack of dialogue of this area with the others in the company
- ☐ There is no awareness about the potential of this new competence
- ☐ There is a perception that the area will no longer exist soon.

Your Profile:

Gender: ☐ female ☐ male

Age: ☐ less than 25 years ☐ 26 to 35 ☐ 36 to 45 ☐ more than 45

Educational level: ☐ High school ☐ College ☐ MBA/specialization ☐ MS/PhD

Time in this profession/position: ☐ less than 1 year ☐ 1 to 5 years ☐ 6 to 10 years ☐ more than 10 years

Industry where your company belongs: _____

Area in your company where your work belongs: _____

Your professional condition as manager: ☐ employee ☐ consultant ☐ other: ____

Comments (if you wish):

Many thanks!

CORPORATE SOCIAL REPORTING DEVELOPMENT IN LITHUANIA

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Summary

The paper analyzes the transparency of business activities in relation to social reporting issues. European countries, including Lithuania, are not formed a single system of corporate social reporting. Thus, not only a relatively small number of companies make these statements, but at the same time they are different in content and structure, and therefore not always comparable. The problem is that stakeholder groups, assessing companies in the context of social responsibility and making socio-economic decisions, have not an opportunity to use understandable and comparable information on human resources, products, environment control and public services. The objective of this paper is to analyze problems of social reporting and disclosure in Lithuania in order to increase the transparency of business activities. The research methods applied in this article are the analysis of legal acts, logical and comparative analysis of scientific literature, analysis of social reports.

Keywords: transparency, corporate social reporting

Introduction

The main goal of social accounting and reporting is to create both social transparency system for responsible decision-making and company's communication with the groups concerned. Social reporting and presentation issues are the logical part of social accounting approach which determines that companies should provide also non-financial information in order to satisfy the goals of stakeholders concerned. It is even possible to say that the product of social accounting process is social reporting. Actually not only the fact of disclosing information about company's environmental and social activity is important, but also the assessment of such activity by the groups concerned, i.e. if they consider the company is social responsible. The European countries, including Lithuania, are not formed a single system of corporate social reporting. The problem is that stakeholder groups, assessing companies in the context of social responsibility and making socio-economic decisions, have not an opportunity to use understandable and comparable information on human resources, products, environmental issues, public services.

This paper analyzes the problems of social reporting in Lithuania due to its development from institutional and organizational view. Empirical research related to the researches of social responsibility and social accounting in Lithuanian companies is sporadic and fragmented. The major part of research is of educative and incentive nature and has been initiated and implemented by national institutions. In 2007, it was carried out the study of the legal framework in the Republic of Lithuania regarding the factors that promote and impede corporate social responsibility. In 2010, it was carried out the investigation "Social responsibility self-assessment guide for business". In these studies the focus is on socially responsible business idea, while lacking emphasizing social reporting importance as consequences of corporate social responsibility (CSR). Thus the **research problem** is raised by the question: what are the problems of corporate social reporting development in Lithuania?

The **objective of this paper** is to analyze problems of social reporting and disclosure in Lithuania in order to increase the transparency of business activities.

The research methods are the analysis of legal acts, logical and comparative analysis of scientific literature, analysis of social reports.

Corporate social accounting and reporting theoretical research in Lithuania

The rapid economic development of the environmental problems encountered, and later emerged during the economic crisis, social problems, prompting leaders to take into account the economic development, environmental and social problems together and to implement an economic development model that would ensure sustainable development. As a result of pressure from stakeholder groups to implement the concept of sustainable development promotes the company's management decisions related to their social responsibilities. Social responsibility is company's policy and practice when voluntarily disclosed social and

environmental issues are integrated and combined with economic interests in dealings with all stakeholders, according to human, social and environmental principles (Ruzevicius, 2009).

To inform the public about the policies in this area, companies provide environmental protection, sustainable development reports, or publish social information on their websites. In order to prepare reports on the organization's interaction with the environment, employees, community, customers and other stakeholders the specific social information must be available. Traditional financial and management accounting systems provide only a small part of the required information. It is developed in a separate accounting areas - social accounting.

Social accounting and reporting is the performance monitoring and evaluation system to ensure compliance with company business environment, economy and society. Social accounting, unlike financial accounting, reveals the company's contribution to society. It is related to ethical business behavior, which contribute to human and planetary well-being.

Thus, the recent development of CSR is a growing role of social accounting, which includes social and environmental information collection, analysis and presentation to the stakeholder groups. The main source of information for corporate social responsibility is a social reporting. Social responsibility report is a document of the company, which provides information about the company's planned and ongoing social and environmental performance, taking into account the results already achieved and thus the company informing stakeholder groups about responsible business practices. However, the social information may be disclosed in annual reports, environmental reports, social responsibility (progress) reports, sustainability reports and websites. While corporate social responsibility report varies and their approach to social responsibility, but in general they are prepared in accordance with the principles of the Global Compact, which includes human rights, improvement of relations with employees, the environment and fighting corruption. Thus different social reports disclose social information of companies' activities

In recent decades the world, as well as in Lithuania, there is lively debate and research in socially responsible business ideas in the context, but the accounting system responds slowly to changes. In Lithuania, like other EU countries, investigations are still concentrated on the promotion of CSR ideas (Ruzevicius, Serafinas, 2007; Bernatonyte, Simanaviciene, 2008; Juscus, Snieska, 2008; Ruzevicius, 2008; Dagiliene, 2009; Amstromskiene, Adamonienė, 2009; Juscus, 2009; Bernatonyte, Vilke, Kaizeriene, 2009; Ruzevicius, 2009; Dagiliene, Bruneckiene, 2010; Bagdoniene, Paulaviciene, 2010; Simanskiene, Pauzoliene, 2010; Simanaviciene, Kovaliov, Subonyte, 2011; Dagiliene, Gokiene, 2011; Leitonienė, Sapkauskienė, 2012). Most of these economic investigations is designed for research and development tendencies of CSR Initiatives in Lithuania (Ruzevicius, Serafinas, 2007; Amstromskiene, Adamonienė, 2009; Bernatonyte, Vilke, Kaizeriene, 2009; Juscus, 2009; Ruzevicius, 2009), i.e. the institutional approach is dominated. This research direction could also be attributed to SWOT analysis of CSR policy in Lithuania made by Simonaviciene, Kovaliov, Subonyte, 2011. Other investigations are designed for integration of social responsibility and organizations management systems (Bernatonyte, Simanaviciene, 2008; Juscus, Snieska, 2008; Bagdoniene, Paulaviciene, 2010; Simanskiene, Pauzoliene, 2010), i.e. the organizational approach dominates. It is also important in this regard the previously mentioned national institution initiated and implemented research of CSR in 2007 and in the 2010.

Meanwhile, the Lithuanian accounting researchers work focuses on the presentation of social accounting information (Vaskelienė, Selepen, 2008; Legenzova, 2008; Dagiliene, 2009; Dagiliene, Bruneckiene, 2010; Dagiliene, Gokienė, 2011; Leitonienė, Sapkauskienė, 2012). Political, social and cultural changes create the need to gather and analyze information about social and environmental factors, and determine the changes in traditional accounting systems. The first studies in this field analyzed only the additional information, it's quality, quantity and presentation of financial statements (Vaskeliene, Selepen, 2008, Legenzova, 2008; Dagiliene, 2009).

Only since 2010 studies started to raise the issue of social accounting and reporting. Dagiliene (2010) conducted the research of social responsibility disclosure in annual reports. Dagiliene and Bruneckiene (2010) analyzed the role of the voluntary disclosure aspect of CSR. Dagiliene and Gokiene (2011) carried out the valuation of social responsibility reports of Lithuanian companies. In 2012 Leitonienė and Sapkauskienė investigated social disclosures in corporate social reporting. These studies distinguished that the basic social accounting problem in Lithuania is the limitations of corporate social accounting regulation. This refers to the traditional accounting principles and accounting standards, legal acts and voluntary social reporting, management systems standards (Table 1 about here).

However, it should be noted that social accounting research encountered an eclectic approach. There is a lack of highlighting the element of social accounting systems and its disclosed information as CSR consequences. Methodological aspects of the social accounting and reporting are not sufficiently explored.

Problems of corporate social reporting in Lithuania

Lithuania, which became an EU member and contributing to the Lisbon strategy, formulated in the goal – to create a competitive and dynamic knowledge-based economy based on sustainable economic development, harmonious relations between business, government and civil society representatives on the implementation of CSR has been approved by the development of vision and its implementation in priority areas. However, the legal presumption of CSR initiatives was created in Lithuania's accession to the EU period. In 2003-09-11 the Lithuanian Government approved the National Strategy for Sustainable Development. Under this strategy and other CSR initiatives in promoting the legal acts, Lithuanian companies on their willingness to assume additional responsibilities to improve business practices, introduce modern human resource management technologies, implements natural resource-efficient technologies, manufacturing processes used for human health-friendly materials, creating strategic business plans for possible negative effects of natural and social environment, harmonizing labor relations and actively participate in social dialogue.

The biggest voluntary initiative of CSR worldwide is Global Compact. Since 2005, there is the National Network of Responsible Business operating as part of the Global Compact initiative in Lithuania. Companies that joined the Global Compact, declare that they apply 10 principles of social responsibility, disclosing in annual social reports for stakeholders. Dissemination and promotion of CSR initiative in the network is expanding every year. According to the annual activity reports of the Lithuanian National Responsible Business Network this network comprises 57 companies and organizations in Lithuania in 2008, 61 - in 2009, 65 – in 2011. The fastest connection has already become apparent in 2011 the beginning of January to April when 10 new companies joined to the Network. Companies are removed from the National Network in the cases of interruption of business collaboration and the absence of obligatory social reports within a certain period. Lithuanian National Responsible Business Network had united 54 Lithuanian companies and 13 organizations on 1st of January, 2012.

Although the National Network in Lithuania is expanding, it was noted that members often delay in reporting or as whole does not: only 11 organizations (out of 57 members) present social responsibility reports in 2008, 12 organizations – in 2009, 16 – in 2010 and 21 - in 2011.

In response to found out abuses in companies reports of recent years, many countries have taken initiatives to review the accounting principles, in order to increase corporate transparency. Usually social reporting contains various issues that raise interest of stakeholders: human rights and human resources, product design and development, environmental protection, bribery and community. The Global Reporting Initiative (GRI) is one of the most popular non-governmental initiatives in the social and sustainable performance reporting and standardization and this methodology refers to reporting economic, social and environmental information based on corporate performance. However, despite of methodological discussions on this theme, social disclosure increases the transparency of the business. The major part of Lithuanian companies is oriented towards compulsory presentation of financial reports and financial information disclosure on requisition. It shows the lack of culture in understanding the real impact of socially responsible business. Thus the level of social reporting is low in Lithuanian companies. Without doubt, Lithuania has a relatively recent development of socially responsible business. So far, however, remains a socially responsible business is more incentive. At this point Lithuanian companies are faced with many problems both institutional and organizational:

Legal acts. First of all, in Lithuania, like in many developing countries the promotion of business disclosure about its social activities started in state institutions and professional organizations in the initiative. Laws and regulations were adopted that encourage companies to submit compulsory financial information in the financial statements and annual reports. Law on Financial Statements of Entities (Article 25, paragraph 2) and Law on Consolidated Accounts of Entities (Article 9, paragraph 2) establish a mandatory rule only on financial disclosure, and companies that must prepare an annual report from the financial and non-financial performance analysis should present “the environmental and employee matters related information” (Table 2 about here).

These laws provided that generally accepted accounting principles should be applied to the financial statements. Traditional accounting principles and limitations of Business accounting standards is one of the main reasons for determining corporate decision not to disclose social information in traditional financial statements. The prevailing accounting theory developed over a long period of time, while social disclosure is a new area of accounting. For this reason, some existing generally accepted accounting principles and standards restrict the disclosure of social opportunities. The main objective of financial statements is to reflect a true and fair view of the state of the company and must include policies on social responsibility policy as well. However, such accounting principles as the implementation and viability of information comparability complicate the social information inclusion in mandatory reporting. Thus, the social demand for information

requires major changes in traditional accounting models, but is now mandatory reporting principles limitations due to the fact that social information is provided only for voluntary reports.

Also, companies listed on the NASDAQ OMX Vilnius Stock Exchange must comply with the the Code of Corporate Governance, which encourages companies to disclose information adequately for the market (Table 2 about here). This document recommends that listed companies comply with certain standards of transparency and ensure the quality of management, to improve disclosure to shareholders, in order to increase confidence of investors and other stakeholder groups. The Code does not recommend specifically how and how much the company should provide information about social and environmental business risks. Although provisions of the Code of Corporate Governance for listed companies on the NASDAQ OMX Vilnius are much more specific than the mentioned above legal requirements, but these requirements are summarized in the form and may be treated differently. Thus, corporate social information is different in scope and quality. For this reason, in 2012 CSR guidelines have been developed, which aim is to help listed companies to apply social and environmental requirements of business and to increase the transparency of social reporting.

So Lithuanian laws determine what information should be disclosed at the minimum level. It depends on company's voluntary information disclosure (Dagiliene, 2010). However, aspects of social reporting are not defined by law.

Voluntary social reporting. Compulsory social enterprise reporting is specified in more than one European country. The European Commission has approved the EU Accounts Modernisation Directive Guide, which provides that a certain amount of the company must provide not only financial information but also information about the employees and the environment. It is likely that many countries will follow these recommendations. In Lithuania there also were attempts to make the social reporting compulsory by accepting the Law of Corporate Social Initiatives. This law is intended to only one area within the meaning of CSR, corporate social responsibility to employees and their family members.

In Lithuania social disclosure is voluntary. Companies are not bound to prepare social responsibility, sustainable development or environmental reports and to include data of social responsibility in the annual financial statements. For this reason, the Lithuanian companies CSR disclosure content, scope and the sources are uneven and unstructured. One Lithuanian companies prepare separate social responsibility reports (e.g. Swedbank AB, AB LESTO, former AB RST and VST, AB TEO LT); the other provide information on CSR activities in their annual reports (e.g. AB Achema group, AB ORLEN Lithuania "concern" MG Baltic "). In the report of corporate social responsibility at the national level progress in Lithuania 2008-2010 (prepared by the UNDP project "Gateway: Social and environmental innovation") the 100 largest Lithuanian companies' web sites provided information has been analyzed. The results of investigation show that a large share of companies disclose information about their socially responsible activities. Some companies have a separate section of the CSR and the environment. In addition, Leitoniene and Sapkauskiene (2012) investigated that in the 2006-2010 period, only three companies, one of which AB TEO LT has provided the annual social responsibility report; one company provided four reports since 2007, four have submitted three social reports, while the remaining two or one.

The part of the social responsibility reports is prepared and publicized because some companies participate in the United Nations Global Compact network. The social responsibility reports of such companies (i.e. Communications on Progress) are prepared by the Global Compact principles. There is a space available in electronic reporting tool for the Lithuanian language. For example, Swedbank AB, UAB Medical bank, Ukio Bankas prepare their reports by the Global Compact 10 principles. But as shown in Leitoniene and Sapkauskiene (2012) study social responsibility reports differ in the extent of social information and quality (Table 3 about here). The main reason for differences in social information is the scope and content of the individual sectors varied business specifics, stock listings, foreign investment and environmental pollution.

International guidelines for voluntary reporting partially solve this problem. GRI is the global set of voluntary guidelines for sustainable development reporting requirements. This initiative is designed to CSR reporting requirements of the application of a particular company, depending on the area. The main objective of GRI is to develop voluntary reporting rules that are applied on a global scale and to ensure the quality of the information, consistency and practical use. Sustainability reporting guidelines consist of principles and indicators that are used to measure the economic, environmental and corporate social progress. However, the GRI principles are criticized because they focus on the presentation of information about the environment, so there is no equilibrium between the three components of sustainable development. In addition, the United Nations Environment Program and Public Environmental Reporting Initiative interest in voluntary environmental reporting concepts. GRI methodology is not very popular in Lithuania. Only the mature companies in the field social responsibility (e.g. AB TEO LT, AB SEB Bank) use it.

Businesses and NGOs in partnership with the aim to promote socially responsible business principles in the following areas: environment, labor relations, business integration into society, corporate citizenship and volunteering in the promotion of human rights, corruption and corporate transparency. For instance, several members of the network have been participating in the initiative “Clear Wave” launched in 2007. This project focuses on broad public awareness campaign against payment of wages without taxes and introduction of the first label on transparency in Lithuania. The project aims to attract as many businesses to use the label of transparency in labor relations.

Management system standards. It is one of the CSR forms of regulation. The company, which has a certificate, must follow them to rely on their activities. It is possible to assert that CSR is confirmed by implemented standards, the main of them are AA1000 and SA8000, ISO 26000, ISO 14001, EMAS denoting a socially responsible business development. From the reporting to the stakeholders view, we may find this information only in annual reports or on web sites of companies. Dagiliene and Gokiene (2010) investigated that according to the data of Lithuanian Standardization Department the number of companies registered certificated quality management system was 1099 in 2010 (and 1246 in 2012 06 01); the number of companies registered certificated environmental protection management system was 638 in 2010 (and 727 in 2012 06 01). 157 companies have implemented certificated Employee Safety and Health Service Management Systems in 2009 and even 369 in 2010 (and 437 in 2012 06 01). The number of companies implemented other certificated management systems is 89 in 2009 and 151 in 2012 06 01. And only 16 companies have implemented SA 8000 standard in 2010 and only 12 in 2012 06 01. Thus social responsibility management systems are still not widespread in Lithuania.

Legal options. The state of legislation has provided a number of measures that could encourage companies to integrate CSR concept or specific measures in their activities. In addition, a number of measures are new, some of them have not even been started to apply (e.g. Implementation program of green procurement, companies’ annual reports of environmental and personnel issues, etc.). This shows that companies lack information about how they can use their legal options.

Information sources. At present in Lithuania there is no one central source, where, under the “one-stop shop”, you can get all the information about state institutions initiatives of socially responsible business development and promotion issues. Lithuania emerged in recent years, organizations that are supervised by corporate social reporting: Lithuanian National Responsible Business Network as the part Global Compact, and association “Investors’ Forum” initiative of “Clear Wave”.

Conclusions

Analyzing problems of corporate social accounting and reporting in Lithuanian companies, these main conclusions were made:

- Lithuanian companies are faced with institutional and organizational problems that hamper the development of corporate social reporting in Lithuania. Institutional problems are related to current inadequate legal framework for social accounting and reporting; they could be solved with the support of state institutions and professional organizations. These problems could be attributed to traditional legal acts and standards for accounting, limitations of regulation for mandatory and voluntary reporting, lack of application of legal options for social initiatives, promotion of business and NGO’s partnership, management system standards, creation and coordination of single source for social information, lack of methodological guidelines.
- Organizational problems are related to the implementation of responsible business practice and its promotion in business company. These problems (the voluntary preparation and publication of social reporting to the stakeholder groups, implementation of actual management system standards and disclosure this information, participation in business and NGO’s partnership) are largely dependent on the company’s manager and the potential of human resources as the manager is responsible for the company.
- As the key insight it should be noted that still more declaratory socially responsible business ideas dominate in Lithuania, while the actual manifestation of social accounting and reporting in the initial level.

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Lithuanian standards board. Source: http://www.lsd.lt/typo_new/index.php?id=en

Table 1

The research of social accounting in Lithuania

The research	Object of the research	Aim of the research is:	Institutional and organizational problems of social accounting
Dagiliene (2010)	Financial statement	to investigate the level of social information disclosure in Lithuania.	Legal acts and voluntary social reporting
Dagiliene and	Financial	to investigate tendencies of	Legal acts and voluntary social reporting

Bruneckiene (2010)	statement and website	the level of social information disclosure in Lithuania.	
Dagiliene and Gokiene (2011)	Social responsibility reports	to investigate the valuation variables of social responsibility reports and to analyze social responsibility reports of Lithuanian companies.	Legal acts, voluntary social reporting, management systems standards, legal options
Leitoniene and Sapkauskiene (2012)	Social responsibility reports	is carrying out theoretical analysis of social accounting disclosure determinants and to identify factors of social reporting by Lithuanian firms.	Tradicional accounting principles and standards, legal acts and voluntary social reporting

Table 2
Legislation and its impact on corporate social reporting

The law and its provisions affecting corporate social accountability	Legal acts influence on corporate social reporting
Law on Financial Statements of Entities 2001, as last amended on 2008	The law is relevant to CSR, as the financial statements are prepared in order to fairly present the company's assets, equity, liabilities, revenues and expenses. Such mandatory obligations on companies give clear guidance for companies.
Article 2, paragraph 2 provides that if general partnership, limited partnership or individual company, which are not under an obligation to draw up financial reports under this Law, take decision on the drawing up of financial reports at their own discretion, they must draw up the financial reports in compliance with the requirements set by this Law. Article 4 provides the application of generally accepted accounting principles to the drawing up of financial reports.	Given the fact that the content of financial statements is associated with important information that affects decisions made by interested persons, incorrect, or distorted presentation can mislead the public. It is the mandatory obligation to produce its financial statements in accordance with the relevant requirements
Article 25, paragraph 1 states that public limited liability companies, private limited liability companies, general partnerships and limited partnerships all participants whereof are public limited liability companies or private limited liability companies must draw up the annual report in addition to annual financial reports. And article 25, paragraph 2 (and article 9, paragraph 2 of Law on Consolidate Accounts of Entities 2001, as last amended on 2008) provides that annual reports must include analysis of financial and non-financial performance, information relating to environmental and employee matters.	Although it is the duty of companies to disclose information relating to environmental and employee matters, but it is unclear by what indicators this information must be provided.
The Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius 2006, as last amended on 2009	The Code covers areas related to the protection of the interests of shareholders, an appropriate balance and distribution of functions between the company's supervisory and management bodies, encourages companies to adequately disclose the market.
Paragraph 1.4 states that a company supervisory and management bodies should ensure that the rights and interests of persons other than the company shareholders (e.g. employee, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	This paragraph promotes CSR disclosure, providing the company's duty to respect the stakeholders, not just the interests of shareholders. However, it must be noted that the Code does not provide listed companies to improve their performance reports so that

	investors, creditors could see their environmental, social and related risks.
Paragraphs 8.1, 8.2, 8.3, 8.4, 8.5 states that remuneration policy and procedures for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.	The provisions on executive pay publication to promote CSR in public. In order to maximize the company's remuneration policy of transparency, the Code requires disclosure of information about the income of each director individually.
Paragraphs 9.1, 9.2, 9.3 states that corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For purposes of this Principle, the concept "stakeholders" include investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.	Paragraphs contribute to CSR disclosure, encouraging businesses to comply with legislative requirements and ensure the rights of stakeholders. It is also encouraged to disclose information about the employer and the employee's cooperation in the field of counseling staff.
Paragraph 1.10 provides list of minimum information that should reveal the companies, but companies are encouraged to go beyond the information specified in this list.	This paragraph shall encourage adequate, accurate and timely disclosure of information about the company and contribute to the company's transparency. It is questionable whether this document can contribute significantly to the promotion of CSR disclosure because it is a recommendatory nature. In addition, provide only limited ways and means of information about the corporate governance disclosure. Environmental and social reporting for the company's perspective is not developed. There is a lack of socially responsible corporate culture and investment guidelines.

Table 3

Analysis of social information disclosure in the Communication on Progress for 2006-2010

Types of social information	Economic sector					
	Financial and insurance activities (7)*	Manufacturing (4)	Information and communication (2)	Consultation and training services (3)	Others services (4)	Construction (1)
Human and labor rights	50 (54%)	23 (33%)	14 (45%)	21 (58%)	21 (48%)	8 (57%)
Equal opportunities of employees	9	3	3	4	3	1
Training and professional development	10	6	5	5	5	1
Good internal relations	20	7	4	5	9	3
Promotion of employee	8	3	2	4	4	2
Forced and child labor intolerance	3	4	0	3	0	1
Environment	31 (34%)	32 (46%)	12 (39%)	10 (28%)	20 (46%)	5 (36%)
Support of environmental protection	5	6	3	1	3	2
Environmental risk	6	9	1	0	7	1

management						
Environmental responsibility	20	17	8	9	10	2
Anti-Corruption	21(12%)	15 (11%)	5 (6%)	5 (14%)	3 (6%)	1 (10%)
Protection of personal data	5	3	2	1	0	0
Ethical standards	5	3	2	2	0	0
Corporate governance	11	9	1	2	3	1
Total	92 (100%)	70(100%)	31(100%)	36(100%)	44(100%)	14(100%)

*The analyzed the number of companies in a given sector

TRANSPARENCY OF NON-FINANCIAL REPORTING IN THE CONTEXT OF CORPORATE SOCIAL RESPONSIBILITY TOWARDS EMPLOYEES: CASE OF UKRAINE

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The paper focuses on the essence of transparency of non-financial reporting based on the analysis of international standards of corporate social responsibility as well as scientific research in the social responsibility field. It introduces a system of 30 quantitative and 10 qualitative indices for assessing transparency of the reflection of the indicators of corporate social responsibility (CSR) towards employees in non-financial reporting. The proposed integrated index shows the actual share of suggested indicators in the published non-financial reports. The analysis of transparency of the reflection of indicators of CSR towards employees in non-financial reporting by companies working in Ukraine was carried out. The paper offers recommendations for enhancing transparency of information about CSR towards employees in non-financial reports.

Keywords: transparency of non-financial reporting, corporate social responsibility, indicators of CSR towards employees, methodology of assessing transparency of indicators of CSR towards employees.

Introduction

Though social responsibility is among crucial issues, its relevancy is becoming even stronger under modern development conditions in Ukraine. It is essential for building a socially oriented market economy, securing social and economic effectiveness of business and high quality of life for population, creating preconditions for establishment of civil society, and expanding possibilities for sustainable development. Ukraine has gone from scattered charity actions to systemic strategy for sustainable development over the past few years. Such strategy is typical for several dozens of leading Ukrainian companies; however, it is possible to say that these companies are defining the course for future changes of economic activities in Ukraine.

Meanwhile, complete deficit of social capital constitutes one of the key problems of Ukrainian society, and it is manifested particularly in the lack of trust between all society actors in most of the life spheres. During the crisis period of 1990s and the roaring beginning of the 21st century, not only politics, power and business have lost trust almost completely, but also civil society organizations, the media, the banks and the church. Social differentiation is spreading in society: audacious prodigality, splurge of wealth, and unlimited power of public officials are thriving amid general poverty and insecurity about tomorrow experienced by the mainstream population.

Under such circumstances, it is extremely important for promotion and development of the CSR to preserve its core moral and spiritual essence without turning into a marketing and image-building tool, or another channel for off-the-books money redistribution. Consequently, transparency of the CSR and non-financial reporting in particular is a prerequisite for the real, rather than sham, effectiveness, which is especially relevant for Ukraine nowadays.

The spread of social reporting in Ukraine

Under conditions when the competition is severe and resources are limited, disclosure of information about the company in its non-financial reports is becoming an additional competitive advantage providing for a dialogue with stakeholders at a level that ensures a long-term success of the company, i.e. «success of strategic significance». Establishment of any relations, for example, with consumers, company personnel, local communities, environmental NGOs and other stakeholders must be based on trust, the «convincingly sufficient» level of which can be provided by non-financial reports with answers to all questions of interest to the company's key stakeholders. The sufficient level of transparency of a non-financial report under current conditions is rather important, whereas in Ukraine the concept of CSR and, correspondingly, non-financial reporting is still undergoing development. This fact is backed by statistical data that provides comparison of the quantity of non-financial reports in Ukraine and in other countries. According to CRRA CRreportingAwards' 10³¹², and the statistics from GRI³¹³ website, the quantity of the published non-financial reports is growing annually worldwide (Figures 1 and 2).

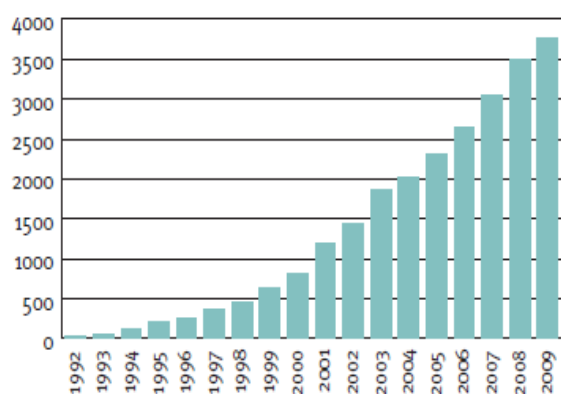


Fig. 1 Global report output per year

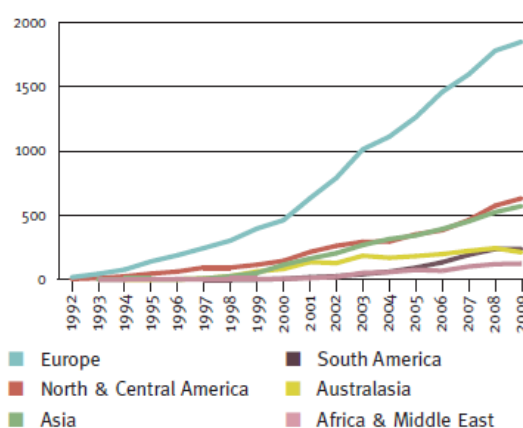


Fig. 2 Reporting output by year, by region

Implementation of international standards is conducive to the application of principles of doing socially responsible business in Ukraine. The analysis of the social reports presented on the Internet websites on CSR has allowed to draw a conclusion that the majority of non-financial reports in Ukraine, Russia and Belarus are compiled with the use of such standards as GRI³¹⁴, AA1000³¹⁵ and CoP³¹⁶. According to these standards, the following types of non-financial reports are specified: sustainability reports under the GRI standard, reports in line with the AA 1000 Assurance Standard, Progress reports on the implementation of the principles of the UN Global Compact, and reports on company's social or environmental projects. Data on the number of non-financial reports in Ukraine is provided in Table 1.

Table 1

Number of published and verified non-financial reports in Ukraine in 2005 – 2010

³¹²CRRA CRreportingAwards'10 [Electronic recourse]: Available at:<http://www.corporateregister.com/pdf/CRRA10.pdf>

³¹³Sustainability Disclosure Database: Available at: <http://database.globalreporting.org/>

³¹⁴GRI (Global Reporting Initiative) was founded in 1997. In 2002 GRI became an independent institution with headquarters in Amsterdam. GRI activity is directed by the Board of Directors with a maximum of 16 members. The operations of the Board of Directors are supported by the Secretariat.

³¹⁵The AA1000 Standard (1999) was developed by the Institute of Social and Ethical AccountAbility). AA1000 Standard is designed for integration of social aspects into business organization. It provisions the integration of social aspects into business management. The inclusive involvement of stakeholder groups for improvement of business accountability is an important idea of the standard.

³¹⁶CoP – the UN Global Compact Communication on Progress.

№	Type of non-financial report	Number of companies that submitted reports during the reporting period					
		2005	2006	2007	2008	2009	2010
1	Total number of reports prepared, including:	1	2	21	30	18	27
1.1	Progress report for the reporting period		1	17	26	16	11
1.2	GRI report			4	4	1	4
1.3	CSR report		1			1	12
2	Number of verified reports		1	3			1

Only 10 out of 100 companies in Ukraine with largest net income³¹⁷ partake in non-financial reporting process. It is caused largely by the fact that CSR in Ukraine is undergoing a difficult stage of its development. Results from our survey of experts on social responsibility issues show that the following factors are among the key constraints impeding the spread of CSR practice in Ukraine (Table 2):

Table 2

Factors impeding the spread of CSR practice in Ukraine

№	Name of the factor	Confirmed by survey-takers, %
1	Lack of social responsibility ideology in Ukraine, deficit of trust at all levels	100,0
2	Spread of corruption at all levels of state governance; authorities' use of businesses for single-time projects, some of which lack strategic and social significance	92,9
3	Very limited number of experts with capacity to develop corporate social responsibility on macro- and micro-levels	85,7
4	National companies' lack of interest, both economic and moral, in social projects	71,4
5	Lack of state and public support, recognition, and moral reward for socially responsible enterprises in Ukraine	64,3
6	Lack of comprehensive scientific research in the field of social responsibility	57,1
7	Absence of influential civil society sector that would purposefully promote CSR principles	53,6
8	Lack of companies' idle funds for social projects	48,2
9	Lack of objective and transparent CSR evaluation experience	42,9
10	Positive information about CSR is not disseminated; lack of vivid examples and "national heroes"	35,7

Thus, the spread of social responsibility practice in Ukraine is constrained mostly by the deficit of trust at all levels of Ukrainian society, the widespread corruption at all levels of state governance, as well as the lack of experts with capacity to develop the CSR on macro- and micro-levels, and the missing economic and moral interest of national enterprises in social projects. Therefore, even companies with responsible way of doing business by no means always prepare non-financial reports. Key factors impeding the spread of non-financial reporting in Ukraine are given in Table 3.

Table 3

Key factors impeding the spread of non-financial reporting in Ukraine

³¹⁷Top 100 Largest Companies in Ukraine (InvestGazeta ranking) [Electronic recourse]: Available at: <http://www.investgazeta.ua/kompanii-i-rynki/top-100-159472/>

No	Name of the factor	Confirmed by survey-takers, %
1	Limited number of enterprises in Ukraine with experts on CSR issues	89,3
2	Lack of companies' experience in non-financial reporting	75,0
3	High level of disbelief in all spheres of Ukrainian society, contributing to lower effectiveness of non-financial reporting	71,4
4	Lack of enterprises' will to attract attention of the public and regulatory bodies in particular	67,9
5	Development of high-quality non-financial report requires allocation of significant amount of time, resources, as well as some funds	64,3
6	Companies see no connection between social responsibility and economic effectiveness, between social reporting and the company's positive image	57,1
7	Disclosure of information on particular spheres of activities of certain companies is undesired in the view of competition or possible negative effects on company's image, or it would not benefit the company's image	51,8
8	Lack of state and public support of social reporting in Ukraine	26,8

Thus, results of our survey lead to conclusion that the lack of experts on corporate social responsibility and the actual lack of experience in non-financial reporting at Ukrainian enterprises, along with the high level of disbelief in all spheres of Ukrainian society, constitute the key obstacles for promotion of non-financial reporting practice.

The essence of non-financial reporting transparency

The reports allowed us to analyze the implementation of the following international standards in the CSR sphere and in the process of drawing up and verifying the non-financial reports: the UN Global Compact's Ten Principles³¹⁸; the GRI Reporting Guidelines³¹⁹; International standard ISO / DIS 26000³²⁰. AA 1000³²¹; the SA8000 Standard for Certification for Ethical Labour Standards in Manufacturing Facilities³²². Many standards stress the importance of a dialogue with the stakeholders and transparency of non-financial reporting. According to AA1000 Standard, transparency is a characteristic of non-financial reporting defined as «reporting for stakeholders³²³». We offer the following definition of the non-financial reporting transparency – *it is a necessary and sufficient level of the disclosure of information on the company's CSR activities for all stakeholders*.

In the paper «Transparency Benchmark 2010. The Crystal 2010 in association with NBA»³²⁴, it is indicated that reporting transparency is a factor of business improvement. An organization that is transparent to its environment shows how it positions itself in society and how it deals with the sustainability issues. This will help to open a dialogue with those concerned and lead to improved business performance. The Transparency Benchmark is based on 50 criteria. The criteria are divided into content-oriented criteria and quality-oriented criteria, which in turn are clustered into five themes or categories. A total of 200 points can be obtained, 100 points for the content-oriented and 100 points for the quality-oriented criteria.

³¹⁸ The Ten Principles. United nations. Global Compact [Electronic recourse]: Available at: <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>

³¹⁹ Sustainability Reporting Guidelines. Version 3.1 [Electronic recourse]: Available at: <https://www.globalreporting.org/resource/library/G3.1-Guidelines-Incl-Technical-Protocol.pdf>

³²⁰ International standard ISO/DIS 26000 [Electronic recourse]: Available at: http://www.lsd.lt/typo_new/fileadmin/Failai/N172_ISO_DIS_26000_E_.pdf

³²¹ AA1000 Framework Overview [Electronic recourse]: Available at: <http://www.accountability.org/about-us/publications/aa1000-framework-1.html>

³²² Social Accountability 8000 [Electronic recourse]: Available at: <http://www.iqnet-ltd.com/userfiles/SA8000/2008StdEnglishFinal.pdf>

³²³ The AA1000 Series is a set of effective assurance and accountability management tools and standards, including the AA1000 Assurance Standard.

³²⁴ Transparency Benchmark 2010 The Crystal 2010 in association with NBA [Electronic recourse]: Available at: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure/swedish-presidency/files/nat_laws_and_policy_init/dutch_transparency_benchmark_for_esg_disclosure_en.pdf

In the paper «Transparency and Accountability Index of Companies in Ukraine», the transparency of companies is defined as «the level of the disclosure of information on key spheres of corporate social responsibility»³²⁵. The transparency assessment of the companies was performed on a 200-point scale. According to research results, top ten companies were identified, among them: «DTEK» (160 points; 80%-transparency); «Metinvest» (146 points; 73%), «Obolon» (140 points; 70%), «ArcelorMittal Kryvy Rih» (122 points; 61%), «System Capital Management» (119 points; 59,5%), «Kyivstar» (117 points; 58,5%), «Interpipe» (106 points; 53%), «Ernst & YoungUkraine» (105 points; 52,5%), «METRO Cash & Carry Ukraine» (104 points; 52%), «Galnaftogaz» (103 points; 51,5%).

Content and significance of corporate social responsibility towards employees

Leading Ukrainian companies are only beginning the transition to systematic (of annual or other periodicity) disclosure of information on the key indicators of their activities in non-financial reports. We agree with many experts and business leaders that employees are the main stakeholders in a company. Therefore, information on social responsibility towards employees constitutes an important (if not the most important) portion of non-financial reporting. However, our study of social responsibility development in Ukraine shows that the views of company managers/owners on high level of social responsibility differ significantly from those of employees. For most companies that market themselves as socially responsible such responsibility is mostly limited to official employment, timely salary payments, in-service training, and provision of vacation time according to legal standards.

Meanwhile, the wage workers in Ukraine (in the view of still unforgotten socialist past) often understand corporate responsibility as social policy of an enterprise and employers' responsibility for personnel. This understanding may differ in content, ranging from simple observance of legal norms in organization and remuneration of labour down to paternalist idea of a master who takes care of his workers in a father-like manner. In any case, the wage worker's idea of corporate social responsibility includes all elements of decent work: a salary that not only is paid on time, but also is adequately high; normal working hours; respect for employees, social security and social safeguards; workplace safety etc. There is supporting evidence that would substantiate this opinion, including solidarity and interdependence of actors in social and labour relations, higher effectiveness attributed to high motivation and employees' loyalty, and even expansion of consumer market potential and subsequent higher business profitability due to salary increases.

The backbone of corporate social responsibility lies in ensuring the fair treatment of employees, democratic functioning of the company; providing opportunities for participation in the governance process, learning new skills and technologies, professional development, as well as in effective performance in social opportunities field. Companies are urged to use professional career planning and provide employment guarantees. Responsible companies are contributing continuously to corporate ethics and culture development; they're engaging employees in the company's business. For instance, the following priorities for social responsibility were set in SCM 2010-2011 Sustainability Report (the company's transparency indicators of social responsibility towards employees were assessed in this study):

- 1) ensuring a decent workplace environment for employees, salary level included;
- 2) implementation of modern approaches to labour organization and development of corporate culture; adherence to high occupational safety standards; offering equal opportunities to employees; conduct fair evaluation of each person's contribution to success of the business;
- 3) investment in human resources; personnel training and development opportunities for fulfilment of one's potential³²⁶.

We consider that corporate social responsibility involves, first of all, creating conditions for high quality of professional life. In order to achieve this, constructive cooperation of actors in social labour relations is required, where interests of all parties overlap at a quality level of work life that provides opportunities for the employee to fulfil his/her potential, receive decent remuneration, ensure productivity and innovations that are important for the employer, as well as reach favourable demographic conditions and social development of society, that constitute state interests³²⁷.

Increasing level of work life is a logical outcome of social and economical development. Advancements in equipment and technology, increased work productivity, development of organization and production

³²⁵The transparency index: Ukraine. – K.: 2011 – 31 p.

³²⁶The SCM Sustainability Report, 2010-2011. National Business. Responsible Leadership. [Electronic resource]: Available at: <http://www.scm.com.ua/uk/sustainability/reports/2012/>

³²⁷Шаульська Л.В. Стратегія розвитку трудового потенціалу України: Монографія. – Донецьк: ІЕП НАН України, 2005. – С.118.

management, growth of intellectual and creative components' share in work process are the prerequisites for improvement of professional life. Meanwhile, there is also an inverse link: high quality of professional life has an impact on the abovementioned progressive manufacturing processes as it raises effectiveness and competitive power.

Increased quality of professional life is also important for the country and society in general. Quality of professional life affects implementation of strategic priorities for the country's social and economical development: building a socially oriented market economy, increasing its competitive power on the basis of innovative growth, expansion of productive employment opportunities, as well as avenues for personal development; the growing activity of social partnership.

High-quality professional life for employees involves an effective system of material and moral incentives, production democracy, development opportunities, safe occupational conditions, and social security. Increased effectiveness of labour is beneficial to the employers' interests: innovative production development, prime costs cuts and increased profits, enhanced competitive power, developed corporate culture, as well as social welfare at the facility. Interests of the society and states are fulfilled through higher quality of living, better demographical conditions, exercise of the citizens' constitutional rights to decent work, development of labour culture, scientific and technological innovation-based development, increased competitive power of the national economy, reinforced social responsibility of the actors in labour relations.

It is the transparent reflection of the indicators of social responsibility towards employees that gives an idea of professional life quality and the company's social responsibility level.

Analysis of indicators of the CSR towards employees

This study includes an assessment of indicators of the CSR towards employees; these indicators were listed in non-financial reports of socially responsible companies in Ukraine. The choice of companies was affected by the results of the 2011 study "Transparency and Accountability Index of Companies in Ukraine" by NGO Centre "CSR Development"³²⁸ and "Hvardiya"³²⁹ magazine 2010, 2011 and 2012 rankings of socially responsible companies.

A system of quantitative and qualitative indicators crucial for transparency of a company's CRS towards employees, if reflected in non-financial reporting, was elaborated based on the analysis of reports by socially responsible companies and scientific works³³⁰. The system includes 30 quantitative indicators divided into the following 6 thematic groups: number of employees and workforce fluctuation, wages and work productivity, personnel training, occupational safety, social security, gender equality. 10 quantitative indicators measure the availability of information on the following: specific provisions of collective labour agreement, occupational safety activities, equal opportunities for men and women, corporate culture, projects for staff members, encouragement for staff development, workers' rights and compensation package, support for employees who are parents (health improvement, flexible schedule etc.), support programs for persons with disabilities (both employees and consumers), support programs for university students.

The research resulted in development of an integral transparency index that characterizes reflection of CSR towards employees indicators in non-financial reports by socially responsible companies in Ukraine. The index is descriptive of the actual share of suggested indicators in published non-financial reports. Accordingly, if the report provides complete information in conformity with all 30 quantitative and 10 qualitative indices characterizing the CSR towards employees, the transparency level of the non-financial report is 100%.

It should be pointed out that 7 of 9 companies, of which the social reports were herein assessed by labour indicators, are represented in the "Hvardiya" magazine ranking of socially responsible companies. The magazine expert council has been composing such annual rankings for the past 5 years (Table 4), and it is the only one available at the moment in Ukraine.

Table 4

Companies with reports assessed in 2010-2012 (according to "Hvardiya" magazine ranking)

³²⁸The transparency index: Ukraine. – K.: 2011 – 31 p.

³²⁹ Kontrakty [Electronic resource]: Available at: <http://kontrakty.ua/proekty/rejtingi/16287-kto-poluchil-propusk-v-prilichnoe-obshchestvo-rejting-soczialno-otvetstvennyh-kompanij-ukrainy>

³³⁰ Грішнова О.А. Соціальна відповідальність бізнесу: сутність, значення, стратегічні напрями розвитку в Україні / О.А. Грішнова // Україна: аспекти праці. – 2010. - №7. - С. 3-8

Соціальна відповідальність: теорія і практика розвитку: монографія / [А.М. Колот, О.А. Грішнова та ін.]; за наук. ред. д-ра екон. наук, проф. А.М. Колота. – К.: КНЕУ, 2011. – 504 с.

Колот А.М. Соціально-трудова сфера: стан відносин, нові виклики, тенденції розвитку: Монографія. – К.: КНЕУ, 2010. – 251 с.

№ 3/п	Company name	Company ranking, score (maximum – 100 points)					
		2010		2011		2012	
		Ranking	Points	Ranking	Points	Ranking	Points
1	DTEK (SCM Group)	-	-	-	-	2	95,04
2	Metinvest (SCM Group)	-	-	-	-	1	97,22
3	ArcelorMittal Kryvy Rih	-	-	-	-	4	76,44
4	Obolon	4	72,00	5	68,00	8	68,88
5	Ernst&Young Ukraine	23	53,00	15	57,42	-	-
6	METRO Cash&Carry Ukraine	3	72,25	16	56,48	19	57,36
7	Interpipe	-	-	-	-	-	-
8	Galnaftogaz	-	-	-	-	-	-
9	Kyivstar	2	76,50	2	75,56	5	74,95

Consequently, the most socially responsible Ukrainian companies (according to “Hvardiya” magazine ranking) were chosen for our assessment. See Figure 3 and Annex A for the summary of transparency assessment (integral indices) of Ukraine’s leading CSR companies’ non-financial reports on the base of CSR towards employees indicators.

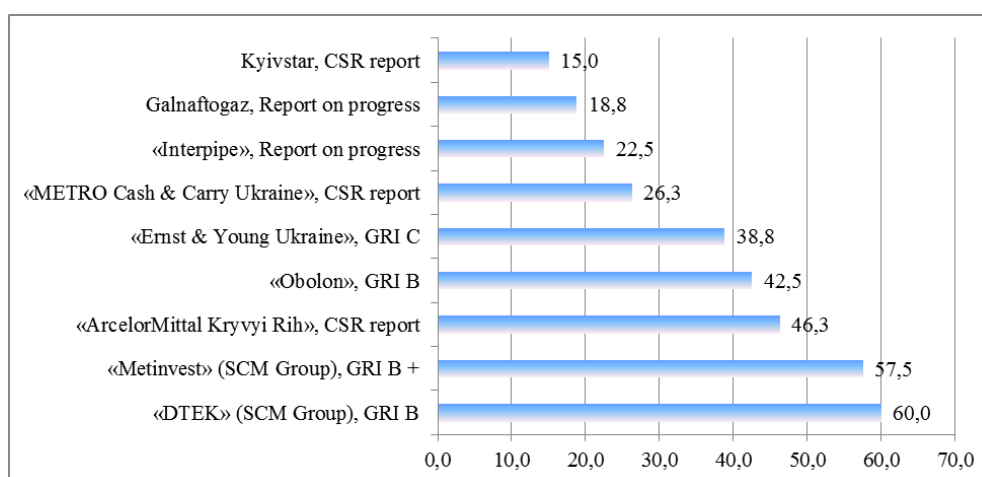


Fig. 3. Transparency assessment of non-financial reports of the companies operating in Ukraine in relation to CSR towards employees(integral transparency indices, %)

Our research shows that in only two Ukrainian companies the transparency level is above 50 %, namely in DTEK (SCM Group) and in Metinvest (SCM Group). The companies’ non-financial reports show mainly qualitative indices. For example, all companies have presented information on corporate culture, various projects for the personnel and on how they appreciate the personnel and encourage the employees’ professional growth. The reports compiled in line with GRI Standard have proved the most informative among all types of non-financial reports. The reports compiled in accordance with other standards, as a rule, do not contain quantitative indices and, consequently, have purely descriptive character. Thus, non-financial reports which have been assessed in our research are mainly aimed at disseminating information about success in the social and labour relations sphere. We believe that non-financial reports should reflect the companies’ really existing problems in relations with the personnel, at least in the sections referring to the companies’ future tasks.

Challenges in the reflection of labour-related indicators in non-financial reports

The lowest level of transparency in the reports under study was observed in relation to such personnel management issues as number and ratio of employees working in arduous and hazardous workplace conditions. Many reports contain no information on the average salary and social investments of the companies (in particular, social security expenditures, investment towards internal social services maintenance, and investment in improvement of social conditions).

The evidence of specific negative trends in personnel management of the companies, which were evaluated with regard to transparency of social responsibility towards employees, is the following:

1) PJSC ArcelorMittal Kryvy Rih was one of the pioneers in introduction of a large-scale compensations program for resigning employees. The program provides opportunities for voluntary resignation accompanied by “rather attractive compensation package”. It is also stated in the social report that “the compensation is the highest in Ukraine; it allows the employees who are leaving the enterprise to feel secure”. However, despite compensation payments, termination of employment is a negative phenomenon that leads to an increase in the regional unemployment rate. In addition, the social report provides no explanation of the way in which the compensation package is “attractive” and how it compensates for the job loss.

2) The social report of DTEK company indicates that “the ring-fencing or contracting of non-profile functions or business processes to third parties (outsourcing) is an acknowledged way of increasing economic efficiency: by doing so, the company ceases to perform the functions that are unrelated to the core activity and is able to direct financial and material resources to its key tasks. In addition, the ring-fencing of non-profile functions to outsourcing contributes to development of internal services market, which increases the quality of services due to stronger competition, as well as it creates jobs outside of industrial sector. In the frame of this practice, DTEK is reorganizing the business processes gradually. In 2008-2009, the company went on to outsource several non-profile functions (namely, transportation, security, services, communications, cleaning, and laboratory studies). Overall, 4050 persons have left the Company during 2008-2009 in the framework of this process³³¹. Meanwhile, it is a matter of common knowledge that the outsourced employees are hired by the third-party companies under the civil contract, which doesn't provide for the employer's social expenditures stipulated by the law. Consequently, employees lose important social guarantees.

3) It is stated in the social report of Ernst&Young Company that “business success is often determined by the employees' willingness to sacrifice their personal time in favour on the client's interests, i.e. to work overtime in order to achieve high business goals and career success. A 25-day vacation, which exceeds the legal limit by 7 days, is aimed at compensating for intense working period”. However, 7 days of vacations are unlikely to compensate for the chronic fatigue from overtime work. In addition, high fluctuation rate indicates that employees are overloaded (according to Ernst&Young 2010 Corporate Responsibility Report³³², the rates are 15% in Kyiv and 12% in Donetsk).

These are the public facts provided in the social reports. It is possible to assume that a hundred-fold larger number of similar issues were not reflected in the reports. Thus, questions arise, such as: what are the reasons behind non-financial reporting? What is their purpose? What should they reflect? Our opinion is that enterprises with actual high level of social responsibility (rather than sham one) can be honest and open in reflection of both their achievements and existing problems. As a matter of fact, the stakeholders (particularly the personnel) judge the company not only and not just by the report, but primarily by its real actions that can't be concealed from the employees. On the other hand, if the sole purpose of the report is the positive image, they're not always accurate about the inside situation. It is indicative of an early stage and large reserves of the CSR development.

Annex A contains the indicators that we consider as obligatory for *transparent* non-financial reporting, as well as the actual level of their presence in the reports under assessment. Let us review in detail the challenges that were identified in the groups of quantitative and qualitative indicators of the companies (Table 5).

Table 5

Challenges in the reflection of labour-related indicators in non-financial reports

№	Group of indicators	Challenges
Quantitative indicators		

³³¹ DTEK Sustainability Report, 2008-2009. [Electronic recourse]: Available at: <http://www.dtek.com/library/file/sustainability-report-2010ukr.pdf>

³³² Ernst&Young Ukraine Corporate Responsibility Report 2010 [Electronic recourse]: Available at: <http://www.csrjournal.com/liveexperience/socreports/3148-socialnyy-otchet-ernst-end-yang-2010.html>

1	Number of employees and workforce fluctuation	The parts of social reports on the workforce fluctuation indicators are the least transparent since high rate of fluctuation is indicative of difficult working conditions, as well as it casts a shadow on the verity of the company's social responsibility. Thus, accurate data may not contribute to its positive image.
2	Wages and work productivity	None of the reports under assessment presented information on the share of wages in prime production costs since the enterprises are working in highly competitive conditions, thus reports are "untransparent" in presentation of these issues.
3	Personnel training	Only one social report included an indicator of the "average annual number of training hours per employee"; it shows that enterprises do not disseminate information about personnel training and development and provide only declarative statements on paying attention to these issues.
4	Occupational safety	This part is the least transparent in the social reports: information about number of employees working under arduous or hazardous conditions is not available in the reports. In the view of industrial character of the companies, the reports of which were assessed, it leads to assumption about the sham nature of responsibility towards employees, as well as avoidance of discussion of actual problems in the social and labour sphere.
5	Social security	Lack of reflection of "expenditures on social security" indicators in non-financial reports may be an evidence of the companies' failure to invest in the social sphere, or the low level of investments as compared to actual needs. It also doesn't show the high level of their social responsibility.
6	Gender equality	Reports of the companies under study are also not transparent on the issues of gender equality, as only one company provided information about the number of female managers. It shows the unwillingness to publish such information and, possibly, the gender inequality in access to management positions in the enterprises under study.
Qualitative indicators. Availability of information on:		
1	specific provisions of collective labour agreement	These issues are presented partially in all social reports, however, the information is not structured, and only the aspects that are describing the company in a positive manner are provided. Comprehensive view of the labour relations is not available just from the social report.
2	occupational safety activities	Traditionally, information on occupational safety is included into social reports. However, this may result not so much from the high social responsibility level, but from the state control of occupational safety.
3	equal opportunities for men and women	Issues of gender equality were covered by more than half of the companies whose reports were assessed. Nonetheless, quantitative indicators of the situation in this field are usually not provided.
4	corporate culture	These parts are found in all social reports which indicated that these issues are significant for all of the companies under study. It also shows their activity in these fields, however, no quantitative indicators are provided.
5	projects for staff members	
6	encouragement for staff development	
7	workers' rights and compensation package	The data is only of descriptive nature; no quantitative indicators are available in non-financial reports.
8	support for employees who have children	
9	support programs	Only 30% of the companies indicated the availability of support for persons with

	for persons with disabilities	disabilities. Consequently, these issues require more attention in Ukraine.
10	support programs for university students	Most of the companies have programs for students, but no quantitative details on professional support for youth are available.

Methods of improving non-financial reporting transparency

Increasing transparency level for non-financial reporting is definitely a progressive and desirable process. It can be achieved, in particular, through: government support and facilitation of non-financial information disclosure, as well as information on implementation of social projects; general increase in the level of the companies' openness and transparency of economy; improved adherence to international CSR standards and further integration of the companies into European area.

The fundamental role in CSR popularization in general and, in particular, in increasing transparency level of non-financial reporting, belongs to the shaping of social responsibility ideology and culture in a broader sense. It requires the good will and significant long-term efforts from all actors in the society and every concerned citizen. Establishment of moral and ethical economy, guided by the principle of *financial success' dependence on real social value of goods and services*, is a necessary and logical addition to the task of building an innovative and intellectual economy. Organization of such activities and setting a real example of its implementation in the public sector of economy is the state's responsibility. In general, higher activity and increased effectiveness of the state (as the owner, employer, legislator, judge, mediator, coordinator and the guarantor of law) is required for organization of socially responsible business.

The most powerful factor in CSR development (as well as its result) is the *establishment of favourable economic climate*, namely through combating corruption and easing the administrative pressure to create a healthier national economy, contribute to its unshadowing and gradual revival. A separate major task includes *creating a healthier moral climate in society, overcoming corruption, as well as enforcement of law and order*, restoring credibility of state institutions and civil society.

The government can and should play an important role in CSR development by promoting non-financial reporting. Inspired by examples from several EU countries, it could create a requirement of social reporting for all or certain groups of companies. In particular, it includes feasible institutional recognition of the list of indicators and CSR information that is compulsory for publication in company reports, development of social reporting standards recognized on the state level.

Another important component is the state support of professional education of the professions, demand for which is experienced by the national companies, such as the social and corporate responsibility managers, CSR experts, and social auditors.

The state support would become a significant boost for the promotion of social responsibility practice, elaboration of non-financial reporting and increased transparency of information about businesses.

Conclusions

Increase in the transparency level of non-financial reports implies, firstly, the strengthening of the companies' CSR, secondly, the increase of mutual trust with the stakeholders; and thirdly, the social partnership development and an effective dialogue with the parties concerned.

The undertaken study exposed on one hand the initial development level of the systematic CSR and non-financial reporting and on the other hand its extremely low transparency level of even the leading Ukrainian companies as regards social responsibility.

It is indicative of, firstly, the country's lack of socially responsible field of economic activities, secondly, the early stage of social responsibility development of the enterprises under study; thirdly, significant reserves and major tasks for social partners in relation to CSR development in Ukraine.

The methodology suggested herein for assessing transparency in reflection of indicators of corporate social responsibility towards employees shows both the level of such transparency, and the ways in which it can be increased. Advantages of the offered methodology for assessing transparency of non-financial reports in reflection of indicators of CSR towards employees are: 1) *universality* – it can be applied to all types of non-financial reports; 2) *availability* of the information – the assessment uses only those indicators which are directly specified in social reports of the companies; 3) *objectivity* – the methodology allows to assess the indicators themselves provided in reports rather than their subjective perception; 4) *consistency* – complex assessment of

the availability of all basic indicators characterizing the CSR towards employees, their classification by blocks and calculation of the integrated indicator of transparency.

The promising researchable issues in the framework of studying non-financial reporting of the socially responsible companies include: 1) assessment of indicators that characterize the level of corporate social responsibility in non-financial reporting (for all non-financial reporting standards); 2) methodology elaboration and evaluation of non-financial reports of the companies in different fields of economic activity; identification of the specifics of information disclosure in social reports in view of the characteristic features of a particular industry; 3) methodology elaboration and assessment of indicators that are presented in non-financial reports and characterize the level of the companies' social responsibility towards different groups of stakeholders; 4) evaluation of social projects that are indicated in non-financial reports of the companies.

**CORPORATE SOCIAL RESPONSIBILITY AND SMES:
EXPLORATORY STUDY ON DYNAMICS OF CORPORATES
AND STAKEHOLDERS PERSPECTIVE IN SPORTS GOODS INDUSTRY MEERUT**

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Introduction

Business is increasingly forming societal values and norms and defining public policy and practice. With raising awareness business are requested by their customers, clients, shareholders and other parties of interest to account for their activities on the global scale in a transparent way.

The whole issue of socially responsible business is based on the premise that companies have the right to choose. In this context there is a need to distinguish between philanthropy and compliance to labour and environmental standards. The adoption of standards may be either voluntary or compulsory in a given social, political and economic environment. The codes on labour standards developed by FIFA and the World Federation of Sporting Goods Industries (WFSGI), which are based on the relevant ILO conventions, look for creating a level playing field for all the traders of sporting goods in the international market. FIFA in its license agreements with companies has included a clause on child labour prohibition, as well as the broader model code of conduct of the WFSGI and the ILO declaration on "Fundamental Principles and Rights" at Work. The past reports on Sports goods industry by Christian aid society in collaboration with South Asian coalition against child servitude 1997 highlighting the situation of working children in Jalandhar and Meerut based SGI, world cup 2002 global march to protest on the use of child labour in the sports goods industry, and the study funded by ILO-IPEC and FICCI in 1998 on Jalandhar (football) are suggestive of –that *'passing the responsibility is no longer an option'*. How the SGI Meerut defines Corporate Responsibility? What initiatives it is taking for being socially responsible? Does the industry have achieved a balance in its economical, environmental and ecological dimensions or the triple bottom line? Is SGI Meerut managing business processes to add social, environmental and economical value in order to produce a positive sustainable impact for both society and the business? What is the tendency of business involvement in societal issues (in context to SGI Meerut)? What is the role of business in society (in context to SGI Meerut)? Do the tendency and role of business toward society have congruence when compared and also is it affected by the ownership patterns? CSR is dependent on which elements in SGI Meerut? Is SGI Meerut aware of the fact that there is a need to distinguish between philanthropy and compliance to labour and environmental standards? Does the SGI Meerut have developed strategies for CSR?

Keywords: Corporate Social Responsibility, small to medium-sized enterprises, stakeholders, sports goods industry Meerut

Purpose

This paper purposes to develop an understanding of Corporate Social Responsibility perspective within the operations of SGI in Meerut and to find which of the groups influence business decisions regarding corporate responsibility, and also to investigate as to why (motivation) these groups and how (process) the SGI's in Meerut reconcile the conflicting voices of different stakeholders in order to examine the corporate and stakeholder dynamics.

Design/ Methodology/

Approach

The approach of study is to focus on understanding, interpretation and discovery rather than trying a hypothesis; The researcher has taken mixed methods (quantitative and qualitative analyses) to achieve the objectives of her study; A list of sports goods manufacturers in Meerut was procured from the Federation of sports goods manufacturers .The total number of manufacturers as per the list was 356. With the help of simple random sampling technique 50 were selected for pilot study and from the remaining 306 a sample of 100 manufacturers was drawn with the help of simple random sampling technique. These hundred were contacted for obtaining the required information with the help of seven structured interview schedules. The collected data is than tabulated and analysed. The sample profile of the corporate respondents is summarized in under mentioned table

(N=100)

VARIABLE			
Item	Percentage	Item	Percentage
TYPE			
Executive/Director/Owner	80	Manager	03
Partner	12	No title provided	05
EXPERIENCE			
Units established up to 1987	50	Units established after 1987	50
OWNERSHIP			
Proprietorship	80	Partnership	20
EMPLOYEES			
Up to 10 employees	74	Above 10 employees	26
EMPLOYEES GENDER			
Male employees	56	Female employees	44
TURNOVER			
Up to 50 Lakh	68	Above 50 Lakh	32
CUSTOMERS			
Catering customers within India only	74	Catering customers within and outside India	26
PRIMARY REASONS FOR ESTABLISHING INDUSTRY IN MEERUT			
Labor efficiency	53	Partition	16
Transport	17	Parental business / localite	14

PRIMARY REASONS FOR CHOOSING SPORTS SECTOR

Sports hub / Sport city	48	Less investment and availability of opportunities	13
Sportsman/Interest in sports Partition	03	Parental business /inherited/localite	29 07

From the sample profile of the respondents three variables appeared to be more significantly associated with the objectives of the study- the ownership patterns, experience and customer location. The ownership patterns show proprietorship in eighty percent of the cases and partnership in twenty percent cases. It is also seen that half the industry under sample were established up to 1987 and half after 1987. The seventy six percent cases are catering the domestic customers only while the domestic and international customers are catered by twenty four percent cases. The industry had only 44 female employees in comparison to 2658 male employees. With the help of another two interview schedule the CSR perspective of these respondents was collected; And also information is collected as which interest groups they identify as stakeholders and why, how do they reconcile them. These respondents identified nine stakeholders- customers, suppliers, competitors, governments, partners, communities, owners, investors, labor and/ employees. Then These stakeholders were interviewed to find out the CSR perspective and their needs and expectations from corporates to examine the corporate and stakeholder dynamics.

Literature Review

Corporate Social Responsibility(CSR) is important for Small- and Medium-sized Enterprises: The developments during the last two decades have changed the contours of what is acceptable to the society in context of International trade (Mccrudden, 2007). The social responsibility has grown to be a commonly debated issue that has attracted considerable media attention during the last decade (Zadek, 2001). The benefit or harm of products and services, their environmental impact and the producers/providers relationship with the workforce and with local communities are open to scrutiny especially since last six-seven years (Mark and Schantz, 2007). The Indian sports goods industry is a labor intensive industry, with many of the units falling under the purview of small scale manufacturing units (SGEPC, 2006). Indian sports goods are being exported to more than 100 countries. The major manufacturing centers of the Industry in India are in and around the following cities- Jalandhar, Meerut, Delhi, Mumbai, Calcutta, Chennai (SGMF, 2004). Jalandhar is the major centre of India's sports goods industry, Meerut in Uttar Pradesh is the second and Gurgaon in Haryana is the third (India Committee of Netherlands, 2000). The SGI in India is an important provider of employment and a significant foreign exchange earner. However, the industry has been troubled by widespread reports in media within and outside the country .In 1995 the first reports appeared in newspapers about the large scale use of child labor and exploitation of adults in the football industry of Sialkot, Pakistan. Later it was found that same problem exists in India (Husselbee, 2000; Global march, 2004). For example, 'By the Sweat and Toil of Children' highlighted the problems of working children in the sports goods industry followed by the report of Christian Aid Society, a U.K based NGO and South Asian Coalition Against Child Servitude highlighted the situation of working children in the Jalandhar and Meerut based sports goods industry in 1997.As a result these reports evoked social concern and distress while the industry feared a setback in exports due to adverse publicity.

In recent years, corporations are facing increased CSR expectations from their societal environment; the consumers, investors, community members and potential employees seek and demand information on corporation's social performance on the global scale in a transparent way (Gillis and Spring, 2001; Michael, 2003; Mbare, 2004; Balmer and Greysner, 2006; Whitehouse, 2006). The electronic media has fostered web-based exchange through which companies make informations available to the public. CSR Communication is a way to create a bond between the company and its stakeholders through corporate home page, the annual report, or sustainability report (Maignan & Ferrell, 2004; Mark and Schantz, 2007). For example, the web page of Delhi based SGEPC states that, 'Issues of welfare and corporate social responsibility have been given prime importance by the sports goods industry of India' (<http://www.sportsgoodsindia.in>, 2007). The business for profit only looses the confidence and trust of consumers, work force, state and the reputation may be badly hurt if unethical behavior is revealed.

SMEs are the mainstay of developing economies, particularly in terms of employment and development impacts (UNIDO, 2002). The labor intensity in the SMEs is estimated to be almost four times higher than the large enterprises (MSME, 2008). The European Observatory of SMEs states that most small company

implementation of CSR is done on an occasional basis, and not tied to business strategy. And of course, a big step in this approach is making CSR a major part of the core decision-making process at senior levels. SMEs are the mainstay of developing economies, particularly in terms of employment and development impacts. In many sectors, their cumulative social and environmental impacts are greater than those of large enterprises. SMEs are particularly important in supporting economic growth and livelihoods in developing countries, because they (inter alia) : *tend to use more labor-intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution; provide livelihood opportunities through simple, value-adding processing activities in agriculturally-based economies; nurture entrepreneurship; and support the building up of systemic productive capacities and the creation of resilient economic systems, through linkages between small and large enterprises* . With the rapidly developing infrastructures in the billion-people economies of China and India, there is a need to ensure that they are being built bottom-up in the right way, to provide responsible resource consumption solutions on the system level. Indian sports goods industry, is a labour intensive industry, with many of the units falling under the purview of small scale manufacturing units, providing employment to the weaker sections of the society as well as to a large number of women .The exports of sports goods is more to the developed countries therefore it becomes important for the industry to encourage the use of specified code of conduct as an evolving global consciousness on ethical and social concerns besides product development, innovation, marketing and promotion as suggested by the export promotion council in its forty ninth annual report.

Genesis of Sports Goods Industry (SGI) in India: The origin of the Sports Goods Industry in India can be traced back to Sialkot (now in Pakistan), the sports goods production centre in pre-partition days. The Industry was founded by Sardar Bahadur, Sardar Gainsa Singh Oberoi in the year 1883 on 13th April at Sialkot .The credit to establish this industry in India goes to Sardar Gainsa Singh Proprietor M/S Oberoi Ltd, Sialkot (Pakistan), he has taken the knowledge of this industry from entrepreneurs of Europe and started manufacturing sports goods, for this he imported machinery and other essential items from England, this inspired other entrepreneurs and thus Sialkot became centre of sports goods . The items taken for manufacturing passage in the beginning were tennis, footballs, cricket bats, balls and field hockey, with of time new items were added and industry at Sialkot progressed, until the division of the country checked the boom .When India was partitioned in 1947, many of Sialkot's skilled Hindu craftsmen migrated across the border into Punjab, settling in Jalandhar and Meerut . The Sport Goods Industry was well established in its modern shape in the beginning of the 20th century.

Brief Genesis of Sports Goods Industry (SGI), Meerut: Meerut town is in Northwestern Uttar Pradesh state of India and lays Northeast of Delhi, the capital of India. It lies in between the river Ganga and Yamuna. About three- four sports goods manufacturing units were functional in Meerut even before partition; these units were manufacturing products like footballs, net and balls etc. The development of the sports goods industry of Meerut are summarized as follows:

YEAR	DETAILS
2006-07	The total export from SGI was of Rs. 509.46 crore and the contribution of SGI Meerut was of Rs 126.17 crore.
2005-06	The total export from SGI was of Rs. 456.97 crore and the contribution of SGI Meerut was of Rs 100.60 crore.
2002-03	The total export from SGI was of Rs. 342.30 crore and the contribution of SGI Meerut was of Rs 100 crore.
1980	Export was mainly started from Meerut based units.
1972	India Trade Promotion Organization was established.
1970	Several units were started in Meerut.
1950-60	SGI Meerut started manufacturing items like- sports hosiery, anklets, kneecaps etc.
1953	Pratap Singh, the Chief Minister of Punjab offered more facilities, many manufacturers shifted from Meerut to Punjab.
1950	Federation of Sports Goods Manufacturers started under All India Sports Goods Manufacturer Federation.
1949	SGI in Meerut started in an unorganized way by 6 people (out of these 4 were from Sialkot & Rawalpindi).
1935-49	Meena families of Rajasthan (India) manufacturing football after partition of the country shifted to Meerut. The SGI was established in Meerut in 1947-50 as a cottage industry .In 1980 there were about 1000 industrial units, out of which 415 units were registered as cottage industry, manufacturing about 318 items. Among the thousand units thirty were engaged in export business

The Present Status of Sports Goods Industry (SGI), Meerut : Indian sports goods are being exported to the more than 100 countries. The major manufacturing centers of the Industry in India are in and around the following cities: Jalandhar, Meerut, Delhi, Mumbai, Calcutta and Chennai.

The researcher is not intending to measure the present status of the industry but she is merely focusing on their status pertaining to the awareness of CSR and incorporating it into the business practices. She has confined only to the owners and managers of the industry for the focus of selection of population for the data. To explore the dynamics of stakeholder needs, stakeholders would be included in the subject population, after being identified. The sites to be visited were selected based on the premises that they are not mere traders of sports goods but also manufacturer's. These manufacturers are not separated on the basis of products they are manufacturing. Besides this poor database is also a constraint to present work. The complete information for the small sector is not available with the SIDO and CSO, the two major sources of information on small sector. Also the estimates worked out by SIDO every year are subject to limitations, being based on partial returns (Misra and Puri, 2006). Therefore for the purpose of present work, the researcher has taken information from the Federation of Sports Goods Manufacturers, Meerut and Sports Goods Export Promotion Council, New Delhi. Further the Concept of CSR is still developing. It is only in the last decade that businesses have begun to exhibit serious evidence of CSR in their strategic management and stakeholder social reporting (Williams and Aguilera, 2006). CSR as a research area still lacks a 'common ground' especially on the social and environmental responsibilities of business towards society (Ougaard and Nielsen, 2002). The field of empirical CSR research generally has been hampered by the lack of a consistent definition of the construct of CSR, as well as its operationalization and measurement (Morimoto et al., 2004; McWilliams et al., 2006; Rodriguez et al., 2006). The study has been delimited to SGI of Meerut because of limitations of time and resources of the researcher. Besides it, adequately serves her purpose.

Both the parties affirm that sincere commitments to CSR notions need to be exercised in business. But the mutual interaction in cordial and congenial social environment is manifestly neglected. There is neither any institutionalized mechanism of consultation and participation into decision making process, nor any strategy to incorporate stakeholders concerns in the business process of growth. Of course both the sectors avoid conflict creating situations in their own interests. But there is no positive approach to gratify or even identify the problems of stakeholders.

The corporate in SGI Meerut verbalize the awareness and necessity of incorporating CSR concerns in business yet nothing serious is being done in this direction.

An intellectual debate is needed to develop this concept for SMEs and address such concerns in this category of industries. The researcher has also arrived at a working definition of CSR in SMEs. The findings of the paper provide a good understanding of SMEs and stakeholders need Dynamics for CSR, which will be helpful for policy-makers.

Predominantly the classical view of maximizing profit and economic concerns of business prevail. The present study recommends for an intellectual debate to vitalize CSR concept in SMEs; institutionalized mechanism to develop a healthy interaction both for the comprehension of CSR, addressal and redressal of needs of various component sectors of this category of industries, particularly the stakeholders; attention to communicate human sensibilities pertaining to natural, social and environmental concerns of the mankind of all sectors engaged in industrial enterprises i.e. production, consumption, supply and sale; economic interests should not alone be given priority at the cost of social and environmental concerns.

To the best of the authors' knowledge, this is among the first studies focusing on CSR in the SGI Meerut. Also, the exploratory qualitative approach of the paper can provide a better vision for future research.

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CSO stands for Central Statistical Organization.

CSR stands for Corporate Social Responsibility.

SIDO stands for Small Industries Development Organization.

IMPLICATION OF CLIMATE VULNERABILITY ON AGRICULTURE AND FOOD SECURITY IN SOUTH ASIA, SPECIALLY BANGLADESH CONTEXT AND SOCIAL HUMANITARIAN RESPONSIBILITY

Abu Hanif

CARE Bangladesh

I. Introduction:

Bangladesh has made considerable progress in increasing food production as well as on its socio-economic indicators against MDG goals, yet it continues to be one of the poorest as well as food insecure countries in South Asia, due to income inequality, frequent disasters, and social complexities. According to UN Human Development Report 2007, Bangladesh is among the countries to be worst-affected by climate change that may cause a large-scale reversal in human development, breaking down the entire agricultural system of the country. Climate change has the potential to undermine development of countries like Bangladesh and vulnerabilities could be increased in day by day. The annual risk of flooding and flash floods increases food insecurity and vulnerability by limiting local livelihoods, inhibiting productivity of land, destroying household assets, and increasing isolation from markets and social services.

Within three pillars of food security: **availability**, **access** and **utilization**, there have been significant strides in improving the gross food availability, in particular through cereal self sufficiency and improvements in land productivity. However, food access and utilization continue to remain critically low, especially among the poorest and disaster affected. **Income inequality and chronic poverty**³³³ are the primary causes for widespread food-insecurity. About a third of the population is below the lower poverty line (consuming less than 1,805 kcal/capita/day) with seriously imbalanced diets and extremely inadequate intake of fats, protein and micronutrients. Almost 40 percent of under-5 children in rural Bangladesh are reported as stunted and 46 percent are reported as underweight, indicating that chronic under-nutrition is widespread.³³⁴ Furthermore, there is an important **spatial dimension** to poverty and food insecurity creating disproportionate affects on people in disaster risk prone areas, such as char lands (river islands), **haors**³³⁵ and coastal areas.

II. Implication of Climate Vulnerability

1. Securing world food security in light of the impact of climate change may be one of the biggest Challenges we face in this country. An estimated 850 million people in the world today suffer from hunger. Of those, about 820 million live in developing countries, the countries expected to be most affected by climate change. Projected population and socio-economic growth will double current food demand by 2050. To meet this challenges in developing countries, cereal yields need to increase by 40 percent, net irrigation water requirements by 40-50 percent, and 100-200 million ha additional land may be needed, largely in Asia, sub-Saharan Africa and Latin America.

2. South Asia (as defined in this paper comprises eight countries; Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) faces key development challenges such as population growth, high incidence of poverty, urbanization and the degradation of the environment. Climate change could make this region more vulnerable and reverse country's efforts towards achieving MDGs by causing reduction in agricultural yields, increasing water stress due to changes in precipitation patterns and glacier melting, decline in fishery products, degradation of natural grassland and impacts on forest products. South Asia lags on most human development goals, although it will likely meet the poverty reduction MDG. (World Bank, 2008)

3. The climate conditions, combined with socio-economic situations make South Asia, one of the most vulnerable regions in the world with regard to climate change. The climate of South Asia is characterized by extreme and natural hazards like cyclones, wind storms, droughts and heat waves, floods, glacial lake outburst flood (GLOF), land slides, pest and diseases outbreaks, etc. The assessments of the impacts of natural disasters revealed that South Asia accounts for almost 80% of the total population affected and 86% of total damage due to drought in Asia. Similarly, this sub-region accounts for 35% of the total population affected and 28% of the total damage due to floods in Asia (CRED 2007). Moreover, the productive sectors which include agriculture accounted for over half of associated damages and losses. Climate change will superimpose itself on these existing trends, significantly increasing production risk and rural vulnerability, particularly in regions that already suffer from poverty and hunger.

III. Current Agriculture Production and Food Security Status in South Asia

4. The majority of South Asian countries share similar economic and sustainable development challenges. The most prominent similarities are frequent occurrence and susceptibility to natural hazards, excessive dependence on agriculture, widespread poverty and vulnerability to climate change. Five out of eight countries

³³³ 49.6% people live in poverty (below US\$ 1 per day)³³³.

³³⁴ Bangladesh in Facts and Figures: 2005 Annual Report of the Nutritional Surveillance Project, Hellen Keller International, 2005.

³³⁵ A wetland ecosystem in northeastern Bangladesh that is a saucer shaped shallow depression in the land that is also known as a backswamp. The Haor is a remote and difficult area that is flooded every year during the monsoon. Some of the most extensive seasonally flooded areas in South Asia are located here.

in the region are characterized as least developed countries (LDC), and of these five LDSCs, three are land-locked least developed countries (LLDC) possessing low-income, weak human resource and economic vulnerability. The South Asia region contains a population of 1507.5 million (2007) and projections anticipate 1727 million by 2015. Agriculture represents a high share of GDP and approximately 150 million households, with 751 million people classified as agriculture dependent. Since 1990, millions more people are chronically hungry in Sub-Saharan Africa and Southern Asia, where half of the children under age 5 are malnourished (UN MDG's Report, 2005).

5. South Asia possesses diverse farming system ranging from intensive rice-wheat systems to sparse arid regions and mountains. Large parts of the region face severe environmental constraints like erratic and uneven distribution of rainfall, water stress risk, low soil suitability, steep slopes and mountains, severe land degradation and low to medium climate production potential (Dixon et. al., 2001). The area under arable land and permanent crops is estimated at 213 million ha (FAO, 2008) and expected to show only a marginal increase by 2030; the region's irrigated land area will grow from 85 million ha to about 95 million ha in 2030.

6. The current total food production in south Asia has increased 3 folds from 117 million tonnes in 1961 to 348 million tonnes in 2006 (FAO, 2008b), but the dietary energy consumption has increased only marginally. The current dietary energy consumption is 2364 kcal/person/day and expected to increase to 2790 by 2015 and 3040 by 2030. It requires additional efforts in yield improvement, given the fact that there is limited scope for expanding area under cultivation and area under irrigation.

7. South Asia is home to the largest concentration of poverty and undernourished population. FAO estimates that 312 million (21%) People are still undernourished (FAO, 2008c) and 26.4% of the population is below poverty line (ADB, 2008). Indicators of other dimensions of poverty, such as female illiteracy (59%), child mortality (89 per 1000 in children <5 years), and child malnutrition (51%) also point to extensive poverty. Nearly 40 percent of the world's poor earning less than a dollar a day live in the region.

IV. Climate Change and Its Implications for Agriculture and Food security in the Sub-Region

8. Changes in climate and other important environmental factors pose a major concern to food security in the region. This is because such changes not only directly threaten the production of food from land and sea for local consumption, but also threaten revenue generation at farm scale. The adverse impacts of climate change are a major barrier of food security and achievement of sustainable development goals in south Asia. They anticipated to exacerbate the impact of existing development challenges such as loss of market and declining value of traditional exports, declining domestic food production and increasing imports; and environmental degradation.

9. Arable land, water resources and biodiversity are already under pressure and are expected to be stressed by changes in precipitation patterns. With climate change, negative impacts on agriculture are predicated; coral reefs and mangroves will be threatened by increased sea surface temperatures, and sea-level rise. Predicted impacts of climate change in the region include extended inundation of arable land, salinity intrusion and reduced fresh water availability. For example, in India freshwater availability is predicated to decrease 47% in 2025 due to climate change and population growth.

10. Semi-arid tropics are vulnerable due to reduced rainfall and increased evapotranspiration and drought (e.g. central and peninsular India; Sindh and Balochistan of Pakistan; North West Bangladesh). While small islands are extremely vulnerable due to high exposure population and agricultural infrastructure to sea level rise (e.g. Maldives) and increased storm surge. The Ganges basin and north eastern Haor region of Bangladesh is vulnerable to flash floods.

11. Extreme weather events can be very damaging to fisheries industry, hitting fishing gear, fishing vessels, but also coral reefs, mangroves and coastal vegetation, which act as protective barriers for the coastlines. The unprecedented increase in the movement of people, animals and goods, multiplies the pathways for the dissemination of transboundary animal diseases and plant pests (including insects, pathogens and plants pests) and aquatic species. Once introduced, climate change combined with change in crops, landscapes and human activities may create favorable ecological conditions for the persistence of transboundary diseases and pests.

Initiatives on Climate Change Adaptation and Mitigation in the Agriculture Sector

12. The Priority actions to protect local food supplies, assets and livelihoods against the effects of increasing weather and extreme events are: a) Vulnerability and risk analysis and risk management specific to agricultural eco-system, b) Crop varieties and breeds adapted to changing climate conditions, c) introducing alternatives to provide food, fodder and energy and enhance cash incomes, d) promotion of insurance and relocation of vulnerable assets, and e) rain water harvesting and water storage.

13. The priority actions to avoid disruptions or decline in food supplies due to changes in temperature and precipitation are a) efficient agricultural water management and drainage, b) adjustment of planting and harvesting schedules, c) floating agricultural system for flooding, risk diversification in drought prone areas, d) improving weather / climate and flood forecasting and warning and e) improved livestock management, altered grazing and rotation of pasture.

14. The eco-system management through provision of environmental services need to be ensured by a) use of degraded / marginal lands for productive planted forests or biomass for alternatives fuels, b) watershed management and prevention of land degradation, c) regulation through planning legislation and zoning, d) protection of coastal areas from cyclones and other coastal hazards, e) forest fire management through altered stand layout, f) preservation of mangroves and their contribution to coastal fisheries, and g) biodiversity conservation.

15. FAO promotes options for climate change mitigation in the food and agriculture sectors by reducing emissions without compromising food security. Sustainable land management practices can diminish the conservation from forested area to cultivated or grazing land, increase the efficiency of water, soil and energy use and at the same time reduce emissions from deforestation, forest degradation (REDD), cropland and pastures. For example, Bhutan has 72.5% of its total land area under forest cover and high per capita GHG sequestration potential.

16. In agriculture, reducing methane emissions from ruminant livestock, rice paddies, manure and nitrous oxide emissions from soil attention. Carbon sequestration in biomass and soils can be enhanced by a) sustainable forest management, b) reforestation and afforestation, c) rehabilitation and restoration, of degraded grassland, rehabilitating and restoration of cultivated organic soils, e) promoting conservation agriculture, f) grazing land management and g) residue retention and conservation tillage system.

V. Experiences Gained and Lessons Learned

17. FAO is implementing programmes and projects in the region on climate change adaptation at multiple level of targeting agriculture sector. The experience clearly shows that the climate change impacts exacerbate existing vulnerabilities; adaptation must be addressed in the boarder context of vulnerability. Addressing current climate change adaptation risks is suitable operational entry point to lunch climate change adaptation. Adaptation is considered as social learning process and needs to involve institutions and multiple actors within the agriculture sector and other relevant sectors.

18. Awareness raising and institutional capacity building are the key. Adaptation is location specific, requires demand-driven research and extension strategies for technology development and transfer. Cross-sectoral livelihoods perspectives with strengthened institutional systems are essential to capture farmers' needs and to respond to location specific demands.

19. Improve operational linkage between climate change adaptation, disaster risk management and development are needed. Re-strengthening agriculture research (action oriented), extension services and development links are essential for continuous adaptation. Synergies between climate change adaptation and mitigation exist and need to be exploited.

20. Response to climate change need to be coordinated and integrated within existing policies of socio-economic development and environmental conservation to facilitate sustainable development.

21. Re-orientation of water resource management to take care of the impacts of climate change is very much needed as south Asia's food production depends heavily on fresh water resources including ground water. National agriculture ministers, Agricultural Research systems Universities, FAO, and several other development agencies have promoted innovative approaches of water management, and key issues still need to be addressed, such as i) reform of irrigation agencies, ii) modernization of irrigation systems, iii) changes in water governance, iv) river basin management and v) water policy related to agriculture sector aiming to meet food security in the region.

22. Community level actions to demonstrate viable adaptation options in the drought -prone areas of Bangladesh improved the adaptive capacity of the marginal farmers and poor people against climate risks and helped to accelerate adaptation processes. The Farmers field school approach promoted by FAO and Danida provide excellent opportunities for integrating climate risk management strategies and practices into the FFS modules. The Others international development agencies promoted Community Risk Assessment (CRA), Community based early warning system, community disaster preparedness planning, strengthening & more functioning local level disaster management committee and school based disaster risk reduction planning.

VI) Knowledge Gaps, Opportunities and Key Messages

22. Adoption of risk management practices and policies for hazard vulnerability reduction help South Asian countries in preparing better for climate change impacts. Risk transfer could occur through micro-insurance, catastrophe bonds and reduced insurance premiums as an incentive to take preventive measures. However, the lack of financial mechanisms acts as an obstacle to insurance initiatives.

23. Policy formulation needs to be built upon an improved understanding of the links between climate change and food provision, while promoting socio-economic development and limiting further environmental degradation. Given the magnitude of the impacts of climate change, a comprehensive climate strategy for the region needs to focus on adaptation as a first priority. Mitigation activities such as soil carbon sequestration, ecosystem restoration, protecting mangroves in coastal areas and reduced emission from deforestation and forest degradation promotes ecosystem resilience and improves adaptive capacity of the communities against climate risk.

24. The diversity of experience in the region provides an opportunity to upscale climate change adaptation and mitigation initiatives. Collaboration between countries in the sub-region in developing regional and national policies, legislation for sustainable development and institutional mechanisms would provide a common platform for sharing of information, technologies and capacity building.

25. The Government of Bangladesh recognized the need for the regional collaboration and requested the development partners to assist in establishing an International Center for Adaptation in Bangladesh which will provide a forum to study aspects of the vulnerability of countries to climate change, scope and constraints to adaptation, develop relevant databases, and provide a network among countries and professionals.

VII. Climate Issue in Bangladesh context and Social Humanitarian Responsibility: Case study

1. Qualitative data collection included some exploratory questions around climate change. Community members reported increased temperatures, more extreme storms, irregular flash floods and irregular/infrequent rainfall. They inferred multiple linkages between these changing weather-related characteristics and livelihood impacts such as reduced crop and fishing yields, less migratory birds, increased insect infestation and crop disease, and reduced soil fertility. One common example mentioned was that climate variability has reduced ability to predict flash flood; previously crops could be harvested prior to flash flood. (Bangladesh Food Security for the Ultra Poor Project Baseline report, 2010)

It was noted that in the last ten years the water levels of the Haor have been reduced significantly and sedimentation has increased; Beels and marshlands were filling up, which negatively affected fishery and agricultural practices due to lack of water in the dry season. In addition, the increased irrigation required as a result of the reduced rainfall and lower water levels make agricultural practices more costly; reducing profits derived from agriculture.

As a result of these changes, many poor and ultra poor households can no longer rely on daily fishing labor as the main source of income but must now do agricultural day labor and poultry rearing to make a living. Overall, community members noted limited capacity to adapt to these changes, particularly for the ultra poor.

In addition, community members highlighted man-made problems that compound the problems considered to be caused by climate variability. For example, the use of insecticides on crop land has reduced fishing yields and has also decreased day labor opportunities for pulling weeds.

To address the impacts of climate change, community members stated the need to organize development activities that focus on river dredging, promotion of more resilient crops and agricultural practices, and provision of training on climate change and how to adapt.

2. The Haor Region of Northwest Bangladesh has faced a serious ill-timed flood started in the last week of March 2010. The early flooding caused by the heavy rain downpour and rolling of water from the hills across the border in India destroyed the unripe boro paddy (Main seasonal crop) and collapsed the roads and embankments across the haor region. The lives and livelihoods of the mass population - both landed farmers and landless day laborers - are largely influenced on the harvest of the boro paddy, which, in most cases fully damaged ahead of 1-2 months of harvest. Different government sources, media reports and the adult villagers termed the flood as a different type of flood in terms of nature and timing, which is never been seen before. They claimed it as a severe consequence of climate changes.

The most vulnerable households in the most vulnerable communities, who are the worst affected by the early flood due to their vulnerable living locations.

FSUP-H has conducted a rapid appraisal to identify the affected impact population with types of losses/damages. The report presents the findings of the assessments along with key relevant features published in the national dailies.

Key features of losses/damages

- About 50% of the impact households depend on selling agriculture labor as their primary occupations. They received paddy as payments in kind as contract portions in paddy harvesting season by selling their labour. A typical day laboring households in the haor region usually receive 10-12 mounds (40 Kilograms =1 Mound) of paddy during each harvest season, by which they can secure food security of 4-5 months for their households members. The recent floods diminish the food security level significantly.
- The impact households started coping the situation with adjusting meals. Even they have reduced both quantity and quality of intakes. Now they are eating more dry fish and chili with rice.
- As the haor region is a single crop (paddy) area, the crisis will be more acute from July onwards.
- As about 50% of the impact households have lost their work opportunity in the paddy harvest season, many of them already migrated to other rural and urban areas to seek an employment.
- About 70% are remained unemployed; some have started fishing, although catches are not enough.
- About 30% households reported that their latrines are washed out and tendency of open defecation increased.
- Members of affected households have started suffering from different diseases like diarrhoea, skin diseases, fever, etc.
- Different waterborne diseases are increasing due to fragile sanitary latrines.
- Health expenditure increased at household level
- Supplies of vegetables are limited and are costly.

Conclusion:

Compensation like financing in climate change is a critical issue discussed at the global negotiation. Describing the forthcoming climate impacts to the Bangladesh, Prime Minister of Bangladesh in her address at the Copenhagen Climate Summit (COP 15) in December 2009 stressed a common commitment to meet the emergency needs of millions of household whose lives are endangered by increasing natural disasters, erosion of riverbanks and salinisation of rivers and Copenhagen Accord of Commitment were developed. In the next, the Cancun Agreement enshrined the Copenhagen Accord commitment to a new Green Climate Fund with an interim Fast Start Funding (FSF) package which reaffirmed the commitment from developed countries mobilize \$100 billion of climate finance a year by 2020 to address the adaptation needs of developing countries.

Financing of a sustainable climate deal is still a vision, not a reality, although pieces of the future package are now in place. The emerging structure is being framed from the global level. The global policy leaders are generating knowledge about context of country level for its future development which will be scrutinized under Monitoring, Reporting and Verification requirements. We should keep it mind carefully to overcome the **policy and diplomacy of climate entrepreneurs** particularly of rich countries.

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**RAISING THE LEVEL OF MORAL THINKING
AMONG MANAGERS WILL NOT HELP.
KOHLBURG'S CONVENTIONALITY
AND SYSTEMIC ETHICAL FLAWS IN BUSINESS**

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Summary

Business ethicists often assume that unethical behavior arises when individuals deviate from the norms and responsibilities that are institutionalized to frame economic activities. People's greed motivates them to violate the rules of the game. In Kohlberg's terms, it is assumed that such actors make decisions in a pre-conventional way and act opportunistically.

In this article, we propose an alternative interpretation of deviant behavior, arguing that such behavior does not result from a lack of conventional moral guidance but rather from the fact that characteristics attributed to pre-conventional morality by Kohlberg – the purely incentive and punishment driven opportunistic morality – have become the conventionalized morality. The prevailing norms that economic actors have internalized as their yardstick are those of the pre-conventional Homo economicus. Not the deviation from, but the compliance with the rules of the game explains many forms of harmful and illegal decisions made in corporations.

KEYWORDS

Kohlberg, business ethics, institution theory, normative framework, unethical behavior, greed

Introduction

Much attention has been paid in recent years to business scandals and their origins (e.g., Mishina, Dykes, Block, & Pollock, 2010). The mass media showcase managers being arrested and tend to focus on the narration of the bad apple, the greedy and excessively self-centered individual (see Frohnen & Clarke, 2002). Business scandals are often attributed to character deficiencies of individual actors inside scandalized corporations. The prevailing perception of deviant behavior in corporations is that those involved have violated the societal norms that have been created around them in order to frame and tame their managerial activities. Put differently, they violated the prototyped norms and values attributed to the role of a manager. In Kohlberg's terms (1969), it is assumed that such actors make decisions in a pre-conventional way and act opportunistically because they are not sufficiently guided by positive and negative incentives. They are weak in their conventional morality and disembedded from those norms that should civilize their decisions. Pre-conventional moral thinking considers norm abiding merely as a way to avoid punishment. In its extreme form, it leads to a form of opportunism that can only be kept in check through good control systems. When those control systems are weak, there is room for opportunistic behavior and individuals start to calculate risks against the potential rewards of breaking laws and violating moral norms (Becker, 1968; Williamson, 1975). In this view, bad things are done by bad people.

This seemingly obvious interpretation of immoral deviant behavior, however, does not correspond to findings in psychology that demonstrate the impact of contextual forces on individual decision making (Trevino, 1986). As numerous experiments in social psychology have demonstrated, under certain conditions bad things are done by good people as well (see Zimbardo, 2008, for an overview). Most actors in most situations make moral decisions through a conventional, not a pre-conventional lens, suggesting that their decisions are not driven by explicit calculations but by implicit role compliance (Kohlberg, 1981). Following these insights from social psychology we argue that increasing greed and excessive self-interest do not suffice to explain deviant practices in organizations. We rather assume that a more promising way to understand and fight against

illegal and unethical business practices lies in a more careful analysis of the conventions in which decision makers and their organizations are embedded.

If our assumption is right, not rule-breaking but rather rule-abiding behavior is the problem. In this case, the rules themselves are the problem. We do not question the observation that in many instances, corporate scandals are driven by excessively opportunistic behavior. However, we would argue that in many cases, such a behavior results less from greed than from the actors' perception that this is the expected behavior within their context of managerial decision making. Put differently, what looks like preconventional behavior might in reality be conventional behavior. What looks like deviant behavior might in reality be role and rule compliance.

As a consequence, the model and analysis developed in this article suggests that lifting individual actors to higher moral grounds by sensitizing them for virtues or threatening them through sanctions might not represent the most efficient prevention of bad business practices. While it might be possible to enlighten some managers through sensitizing them for the moral dimension of their decisions, such an attempt to lift individuals from a preconventional to a postconventional level of morality might not be sufficient. This focus on individual morality can indeed not reduce the systemic risk of managerial deviance conventional managers face as long as greed and self-interest shape the dominating framework (see Ferraro, Pfeffer, & Sutton, 2005; Gonin, Palazzo, & Hoffrage, 2012). Rather, the main challenge lies in the transformation of the economic institutional context which shapes the cognitive, normative and behavioral routines of managerial decision making.

In the first section of the article, we present Kohlberg's model of moral development and review articles addressing the issue of scandals in the light of this model. We argue that while many articles correctly identify the problem (excessive greed and egocentrism in business), most authors deduce a wrong diagnosis from there by suggesting a lower level of moral development among managers (preconventional level of moral thinking). Consequently, the solutions proposed often focus either on increasing the level of moral thinking of individual managers or developing sanction mechanisms – two attempts that seems to be insufficient.

In the second section, we argue that most individuals still show a conventional level of moral thinking, as confirmed by the studies of Kohlberg and others (e.g., Rest & Narváez, 1994; Snell, 2000). They adopt those norms and values which they consider as prevailing in their environment. Such a norm-compliant behavior becomes however problematic if overstretched interpretations of self-interest prevail in the institutional framework.

We end the article by discussing implications for management and research. We propose that the most appropriate response to illegal and immoral business practices is not the moral education of individual managers but the change of what is perceived as taken-for-granted in managerial decision making. Put differently, the focus should not be on the actors inside the game but on the rules of the game.

Kohlberg and the Wrong Diagnosis behind Egocentric Behaviors in Business

Egocentric Behavior in Business

Numerous articles have been published on illegal and immoral behavior in organizations (e.g., Mishina et al., 2010; Unerman & O'Dwyer, 2004; Frohnen & Clarke, 2002). Quite often, these articles identify excessive self-centeredness as the problem. Scholars further notice that egocentric goals are pursued with strong opportunism (Logsdon & Yuthas, 1997; Williamson, 1975). Mission and vision might be reduced to mere economic categories, i.e., profit maximization (Logsdon & Yuthas, 1997). Such egocentric reasoning corresponds to Carroll's *intentional a-morality*, according to which managers "simply think that different rules of the game apply in business than in other realms of life" (Carroll, 1987: 11; see Friedman, 2002 [1970]; Jensen, 2002). Rather than focusing on the spirit of the law, actors are often criticized for aiming mainly at reducing the economic risks inherent to legal issues (Gabel, Mansfield, & Houghton, 2009). Economic actors' respect of the civic norms aims primarily at keeping the 'license to operate' (Valor, 2005) while pursuing self-centered goal(s).

The consequence of this economic-centered reasoning is a strong tendency to ignore the expectations of the broader society that go beyond the narrow scope of economic interests. Social, environmental, and civic engagement is reduced to a strategic instrument for increasing economic results and preventing potential losses (Jensen, 2002; Porter & Kramer, 2006). In the extreme case, intentional a-morality reduces the decision to abide (or not to abide) by the law to a mere calculation: Do the benefits of rule breaking exceed the costs linked to breaking the law? (Becker, 1968). Such extreme reasoning opens the doors for clearly and systematic immoral behavior (Carroll, 1987), as it has been observed in the Enron case (Levine, 2005; Sims & Brinkmann, 2003).

These misbehaviors and egocentric attitudes are often attributed to overly greedy personalities. Samuelson (quoted in Wang & Murnighan, 2011: 281) is perplexed by the fact that the 1990's has not been called "a decade of greed" while President Obama (2009: no page) regrets that "selfishness [prevails] over sacrifice, and greed over responsibility." Levine (2005: 725) also states that current corporate corruption and scandals "are driven by a specific form of greed, a form distinguished by its goal, which I refer to as the 'ultimate narcissistic fulfillment.'"

Kohlberg's Model of Moral Development

The selfish attitude and behavior observed in business is often explicitly or implicitly related to a lower level of moral thinking among economic actors. The latter are often accused of thinking only about their own interest and neglecting any social or moral issue if irrelevant to their own interest.

This thinking is what Kohlberg (1969) calls preconventional thinking. Kohlberg considers preconventionality the lowest of three levels of moral development. It is usually found among small children and is characterized by a focus on avoiding punishment. Actors at this level show little concern for the environment and people around them. They seek to pursue their own interest and to avoid any hindrance in their quest. Pre-conventional moral development can be considered as an "instrumental morality" (Kohlberg, 1984: 626) reduced to showing that behavior which minimizes moral and legal punishment.

As they grow, most children recognize however the social necessity of common norms and hence routinely abide by them – rather than seeking to circumvent them. The acknowledgment of the importance of norms and the abiding by them represents the second stage of moral development which Kohlberg calls *conventional moral thinking* and which is reached, according to his studies, by most individuals.

However, only few individuals will reach the third level of *post-conventional* moral thinking. Actors with such morality show an intrinsic motivation to follow "enduring moral principles, such as justice, human rights, and the dignity of human beings" (Logsdon & Yuthas, 1997: 1215). They are ready to question standards prevailing in their environment and go beyond them if they think the norms are not good enough, simply because there are "moral [...] reasons to do so" (Corvino, 2006: 9). Postconventional moral thinking in economic contexts might for instance manifest in the creation of community enterprises (Peredo & Chrisman, 2006; Gold, 2004) and social enterprises (e.g., Bornstein, 2004), as well as in traditional businesses endorsing countercurrent moral attitudes. An illustration of such principled attitude is the McCulloch Corp. as it tried to convince the Chain Saw Manufacturers Association to introduce higher security standards, and then decided to quit the association as the latter refused to make the enhanced security system a mandatory standard (Carroll, 1987).

The Right Anamnesis with the Wrong Diagnosis – and the Wrong Prevention Measures

The increasingly selfish attitude observed among economic actors is often attributed to Kohlberg's lower level of moral development – preconventional thinking. Instead of following the norms prevailing in society (a typically conventional attitude), many actors are suspected of having regressed to a preconventional approach of norms. Most MBA students for instance consider that leaders' "personalities, rather than business practices or systemic issues, are to blame for recent cases of corporate fraud" (Aspen Institute, 2003: 3). Actors with a preconventional level of thinking are not necessarily immoral in the sense that they would deliberately 'do bad'. Rather, they can be considered as intentionally a-moral: They pursue their own interest and explicitly ignore other moral considerations as they "simply think that different rules of the game apply in business than in other realms of life" (Carroll, 1987: 11).

Two options for changes among intentional a-moral actors are often proposed. The first one relies on the idea that preconventional thinking in business is 'given' and therefore unchangeable while the second holds that it can be changed. Authors arguing for the first option usually refer to the Homo economicus assumption fundamental to economics (see critically Gonin et al., 2012). In this view, actors are to focus on economic variables and be interested in ethical issues only inasmuch that it can reduce the risk of negative consequences or increase profit (e.g., Friedman, 1970). Consequently, authors of this stream propose that prevention of future scandals should rely on an instrumental approach of ethical, social, and environmental issues. The latter are to be 'translated' in economic terms such as (financial) sanctions, image reputation, and competitive advantage so that economic actors find an incentive to take them into consideration. For instance, Jensen (2002) argues that stakeholder theory should be used as a tool to optimize long term shareholder value. Porter and Kramer (2006) insist on the competitive advantage of corporate social responsibility, and many authors tend to establish the business case for ethics by proving a link between ethical performance and financial performance (e.g., Orlitzky, Schmidt, & Rynes, 2003). Following the same logic, the Federal Sentencing Guidelines, which were developed in reaction to the Enron, WorldCom, et al. scandals, foresee lower fines for firms having developed various measures to prevent misbehaviors (Gabel et al., 2009).

Scholars opting for the second alternative propose a more humanistic approach which suggests that actors can mature and be lifted from preconventional to conventional and even postconventional moral grounds. The discussions in this stream focus therefore on how the actors' moral awareness and sense of (social) responsibility can be increased. Carroll (1987) is "in search of the moral manager". Gentile (2010) aims at helping individuals "giving voice to values" and take clear stances as regards ethical issues in their organizations – despite possible reticence or moral muteness among colleagues. More broadly, some authors follow an Aristotelian virtue ethics which focuses also on the individuals' moral capacities and responsibilities (e.g., Solomon, 2003, and the special issues of the *Business Ethics Quarterly*, 2012, vol. 22/2).

An important object of concern is however that, despite the many efforts made both by economics-based and humanistic ethicists to raise the level of ethical reasoning in business, unethical behavior remains an important issue for business practitioners and scholars alike (e.g., Ciulla, 2010). The greed narration seems to have moved from individuals to organizations to entire industries (see Rockness & Rockness, 2005). Whereas Boesky's "Greed is all right" in the 1986 commencement address at University of Berkeley (quoted in Martz, 1986) was the creed of a single man, various authors suggested that business scandals in the 1990's and at the beginning of the 2000's could be attributed to greedy culture in entire organizations. Paul Volcker (in Cassidy, 2002) is struck by "corporate greed" that "exploded beyond anything that could have been imagined in 1990". For Arthur Wyatt (2004: 49), a former member of the Financial Accounting Standards Board, "greed became a force to contend with in the accounting firms." Eventually, the 2008 financial crisis revealed again a set of ethical scandals. Many factors played a role in fostering the crisis, but different authors agree that one of them was the widely spread greed to be found not only in single corporations, but across an important part of the mortgage and banking industry (Lewis & Einhorn, 2009; Fell, 2008). More intriguingly, the propagation of greed culture from individuals to organizations to industry took place even though, at each stage, authors suggested that the scandals represented the end of the greed culture. After the fall of Boesky, Martz et al. (1986) identified signs of change, suggesting that campuses considered "the Boesky case as the end of an era" and that students realized that they would have to make money the old way – by working hard. And after the fall of Enron, Worldcom et al., many voices called for radical changes in law and business culture (Mintzberg, 2004; Stiglitz, 2003; Unerman & O'Dwyer, 2004).

We suggest that the apparent failure of most measures to eradicate ethical misbehavior in business might lie not in the wrong description of the symptoms, but in the wrong diagnosis of the causes. Whereas we do not deny the relevance of sensitizing individual actors toward more integrity and of developing some control mechanisms, we claim that those measures might not be sufficient as they address the symptoms without clearly understanding the roots of the problem. In the next section, we refer to Kohlberg to propose an alternative explanation to the egocentric attitude than the one of a lower level of moral thinking.

The Moral Isomorphism of Conventional Actors

Two Sources of Unethical Behavior

Kohlberg's model suggests that egocentric behavior can be observed in two situations. The first and most obvious one is the one developed in the previous section, that is, egocentric behavior results from people's preconventional level of moral thinking, especially if the 'punishment structure' around them is too loose to bridle their behavior.

Kohlberg's model suggests however a second, less obvious situation: Egocentric behavior can be adopted by people with conventional level of moral thinking who are convinced that their (potentially harmful) decisions are in line with what is expected from them. In such a case, deviant behavior does not result from a too low level of moral thinking but from a problematic perception of what is normal and expected behavior. Put differently, illegal and immoral business practices occur from conventional and not preconventional moral reasoning.

Whereas at first sight the two scenarios seem very close, they display an important difference, especially in relation to business ethics. Preconventional actors define their personal values and objectives in a merely egocentric way – that is, by taking only their own interests into account, regardless of external norms. In consequence, a change in the surrounding social norms is likely to have no or little effect on preconventional actors' behavior, as their behavior is independent from social norms. Developing adequate control and punishment mechanisms and/or attempting to heighten their level of moral reasoning are therefore the main solution to limit excessive selfishness of preconventional actors.

Contrary to preconventional actors, conventional actors strongly depend on contextual factors to define their personal values and objectives. Consequently, we argue in the next section that their attitude and behavior can be impacted by changing the prevailing normative framework.

Changing Morality: The Moral Isomorphism of Conventional Actors

Contrary to preconventional actors who show egocentrism and autonomy toward institutional norms in the definition of their personal values, conventional actors show a rather reactive attitude towards norms, and (more or less unconsciously) adapt to them. They understand the importance of norms and standards. Nevertheless, rather than explicitly defining the norms they desire to endorse, they merely adopt the norms which seem to be prevalent in their environment (Kohlberg, 1969; Logsdon & Yuthas, 1997; Snell, 2000; Trevino, 1986).

This adaptive attitude to norms prevalent in a given environment represents a strategy well known in business research and is conceptualized in institutional theory as 'isomorphism'. Isomorphism refers to the actors' preference to follow a seemingly successful behavior developed by peers rather than taking the risk of developing a new behavior of which the success cannot be guaranteed (DiMaggio & Powell, 1983; Lieberman & Asaba, 2006).

The passive adoption of observed norms is also observed as regards ethics-related dimensions. For instance, Anand and his colleagues (2005) observed how previously ethical workers accept the corrupt practices of their new employers as they adapt to their new job context. Similarly, Galaskiewicz (1991) shows that new CEOs in the Minneapolis-St. Paul area adopt a very open attitude to corporate social responsibility due to a long history of corporate engagement in this area. In the same vein, Marquis, Glynn, and Davis (2007) show that the community environment, including the practice of other actors, influences the way a corporation perceives its role within the community.

The moral isomorphism attitude typical of conventional actors leads such actors to show an *unintentional a-morality* in business contexts. According to Carroll (1987: 13), *unintentional a-moral managers* are "basically good people", but might lack tools or criteria to recognize and anticipate ethical issues which they do not directly face. Contrary to intentional a-moral actors, they do not explicitly exclude ethical thinking from business activities, but are rather "simply morally casual, careless or inattentive to the fact that their decisions and actions may have negative or deleterious effects on others" (1987: 13). Put differently, their decisions are largely unconscious with regards to their potential moral dimensions.

The sum of unconscious isomorphism decisions is however not without consequences for future isomorphism processes. Indeed, as the number of actors adopting a norm increases, the pressure on the remaining actors to also adopt the new norm increases, too – leading eventually to a spiraling effect and the emergence of a new institution. Institutions can be considered as "shared definitions or meanings" (Tolbert & Zucker, 1996: 180) which include "rules, norms, and beliefs that describe reality for the organization, explaining what is and what is not, what can be acted upon and what cannot." (Hoffman, 1999: 351). As more and more actors adapt to an institution, its standards become less and less questioned (Zucker, 1987) and gain in normative authority – until a new set of practices challenges the institution.

As institutions evolve and isomorphism is context-dependent, the norms conventional actors adopt are never definitive, but depend from changes which can take place at any time in the surrounding normative framework. Welzer (2005) discusses an extreme case of such context change and isomorphism process. He presents how the broader Nazi ideology framework gave a "positive" meaning to violence, crime, and hatred against Jewish citizens by simply providing a new standard institution. This institution discussed the so-called "Jewish question" and theorized about the Jews' responsibility for many problems in Germany, and disseminated an attitude of hate against the Jews. This attitude became a broadly shared convention among Germans during the Nazi regime – and changed again at the end of the war. Similarly, it can be assumed that as social or environmental concerns become a standard issue in their environment, unintentional a-moral managers will start explicitly dealing with this issue (see Logsdon & Yuthas, 1997).

In summary, business actors' ethical behavior depend not only on their morality level, but also on the standards prevalent in their surrounding. Moral isomorphism highlights that a central element in ethical behavior is how one translates observed norms as regards role and responsibilities into his/her self-conception in a given context (Ashkanasy, Windsor, & Trevino, 2006; Trevino & Youngblood, 1990). This implies that actors can behave in strongly self-oriented or greedy way not necessarily because they have a low, pre-conventional level of moral thinking, but also because they are 'conventional' actors copying a strongly self-interested norm prevailing in their environment. Whereas it can be expected that preconventional actors will more systematically show an egocentric interpretation of their environment, and postconventional ones more civically responsible approaches, conventional actors can show all possible attitudes along the self-centered vs. community-centered continuum, depending on the norms prevailing in their environment and their own tendency toward either preconventional or postconventional morality (see Figure 1).

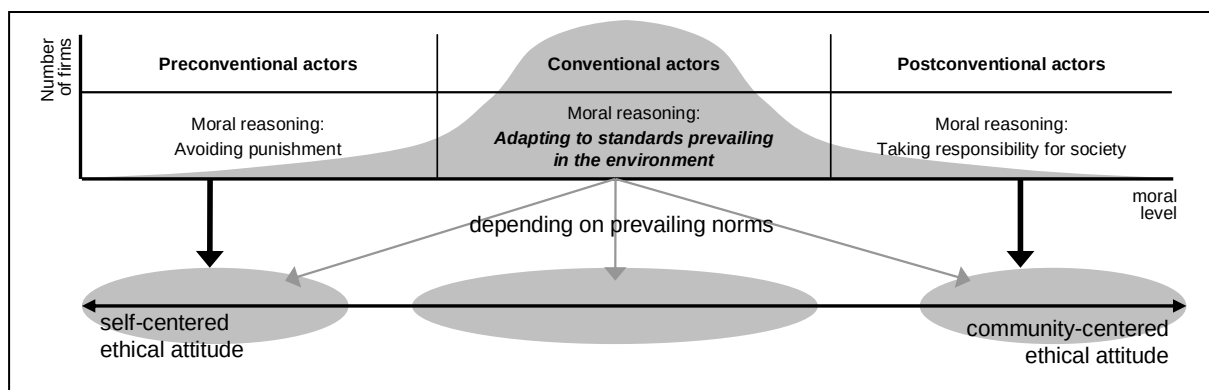


Figure 2: The multiple normative frameworks shaping conventional actors

Furthermore, studies both in the Kohlbergian stream (Kohlberg, 1981; Weber, 1990) and in the institution theory stream (DiMaggio & Powell, 1983; Marquis et al., 2007) suggest that most actors still have a conventional level of moral thinking and follow an isomorphism strategy – rather than having lowered their level of moral thinking to a preconventional one. Consequently, explaining the apparent increase of overly self-centered behavior in business by referring to a lower level of moral thinking might be inappropriate. As we will show in the next part, some changes in the institutional normative framework of the business world – endorsed by its many conventional actors – might provide an alternative explanation and call for other remedies.

The Business Norms

Moral isomorphism implies that economic actors with a conventional level of moral thinking might develop egocentric behavior without necessarily changing their level of moral thinking. If the institutional framework shaping the business world turns egocentric norms prototypically attributed to preconventional actors into the expected norm, it can be assumed that conventional actors will adapt to this way of thinking. Numerous scholars have criticized such a tendency of institutionalizing egocentric norms as the convention in managerial decision making (Ferraro et al., 2005; Ghoshal & Moran, 1996; Mintzberg, 2004). Furthermore, whereas many factors contribute to strengthening and disseminating institutional norms (Hoffman, 1999; Misangyi, Weaver, & Elms, 2008), authors regularly mention research and education structures as actors playing an important role in the shaping of institutions (Ferraro et al., 2005; Gonin, 2007). Abolafia (2010) suggests that the 2008 financial crisis was partly due to the institutional structures which, in turn, relied on concepts and theories developed in academic institutions. Other studies have shown the power of some finance theories to shape the practice of traders. McKenzie and Millo (2003) for instance discuss the power of the Black and Scholes model on the development of the Chicago Board Options Exchange. Finally, numerous studies illustrate the power of education in instilling norms. For instance, McCabe's (2006) study of business students shows that the business students' tendency to justify their (above-average) cheating by pointing to the fact that 'the others students cheat, too'. And the Aspen Institute (2003) highlights the influence of MBA teaching in defining the students' conception of their future role and responsibilities as managers.

Various authors suggest that a central assumption of mainstream economic theory, namely that economic actors are mainly profit-maximizing egocentric agents, has led to the emergence of this norm. The egocentric profit-maximizer assumption is widely accepted in economics as it allows for the development of complex mathematical models, even at the cost of an over-simplification of reality (Friedman, 1953). Its simplicity has further attracted management scholars. In fact, many management concepts rely on economics-based assumptions. Ghoshal and Moran (1996) for instance criticize the effect of Williamson's (1975) transaction cost theory for fostering an opportunist rather than collaborative market logic. Ferraro, Pfeffer and Sutton (2005) discuss the consequences of principal-agent theory for the dissemination of self-interested attitudes in business.

By systematically presenting students with the conception of the human being as Homo economicus, business and economics education increases the acceptance of egocentric attitudes and even transforms it in a moral imperative in business situations (Gonin et al., 2012; Ghoshal, 2005; Mintzberg, 2004). "In a classic case of confusing 'is' with 'ought,' the pervasive idea that people do maximize self-interest has been used to motivate and provide justification for the idea that they should behave in a self-interested fashion" (Moore & Loewenstein, 2004: 195). By ignoring other dimensions of human nature – which, ironically, were

acknowledged by various founding fathers of business and economics research (see e.g., Friedman, 1953; Pareto, 1971 [1906]) – business research seems to have put blinders on managers, no longer able to realize that other dimensions might be important in their day-to-day activities (Mintzberg, 2004).

As a result, concepts of corporate responsibility are often considered as mere tools for increasing profit, to be abandoned if no longer profitable (Jensen, 2002; Porter & Kramer, 2006). Stakeholders – broadly defined as all persons or groups of persons having a stake in the corporation's activities (Donaldson & Preston, 1995; Freeman & Reed, 1983) – are ignored as long as they do not represent a concrete source of profit or loss for the corporation (Jensen, 2002).

As egocentric thinking becomes institutionalized in business, the few preconventional actors are joined by more and more conventional actors seeing the individualistic norm as the new standard prevailing in the business world (see Tsahuridu, 2006). In consequence, many conventional business actors are nowadays showing a self-centered attitude freed from any moral or social limitations (Figure 2). They develop a "moral muteness" (Bird & Waters, 1989) and reduce laws and norms to mere "obstacles to be overcome, complex rule systems waiting to be manipulated and circumvented" (Levine, 2005: 727). Enron, Washington Mutual, and other institutions currently in the financial and ethical turmoil are unfortunately too famous illustration of such reasoning (Adkins, 2009; Lewis & Einhorn, 2009).

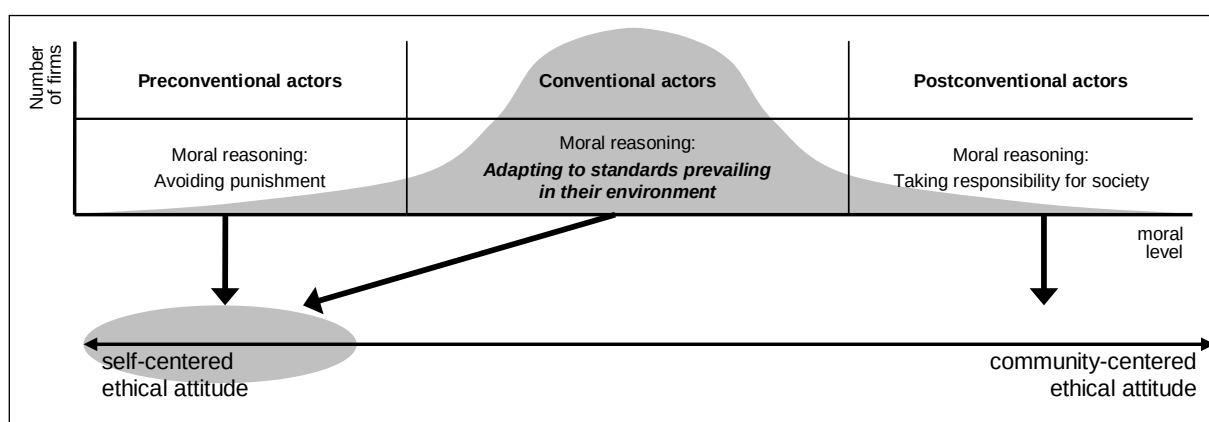


Figure 3: The shift of moral attitude and the new moral constellation

An Alternative Approach to Tackling Unethical Behavior in Business

The fact that conventional actors adopt attitudes and behaviors they consider as the 'standards' in their environment can lead to a misattribution of their level of moral thinking. Indeed, if an attitude typically attributed either to preconventional (e.g., strong egocentrism) or postconventional actors (e.g., strong principled thinking) becomes the standards in a specific situation, it can be expected that many conventional actors will adopt it (see Figure 1). This does however not imply that the conventional actors have changed their level of moral thinking. The adoption of the standard does indeed not result from a change in moral reasoning, but from moral isomorphism (Shao, Aquino, & Freeman, 2008). In consequence, as selfishness becomes standard, both the conventional and the preconventional actors will show the same behavior, but not for the same reasons. Conventional actors will justify their attitude by referring to the standard concept ("everybody does it", "that's the way things are done here"), whereas preconventional actors will provide self-centered reasons which are unrelated to the norms prevailing around them (e.g., "as long as I get what I want"). Symmetrically, if a highly principled conception of business becomes standard, both the conventional and the postconventional will show the same behavior, but conventional actors will justify their attitude by referring to the standard concept, whereas postconventional actors will provide a universal argumentation unrelated to the norms prevailing around them (e.g., "I believe it is moral to do so").

Whereas the distinction between 'true' preconventional actors and conventional persons acting like preconventional ones seems to be of little relevance as no difference is observed in day-to-day practice, its consequence for tackling the issue of "excessive greed" is considerable. Preconventional actors can be led to higher moral standards either through stronger punishment or a raise in their level of moral thinking. The former approach has been attempted by governments for instance through the Federal Sentencing Guideline and the Sarbane-Oxley act – without too much success (Dobbin & Jung, 2010; Gabel et al., 2009). The latter is considered as highly difficult and without much hope of significant success. Even though scholars in virtue ethics aim at such a moral transformation (Solomon, 2003, and the special issues of the Business Ethics Quarterly, 2012, vol. 22/2), studies confirm that postconventional actors remain an exception and that efforts

to raise conventional actors, which represent the majority of people in the broader population (see e.g., Kohlberg, 1969; Rest, 1983) as well as among managers (e.g., Weber, 1990), to a postconventional level show only marginal results.

In contrast, we assume that it might be more promising to transform those cognitive, normative and behavioral routines that are perceived as taken-for-granted in order to improve the alignment between managerial decisions and overarching societal values (see also Callon, 1998). Conventional actors can be led to new behavior when they consider alternative prescriptions as the new institutional standards.

In summary, whereas we agree with the many observations that an overly self-centered attitude among business actors seems to provoke many of the current ethical scandals, our discussion of Kohlberg's moral conventionality suggests another understanding of the causes, and therefore of the cures. While most approaches in business ethics assume a lowering of the level of moral thinking among managers, we rather propose that most actors still show a conventional level of moral thinking – what changed however are the norms to which conventional actors refer. This difference in the roots implies further that potential solutions to increasing ethical behavior at work are to be found less in additional legal reforms and measures to increase the level of moral thinking. Rather, more attention is to be paid to the normative framework to which actors refer when defining their role, responsibilities, and mindset at work (Table 1).

	Dominant approach in business ethics	alternative approach based on Kohlberg and isomorphism
Common observation	An overly egocentric attitude is observed in the business world	
	↓	↓
Kohlberg's implied level of morality	Preconventional (instrumental) morality	Conventional morality
Related driver of moral thinking	Egocentrism and intentional a-morality	Isomorphism and unintentional a-morality
Related supposition about business actors	Autonomous reasoning and acting	Influenced by context
	↓	↓
Assumptions as regards moral change	Egocentric behavior reflects lowering of level of moral thinking	No change of moral thinking among most actors who remain conventional
	↓	↓
Proposed solutions	Increasing sanctions (economics-based approach) or increasing level of moral thinking (humanistic approach)	Focus of the measures to impact ethical behavior in business on the normative framework prevailing in business world

Table 1: Summary of types of causes and solutions to the observed egocentric attitude in business

It must be noted that most actors are not *either* perfectly conventional, *or* postconventional, *or* preconventional. Rather, most actors will show mixed behavior and act, in some specific situations, according to a lower or perhaps higher level of morality than usual (Kohlberg, 1969; Weber, 1990). Furthermore, some conventional actors might be close to postconventional thinking – and would quickly internalize new institutional prescriptions as soon as those start to become standard practices in their respective organizational field. Symmetrically, other conventional firms might be close to preconventional reasoning and will need more time to internalize postconventional elements. Measures aiming at increasing the moral level of actors are important, but they might nevertheless prove ineffective for the many conventional ones who show egocentric attitudes not because they are preconventional, but because they are conventional actors adopting what they consider as the surrounding norms (Misangyi et al., 2008). Whereas stronger regulations might help prevent (some) misbehavior among preconventional actors, what is primarily needed for conventional actors

is "a change in societal mindset from an embracing of self-interest to a greater concern for the social good" (Moore & Loewenstein, 2004: 200).

Practical Implications and Future Research

The moral isomorphism explanation we propose for explaining overly egocentric behavior in business is not without consequences for management practice and research. Among others, it points toward the practical impact conceptions of the human nature have. By relying on the view that individuals are reasonable autonomous actors, many articles recommend to foster either individual virtue to encourage moral thinking or the sanctions to prevent unethical behavior. Whereas the first approach tends to build on the assumption that there are many 'bad guys' in the business world, the second sees a 'moral hero' hidden in each economic actor.

While we acknowledge the necessity and importance of measures targeted to those (few) 'bad guys' such as stronger legal sanctions as well as of the training of the potential moral heroes, our model casts doubt on the fact that most actors are either bad guys or moral heroes. Rather, the majority of organizational members are probably 'normal people' – conventional actors willing to do good, but lacking the capacity of taking critical distance from current practice. Far from showing autonomy in ethics-related decisions and actions, these actors look on prevailing norms to define 'what is good' and are thus capable of doing evil by routinely following the norms (see Browning, 2001).

To help these people really do good, management has therefore to focus on the various (formal and informal) elements used as clues by individuals to define 'what is good'. An important challenge is therefore the transformation of those norms to which conventional actors refer – the rules of the game. For management practice, this might imply revisiting the numerous signals transmitted to employees in relation to the importance and limits of the egocentric profit-maximization norm. For instance, incentives structures might be used to clearly communicate that not only profit, but also respect (and fostering) of the spirit of the law are rewarded in the organization. In the same vein, ignoring deviant behavior (or even implicitly rewarding them by rewarding economic performance resulting from such behavior) rather than marking it as inappropriate might result in a biased normative framework for the conventional actors. Finally, leaders' own behavior and focus of attention are important communicators of the values and norms to be adopted by followers (see Levine, 2005).

More research is however needed as regards the exact way institutions emerge and change over time – especially as regards how the egocentric norm has been institutionalized and, hitherto, how less egocentric norms can emerge (see Dobbin & Jung, 2010). Furthermore, whereas organizational leaders can influence the norms prevailing within their organization, a broader reflection is needed as regards the general norms instilled in specific industries such as finance or even the business system as a whole. Insights can certainly be gained here from research on institutional change (e.g., DiMaggio, 1988; Hoffman, 1999). Current research for instance identifies the importance of a combination of changes in practice and in the institutional framework, including symbols, rules, and meaning (Misangyi et al., 2008). The role of governmental authorities is also to be considered. For instance, the U.S. government's Sarbanes-Oxley Act as a reaction to ethical scandals is often criticized for having, paradoxically, strengthened the self-centered conception of actors in the business institution (see Dobbin & Jung, 2010; Gabel et al., 2009). Conversely, Logsdon and Yuthas (1997: 1218) notice that some public health issues in business "became subject to conventional moral reasoning with the passage and implementation of state and federal air pollution legislation in the 1960s and 1970s".

Further, mass media and information (see Misangyi et al., 2008) as well as professional associations (Greenwood, Suddaby, & Hinings, 2002) also shape institutions. More research is therefore needed as regards these numerous factors and their interactions to better understand their reciprocal influences and contributions to an individualistic or on the contrary a more pro-social norm in the business institution.

Studies are also needed on the way research and education shape, legitimize, and disseminate normative frameworks (see Fligstein, 1997; Hoffman, 1999; Misangyi et al., 2008). Various authors pointed at the role of economics-based management models in providing a justification for the self-centered norm in the business world (Ferraro et al., 2005; Ghoshal & Moran, 1996) – such justification is an essential element in the strengthening of an (established or emerging) institution (Greenwood et al., 2002; Tolbert & Zucker, 1996). Conversely, various authors noticed the role that the academia can play in providing the legitimate grounding for an alternative view to be considered and accepted by a broader set of (conventional) actors (see Abolafia, 2010; Benford & Snow, 2000). In this sense, a stronger focus in academia on hybrid models in business and business-society relations can foster an institutional framework which includes more pro-social and moral reasoning among economic actors. The development of multi-dimensional concepts in organization theory (e.g., Heugens & Scherer, 2010), entrepreneurship (see Fauchart & Gruber, 2011), and strategy (see Smith &

Lewis, 2011) certainly contributes to such change. From an empirical approach perspective, the increasing interest for actors with a long tradition of combining economic motives with more altruistic ones such as social entrepreneurship (e.g., Battilana & Dorado, 2010), sustainable business (e.g., Waddock & MacIntosh, 2011), and family-owned businesses (e.g., Spence, Jeurissen, & Rutherford, 2000) also contributes to moving the business institution toward a more hybrid understanding of economic activity. More generally, a broader discussion about the role and responsibilities of scholars as regards their normative influence might be needed in the academia (see Gonin, 2007; Mintzberg, 2004, as well as the numerous initiatives and calls launched by various groups of management professors).

Finally, A better understanding of postconventional actors and their potential to be institutional entrepreneurs – that is, key actors who initiate an institutional change in the direction they believe is the best – might also contribute to a better picture of a potential change process (Fligstein, 1997; Snell, 2000; Trevino, Hartman, & Brown, 2000). Of special relevance in this context are the many business leaders who seek to combine social and economic objectives in their business endeavor, such as social entrepreneurs (Bornstein, 2004).

Conclusion

In this article, we referred to Kohlberg and argued that the observed excessive egocentric behavior in business can be attributed to two main causes: a drop in the managers' level of moral thinking from conventional to preconventional or a stable level of moral thinking (conventional) but a change in the norms followed by the conventional actors. We further referred to moral isomorphism – the adoption of the prevailing norms by business actors – as well as various empirical studies in order to argue that the egocentric attitude currently prevailing in the business world does not necessarily represent moral decline, but rather reflects an adaptation of conventional actors to the individualistic standards promoted by the mainstream business model. Behaviors which could be attributed at first glance to preconventional morality are hence rather to be considered – for most actors – as the result of the conventional actors' moral isomorphism strategy.

The differentiation between the two scenarios has important consequences for business ethics. Assuming that most actors are still conventional actors but that the normative framework in which they evolve has changed, we suggest that it might not be necessary to have all actors change their level of moral thinking nor to multiply control and sanctions mechanisms. Rather, the focus is to be put on the changes within the framework to which conventional actors refer when making ethics-related decisions. Organizations are thus invited to revisit the numerous formal and informal signals given to employees as regards the relation between economic objectives and critical ethical thinking. From a theoretical perspective, we suggest that models developed in the various fields of management sciences are to better take into account ethics-related variables in order to provide conventional actors with ethically enhanced frameworks.

The approach proposed here allows for moving away from a conception of business actors as either bad guys to be controlled or potential moral heroes to be better educated toward building on the conventionality of most actors – without necessarily excusing deviant behavior. It suggests that institutions are not carved in stones, but can evolve – and pinpoints the essential role (academic) models can play in legitimizing and fostering (or not) alternative normative frameworks. While the development of alternative models does not change the level of moral development of actors (we argued so far that most actors remain conventional), they nevertheless shape the normative framework to which the many conventional actors refer when they define attitudes and behaviors to be adopted in a given context.

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RESPONSIBLE LEADERSHIP, AFRICAN VALUE SYSTEM AND AFRICA'S QUEST FOR ECONOMIC DEVELOPMENT

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Abstract: The paper explores whether the African value system provides responsible leadership and whether this leadership could face the challenge of Africa's quest for economic development. I define leadership and outline the cosmological, anthropological, and personal dimensions of the African value system and argue that this value system in itself provides a responsible leadership. Irresponsible leadership often observed in Africa is not inherent to the African value system. It results from the crisis characteristic of the shift from being to having that betrays African value system. The challenges of the responsible leadership natured and nurtured in this value system is to achieve an all-inclusive participatory economic development in which the state, the people, and the market work collaboratively so as to reflect what Africans are, believe and value. Drawing on Sen's capability approach which emphasizes "agency" and "the freedom of people to lead the life they value and have reason to value", I argue that this could be possible thanks to a public debate and reflection which would catalyse the inculturation and the democratisation of economic development.

Key words: Leadership, African value system, *ubuntu*, *umuntu-w'-ubuntu*, *umuntu-mu-bantu*, capability approach, agency, functioning, democratisation of development, inculturation of development

1. Introduction: The issue in its nutshell

This paper deals with responsible leadership in relation to the Africa's quest for economic development. The issue of leadership in Africa has always been haunting in my mind. I first wrestled with it in 1996. At that time I was motivated by two things. The first was that I had just reflected on the issue of the best form of government as part of the requirement of my BA degree in Philosophy. I had in mind the question of what could be the best form of government for Africa's socio-political stability. I wondered whether the best government in Africa would be part of the universal form of government which was the political dogma of the day, namely liberal democracy, or whether it would be particular based on Africa's value system. The second motivation was that, as my project was conceived in the framework of western philosophy, I wanted to make sense of it in the context of my own country, Burundi, which was undergoing a serious crisis of governance. Thus my paper was titled: The Burundian leadership down the age of politics (*Le leadership Burundais à travers les âges de la politique*).

The present reflection will be different yet with the same concern. The primary foundation is not political but rather economic. I engage with the issue of responsible leadership within the framework of the link between what people's beliefs and values and economic development. This is a highly and contentiously debatable issue. Certain social scientists under the patronage of Durkheim and Weber argue that there is such a link. However the link is interpreted in a controversial way. For some, while for the developed countries the belief and value system is, indeed, a foundation of their economic development, for the developing countries, the belief and value system is a hamper to their economic development. This is the controversy of tradition-modernity.

The reflection along Weber's idea that certain cultures are better suited for economic development than others is still on. One could quickly mention Landes' idea that *Culture matters* inasmuch as this underlies *The Wealth and Poverty of Nations* (1998). In his *Bad Samaritans*, Chang (2008) challenged this consideration in chapter 9 whose title I find fascinating and provocative: *Lazy Japanese and thieving Germans: Are some cultures incapable of economic development?* For other scholars like those who evolve along the lines of the (neo)classical economic philosophy of Adam Smith and David Ricardo, there is no need to evoke the idea of cultural values in economic development since economic development results from the invisible hand of the market and the rational calculations of self-interested individuals. In between, there is a perspective I espoused in my ongoing research: my claim is that there is indeed a link between what people believe and value and their economic development. What people believe and value structures their ontological make-up upon which is premised production, consumption, and exchange of goods and services as part of human life.

An attempt of analysis has already been made on the need to validate what people believe and value in terms of policies of economic development by focusing on the Bantu people of Sub-Saharan Africa (see Ntibatirwa 2009, 2010, 2012). The question here will be the following: who should make sure that these policies of economic development premised on African belief and value system are achieved? The answer under consideration is **leadership**. But the issue is whether the African value system provides the kind of leadership that would respond to Africa's quest for economic development.³³⁶

To achieve the aim of this paper, I shall first consider the concept of leadership in order to understand what is at stake. Secondly, I will outline the structure of African value system and put across its triple dimensions, namely: the cosmological, anthropological and personal dimensions. Thirdly, I will consider the issue of how the responsible leadership issues in the African value system. Fourthly I shall consider the quest for economic development as a responsibility of a responsible leader in Africa. This section will also include how the leader should structure economic development in a way that fits with the African value system. Fifthly, I will draw on Sen's capability approach which emphasizes agency and the capability of people to lead the life they value in order to put across the ways by which the African leadership could affect economic development. The conclusion will summarise the macro-argument.

2. The notion of leadership

In his reflection on the *leadership in a global society*, Willis (2008, see also Echtenkamp, 2004) asks the following questions: Are leaders born or made? Are there innate qualities that predetermine if one will be a leader or a follower? Is leadership a function of a series of traits or simply a state? These questions seem to be perennial and pertain to the foundations of leadership and are more easily asked than answered. Avolio (1999) and Ruvalo, et al (2004) argue that leaders are made. Traits or skills that make leaders can be acquired, developed and mastered (see Judge & Bono, 2000; Vroom, 2000). Covey (2004) argues that the making of the leader passes through the cultivation of what he refers to as seven virtues or habits that

³³⁶ As I deal with responsible leadership in the African value system, one should take it for granted that the effective or competence and ethical aspects of leadership are covered although not explicitly.

characterise effective people. These habits include: seeking first to understand and then be understood; synergising; thinking win/win; prioritising, being proactive, and beginning with the end in mind, sharpening the saw which consists of principles of self-renewal. In the same vein, Knight and Dyer (2005, see also Saal & Knight, 1988) argue that leaders are not born but made. They enumerate a series of qualities that leaders should have or that should be taught to people for them to be leaders: commitment to success, having proper priorities, setting and demanding high standard, to be tough yet fair in dealing with people, concentration of positives and possibilities, development and maintaining a strong sense of urgency, attention to detail, readiness to possible failure, personal involvement, and sense of fun.

Taken from an Aristotelian perspective, all these scholars who argue that leadership consists in the acquisition of traits are right since one becomes virtuous by practicing virtue. The advantage of the argument of the leaders being made is that it makes it possible to identify qualities, behaviours, traits of character that differentiate a leader and a follower so that they could be taught (Horner, 1997, pp. 270-271). However, one may wonder whether these qualities could be taught and be learnt as rules of arithmetic. Do people having such qualities necessarily become leaders? Even if they were leaders indeed, is not possible that the traits that make them leaders may be a result of inheritance (Johnson, et al., 1998; Galton 1869)? This leads to another aspect of leadership, namely the idea that leaders are rather born and not made. There are two aspects in this perspective.

The first aspect is that leaders are born and their state of leadership is a result of heritage. Conversely, leadership is genetically inherited (Johnson, et al., 1998). This aspect is a subset of the second larger aspect: leaders are not born. Leadership is explained by attributes or internal qualities with which leaders are born. Certain people are born with gifts such as high energy, exceptional intelligence, self-confidence, and extraordinary capacity to influence others. This trend goes back to the theory of “the great man”. The advantage of this trend is that if the attributes that characterise leaders and differentiate them from followers could be identified, leaders could simply be put in position. However, the problem is that there is no room to take into consideration the situational and environmental factors that play a role in leaders’ effectiveness (Horner, 1997, p.270). Furthermore, in the current political context, the idea that a leader is born makes it difficult to account for democracy in the designation of leaders.

I will not buy any particular trends insofar as the inclusive nature of the African value system allows me to account for both possibilities in the process of achieving leadership. Thus, the question of whether a leader is born or made is not a matter of “either or” but a Scheffer’s logical equation. In African value system, **nurture builds on nature** in the making of a leader: a leader is both born and made.

In the traditional Burundian culture the midwives of the royal palace had “a way” to determine whether a new baby boy would be a leader or not. They used to say that if “the baby boy is born with seeds” (*kuvukana imbuto*), then he was going to be a leader (king, chief). This could be understood from two view-points. First, to be born with seeds could mean that the baby has the potentiality to rule, that is, he was “predetermined” to rule. Secondly, since agricultural and pastoral activities were an important aspect in the life of Burundians, as can be seen in the rite of “*umuganuro*” (annual ceremony of sowing and harvesting), to be born with seeds meant that the leader must be the source of prosperity and abundance; that is, during his reign, no one should go hungry or lack anything. At the same time, if he was born with the potentiality to rule and be the source of prosperity, this means that he was to be educated and trained in such a way that he fulfils his “nature” in future governance. The leader was born with certain natural qualities which a leader should have. At the same time, these qualities had to be developed in him through education and training. There is a certain sense of bias in Burundian as in most cultures: men were taught to be tough, active, risk-taking, unemotional, etc. Beside these aspects expected of any male, the future leader was expected to cultivate a sense of the nation, sense of political leadership, attentiveness to advice, the art of war, and certain virtues such justice, integrity, truthfulness needed for a wise leader. Thus in the Burundian culture, the leader is trained both an effective and ethical leader even though, at times, this was not successful.

The suggestion being made is that, in the African world view, it matters that people with particular talents in specific areas of leadership be identified early enough so that they can be formed and trained for them to be relevant to both local and global context in their field of excellence. More fundamentally the suggestion of the African value system is that it would be unfair to conceive of leadership in terms of nurture as if nature does not matter. The leadership that relies on nurture only is but the celebration of “having” which I consider to be the major reason why African economic, political, and social governance is in a perpetual crisis. The quest for “having” led Africans to shift from their own value system to the value systems that are informed by other metaphysical foundations (Ntibagwirwa, 2003).

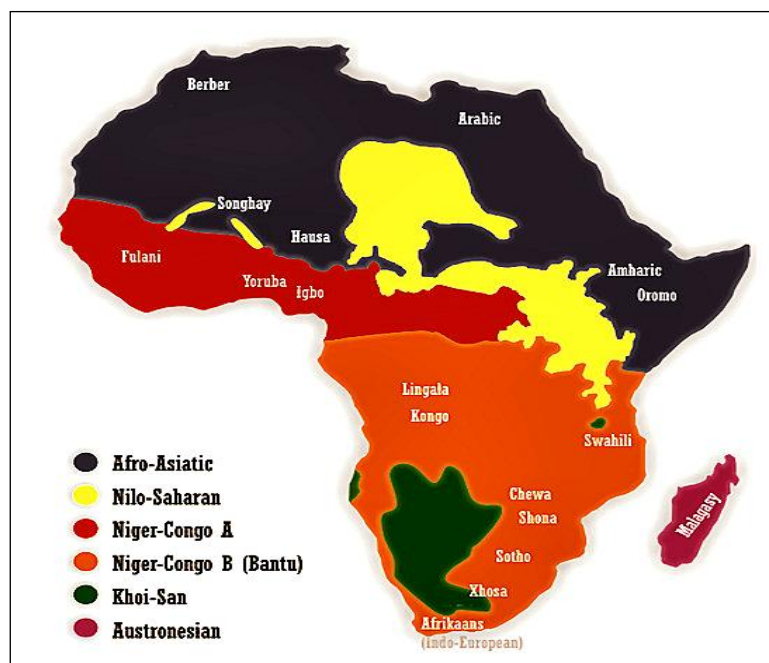
The leadership that would respond to Africa’s quest of economic development have first to take seriously its roots in African value system and conceive economic development as a validation of what Africans are,

believe and value. Conversely, the starting point of economic development lies in the following self-questioning: Who I am? How should I live given who I am? The question “who am I?” requires that people retrieve the beliefs and values that structure their ontological make-up. The second question “how should I live given who I am” has to do with how people’s ontological status should give rise to a particular social, political and economic ordering. Since particular leaders have the ontological status of the people from which they emerge and carry out the concern of these people, it matters to retrieve the African value system to understand the nature of leadership in Africa. I will now outline the structure of the African value system from which the African leadership issues and on which the Africa’s economic development should be grounded.

2. The structure of African value system.

I will limit myself to the Bantu people of Sub-saharan Africa (see Map 1).

Map. 1: The distribution of Bantu vs Niger-Kongo on African continent
(Source: New World Encyclopedia)



Most African thinkers often refer to Bantu philosophical principles to explain what unifies Africans (Jahn 1961, Ebousi-Boulaga 1972). In Bantu philosophy, the notion of being is *-ntu*, while the concept of human being is *muntu*. I will henceforth talk of *muntu* to designate human being and *ntu* to talk of being. The *muntu* is part of the universal community of *ntu* (being) in general and part of the human community in particular. Thus one can talk of the cosmological and anthropological dimensions of African community. Cosmologically, the *muntu* is part of the universe of *ntu*, while anthropologically the *muntu* belongs to the universe of other Bantu. Beside these two dimensions, I shall refer to an aspect which is often neglected among African thinkers, namely: the personal dimension of the community, so that there is a balance between the ontological density of the individual and that of the community.

3.1. The Cosmological dimension of African community: *muntu* in the universe of *ntu*

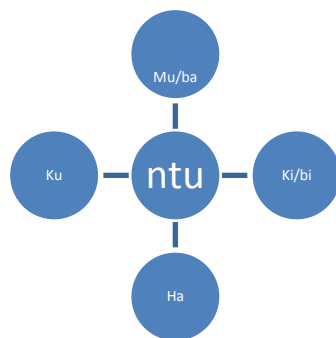
According to Kagame (1956), the structure and grammatical rules of a people’s language are modelled in agreement with the cosmological ordering of the universe. Against this background, Kagame analysed his own language, Kinyarwanda, and concluded that the philosophical elements in the linguistic structure of kinyarwanda reveal the way in which the Bantu of Rwanda conceive of the categories of being. Since the linguistic structure of Kinyarwanda is the same as that of all Bantu, one can talk of an ontology that is common

to all the Bantu people (1976)³³⁷. Kagame (1956, pp. 107-109) outlined four categories that constitute reality and the Bantu universe (see Table 1):

Table. 9: Table of Bantu categories			
singular	plural	Analytically	Meaning
Muntu	Bantu	Mu/ba-ntu	<i>Being with intelligence:</i> Human being actually living, those who are dead, and those who are not-yet born.
Kintu	Bintu	Ki/bi-ntu	<i>Being without intelligence:</i> minerals, plants, animals
Hantu	Hantu	Ha-ntu	<i>Being of space and time</i>
Kuntu	Kuntu	Ku-ntu	<i>Modal being</i>

All these four categories (mu, ki, ha, ku) are built on the same root, *ntu* (being or something) (see fig. 1).

Figure 1. The bantu categories of being



There has been a question of whether God is part of *ntu*. For Kagame (1956, p.110), although God is an existent, God exists in a mode different from that of *ntu*. God is not in the categories of *ntu*. The argument of Kagame (1956, p.315) is that, the essential characteristic of *ntu* is to act and be acted. This constitutes their mode of being. God does not have this characteristic. God transcends everything as the absolute and is the habitual source of all activity in *ntu* (see Masolo, 1994, p.92).

Kagame shares this idea with Mulago (1965) who argues that being is fundamentally one and all beings are ontologically attached together. Above the hierarchy, is the transcendent being, God: Nyamuzinda, the beginning and end of all life; Imana, the spiritual being that is source of all life. Between God and humans are intermediaries, all ascendants, the ancestors, the dead, the disincarnated souls, ect. Below human beings are other beings which, basically, are only means placed at the disposition of human beings to develop their being and life (Mulago, 1965, p. 155). Like Kagame, the point Mulago makes is that God is not part of *ntu*. Yet his point contains a worry about whether the four categories are comprehensive. It is a worry which consists in making sure that, in the universal community, nothing is excluded or forgotten, especially the necessary being (God) which gives meaning to the contingent ones. According to Mujyinya (1972), God is the origin and meaning of *ntu*, but is beyond *ntu*. God is not a *ntu* but a causal and eternal being. Thus the Bantu people call God, Iyakare (initial one), Iyambere (pre-existing one), Rugira (Efficient one), Rurema (the creator).

Contrary to Kagame, Mulago and Mujyinya, Tshiamalenga (1973) argued that God is a *ntu* and even a *muntu*. Tshiamalenga's point is interesting since, in certain Bantu languages, God is conceived as a *mu-ntu*. In the

³³⁷ Kagame collected data on 180 languages for the Bantu zone, read more than 300 books on all the various languages, and interviewed 60 informants (see Kagabo, 2006, p.232).

Zulu language, for instance, God is Nkurunkuru which refers to elder, lord, authority. In most languages in Central-eastern Africa, *umukuru* means, leader, elder or authority.

It is not easy to take a clear position in this debate about God. The issue of God is one of the philosophical problems without a final answer. That God is a *ntu*, it has hard to deny. It is a *ntu* par excellence since other beings cannot have their being or any activity without it. If God is not included in the four Bantu categories, it is because the Bantu people seem to be aware that God is the being which transcends and causes the four other categories of being. From this point of view I concur with Kagame and Mulago who argue that God is above the hierarchy of *ntu* and transcends everything. They both express differently Mujiyinya's claim that God is the origin and meaning of *ntu*. Yet God communicates to *ntu* what God has, namely being. As the disciples of Aristotle and Aquinas would argue, all other beings, apart from God, are beings by participation, that is, caused to be. Tshiamalenga's view that God is a *muntu* seems to be borrowed from the biblical idea that God created human beings in God's image and likeness. In turn, human beings in their quest for the foundation of their being tend to conceive God in their own image and likeness so that God has a place in their universe. Tshiamalenga's idea of God could be understood against this background. Thus, although God is not included in the four Bantu categories, God has a place in the Bantu universe as the origin, the foundation, and the ultimate explanation of everything that exists.

With the idea of God included, one can now talk of the universal community or cosmic unity as Mkhize calls it: A holistic conception of life, cosmic unity entails a connection between God, ancestors, animals, plants and inanimate objects, and everything that is created (Mkhize, 2008, p.38). Masolo (2006, pp. 489-90) reflects Senghor's view of the universal unity in the following words:

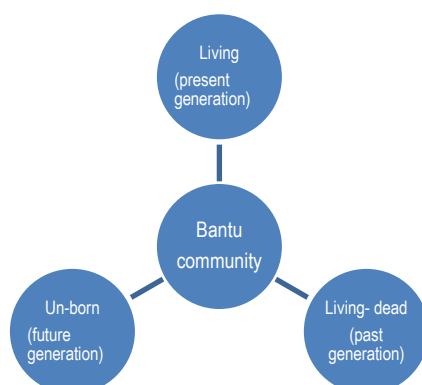
It is the way he feels and thinks in union not only with other people around him but 'indeed with all other beings in the universe: God, animal, tree, pebble'. ...negritude is the naturalness with which Africans embrace and participates in nature rather than relating it cognitively from distance. In Africa, the communitarian habits are not acquired but they are part of the African way of experiencing being.

One could conclude that things exist together and manifest aspects of relationship beyond their individuality. Murove (1999, 2009) uses the Shona concept of *ukama* (relatedness) to highlight this relationship in the cosmic community. Thus, in the African value system, the world is a communion of individual essences (Masolo, 1994, p.59) and everything is inclusively integrated.

3.2. The anthropological dimension of the community: *muntu* in the universe of *Bantu*

Apart from being a member of the universal community of beings, the *muntu* is also a member of the human community. In Africa, the *muntu* is conceived of as part of the social body which incorporates other *Bantu*. These *Bantu* include human beings actually living, human beings who are dead, and human beings who are not yet born (see figure 2).

Figure 2. The Bantu community



This sense of community which is not limited to the living is peculiar to African way of life. For Kwesi (1977), this all-inclusive human community is the very characteristic African-ness. Tempels (1959) affirmed that the Bantu psychology cannot conceive of a human being as an entity existing by itself apart from its ontological relationship with other living beings. Mbiti (1968) argues that whatever happens to the individual happens to

the whole group and whatever happens to the whole group happens to the individual. Hence the principle: “I am because we are, and since we are, therefore I am”. Tshamalenga (1985; see also Bidima, 1995, p. 59; Menkiti, 1984) argues that the “we” (*biso* in lingala) is not a mere inter-subjectivity of the “I”; the community in Africa is not a result of a contract between people, but is ontologically derived.

This academic language of scholars builds also upon what is already expressed in the popular language as can be seen in Zulu saying: “*umuntu ngumuntu ngabantu*” (a person depends on other people to be a person). In the Burundian culture, it is often said that the child does not belong to one (nuclear) family, emphasizing that a child belongs to the village or the extended family (*umwana si uwumwe* = a child does not belong to one family). This meant a lot in terms of the care and the education of children. Or again, that people depend on one another (*abantu ni magiriranire* = people depend on one another for life to be meaningful).

There is a certain fear that the ontological primacy of the community in the African culture leaves little or no freedom and responsibility to individuals. Gyekye (1997) felt uncomfortable with the seeming radicality of the African sense of community and developed a moderate perspective of the African community. His book, *Tradition and Modernity* is an effort to substantiate such a moderate position leading to the claim that political and economic liberalism can feel at home in Africa. The African value system naturally accommodates both the individual as well as the community as ontologically interdependent without reducing the ontological density of the community. To make clear this point I distinguish between the human being as a being-with/in-self (*umuntu-w’ubuntu*) and being- with/in-others (*umuntu-mu-bantu*).

3.3. The personal dimension of the community: *muntu* as *being-with/in-self* and *being-with/in-others*

By the personal dimension of the community, I mean that one’s humanity comprises the humanity of others. This makes it possible to talk of the community-in-the person: you are a person if you carry within yourself your humanity (*umuntu-w’ubuntu*) and the humanity of others (*umuntu-mu-bantu*).

3.3.1. African conception of the human being as *umuntu-w’ubuntu*

The characteristic feature of human being is intelligence (*mu-ntu*). Ramose rightly defines *umuntu* as the specific entity which continues to conduct an inquiry into be-ing³³⁸, experience, knowledge and truth (Ramose, 2002, p.41). Intelligence is the faculty by which the *muntu* acts and interacts with the other *ntu* (cf. Kagame, 1956, p.315). It is the faculty by which the *muntu* judges, appreciates, relates and harmonises with other beings in the universe. The failure to act intelligently, or rather in a way that safeguards harmony disqualifies the ontological identity of the *muntu*. The Burundians say of the *bantu* who have lost their ontological identity: *Barabaye ibikoko ntibakiri abantu* (these people have become animals and are no more human beings).

Umuntu-w’ubuntu cannot be satisfied solely with the practical matters of the present through tricks and calculations. The intelligence characteristic of the *muntu* is what can be referred to as a comprehensive rationality. The primary role of intelligence is to connect people to their true selves as human beings to such an extent that they can now feel obligated to be in harmonious relations in the community of the visible world as well as the invisible one. The *umuntu-w’ubuntu* calls for one’s (ontological) identity and (moral) constancy. For those who are not acquainted with the Bantu thought, I could compare this with Ricoeur’ concepts of *idem* (the same) and *ipse* (the self, of the self, or by the self) which are unified in that of self-constancy:

Self-constancy is for each person that manner of conducting himself or herself so that others can count on that person. Because someone is counting on me, I am accountable for my actions before another. The term responsibility unites both meaning; counting on and being accountable for. It unites them, adding to them the idea of a response to the question ‘Where are you?’ asked by another [...]. ‘Here I am!’ (Ricoeur, 1992, p. 165).

The concept of *umuntu-w’ubuntu* has moral implications. This baggage revolves around the value of humanity or human-ness (*ubuntu*), hence *umuntu-w’ubuntu*. Literarily, *Umuntu-w’ubuntu* refers to a person of humanity, a person of harmony, integrity, equity and respectful of the world of the humans and of things. It is a human person as one realizes oneself as an individual person in one’s universe which includes one’s guiding principles, cherished values, innovating and constructive choices, self-realization in harmony with others. Senghor says it differently:

The member of the community society... claims his autonomy to affirm himself as a *being*. But he feels, he thinks that he can develop his potential, his originality, only in and by the society, in union

³³⁸ Ramose’s spelling

with all other men – indeed, with all other beings in the universe: God, animal, tree, or pebble (Senghor, 1964, p.94).

The worry that the African conception of the community could be an impediment to the individual's rights and responsibility, and that individuals could shift their responsibility to the community finds its response at this level. The aim of the community is to foster humanity in the individual and, on the other hand, the permanent concern of individuals is how humanity can be fostered in the community as it is in their person. Ramose (2002, p.42) rightly interprets *umuntu ngumuntu ngabantu* thus: to be a human being is to affirm one's humanity by recognising the humanity of others. *Umntu-w'ubuntu* affirms her/his own humanity by recognising the humanity of others.

3.3.2. The African conception of the human being as *umuntu-mu-bantu*

While *umuntu-w'ubuntu* refers to the human being as one conceives of oneself as an individual, *umuntu-mu-bantu* (being-with/in-community) refers to human being as a community being, the human being as ontologically constituted. In the African value system, the plenitude of humanness cannot be fully achieved outside the community (Gyekye, 1997). This belief has a deeper root in the whole of the communal conception of the human being. An individual is born into an existing human society and culture. The fact that the individual is born into an existing community suggests that a human being is a social being by nature. The human being does not choose voluntarily to enter a human community. The individual cannot make optional the community without, at the same time, doing injustice to the *ubuntu* characteristic of one's individuality. Hence the concept of *umuntu-mu-bantu*.

Umntu-mu-bantu, is a human person who recognizes her/his situation among others as a moral necessity. In Burundian culture, people say of a person who has no moral engagement towards the community: "*Yarafuye agenda*" (=That person is dead alive). Conversely, people with no moral engagement are dead although they are apparently alive; they have lost what makes the kind of creature they are. They have lost their ontological density and its moral implications. People's disconnection from the (cosmological or human or personal) community deprives them from their humanness (*ubuntu*), and in return, could deprive the community of its humanness (Ntibagiriwa, 2011)³³⁹. The Bavenda from Southern Africa express it differently: *muthu u bebelwa munwe*, which means "To be is to belong and to participate, or to be born for the other" (Mkhize, 2008, p.40, see also Karenga, 2004, p. 254).

Thus *umuntu-mu-bantu* refers to people as they realize themselves in the universe of other people. According to Bujo:

Without a communitarian relationship there is no identity for the African person. Only together with others can one become a human person and achieve individual freedom, which again should be exercised in a communitarian manner (Bujo, 1998, p.148).

Thus it is only in relation with the community that the identity of the individual is substantiated. This interaction between the individual and the community is best seen in the whole processes of initiation observed in most of the African cultures. The objective of initiation is to teach those who are being initiated how to interact with natural environment and the human community. The initiation is geared to help those being initiated to learn self-organisation and mutual challenge which involves locating the talents and the potentialities of each one outside the authorities of the village and of parents. It is on the basis of these talents and potentialities that each individual is given a role or responsibility in the group, and later on in the society as a whole (Dandala, 2009, p.269). Ampim (2008) points out that the rite of passage to adulthood is to ensure the shaping of productive, community oriented and responsible adults. This observation was also made by Mutisya (1996) who argues that in the initiation to adulthood, one learns the rules of the society, the responsibility of obeying these rules, of self-respect, and the respect of others.

I now turn to the issue of whether the above value system provides a leadership that could serve as a catalyst of Africa's economic development. Before dwelling on this subject matter, I want to precise that the nature of this paper does not allow me to discuss the leadership styles found in the African tradition. Suffice it to note the fact that the African leadership tended to be directive with a strong participative and consensual coloration. My suggestion is that, to be a catalyst of development, future African leadership must to be transformational³⁴⁰ while retaining its participative and consensual flavour (cf. Adadevoh, 2007, Mbigi, 2005).

³³⁹ The issue of climate change and ecological malfunctioning comes from the fact that the human being has lost the community as aspect of the world of humans and of things. This idea is expressed in my paper, *Africa's quest for development and the challenge of the environmental care: A response from Sen's capability approach*, presented at UNISA, October 12, 2011.

³⁴⁰ I find that the transformational leadership has ingredients needed for a catalyst of development in Africa: influencing followers by establishing a vision for a better future; inspiring followers as opposed to controlling them; leading by example through role modelling; contributing to subordinates' intellectual stimulation; enhancing meaningfulness of goals and behaviours, fulfilling followers' self-

Indeed this leadership model fits with the Bantu conceptual framework of *ubuntu*, *umuntu-w'ubuntu/umuntu-mu-bantu*. In fact, Ncube (2010) argues that *ubuntu* is a transformational leadership philosophy.

4. Responsible leadership in the African value system.

Do the cosmological, anthropological and the personal dimensions of the African community provide in themselves a context of a responsible leadership? Does the African value system thus articulated nature and nurture responsible leadership? Given today's social, political and economic experience, it would be very difficult to answer this question affirmatively. The African value system is a context of responsible leadership, and in fact, unless this context is retrieved and taken seriously in nurturing African leadership, Africa may succeed neither politically nor economically. The key of African value system for a responsible leadership lies in three aspects:

1. The very emphasis on the community and the dynamics within it

In the African value system, a leader is conceived of as one who safeguards and fosters cohesion in the community. This was seen in the way the traditional African leader was referred to. The father of... (se as in sebarundi: the father of all Burundian). It means that nobody should be excluded; all are members of the same family whose head is the leader striving to care for their welfare. The authority of the leader itself was not exercised individually but in communal and consensual way. The leader exercises power and authority in the council of elders (Bujo, 2009, 292ff); he is answerable to the people through this council (Wiredu, 1996, p.185).

Another aspect in which the African value system is a context that provides a responsible leadership is in the values it encapsulates.

2. The value is the community itself :

The community is not only a reality referring to a group of people who share certain beliefs and values (community-as-reality), but also the community is a value (community-as-value)³⁴¹. In the African value system, the community is a value because it refers to the social nature of human being. As Aristotle argues, the human being is a social animal. Derivatively, thanks to the value of the community, it is possible to talk of other values such: solidarity with others for the good of the individual and the good of the community, cooperation for mutual advantage in common projects, responsibility for one another, etc.

3. The value of ubuntu (humanity or humanness)

Fundamentally, *ubuntu* is not a moral concept as it is often believed, but a metaphysical category which is linked with the ontological status of the human being. *Ubuntu* as a metaphysical category has moral implications. *Ubuntu* is a moral character or the value of human beings if they live, acts, and behave in a way that fulfils their nature as intelligent beings. This means that people are living in a way that fosters harmony in the community of beings in general, in the human community of Bantu, as well as in the personal community (Ntibagirirwa, 2009, p.26). Thus, the importance of the value of *ubuntu* lies in the fact that it has its roots deep in the ontological make-up of the African.

Presumed that there is no corruption by certain forces (as has been the case with colonisation) or individual deviations, people have an ontological status with as values those provided by their belief and value system. People are the product of their socio-cultural environment. If such is the case, the African responsible leadership must be the product of the African value system with the characteristic values just outlined. Outside there can only be betrayal of the ontological status of the African and its value foundation either as a result of corruption by external forces or individual deviations which in no way can be endorsed by the African value system.

5. Development as a task of the responsible leadership

The main issue is whether the leadership that issues from the African value system can respond to the challenge of economic development. Gyekye (1997, p.148) argues that the African value system is essentially

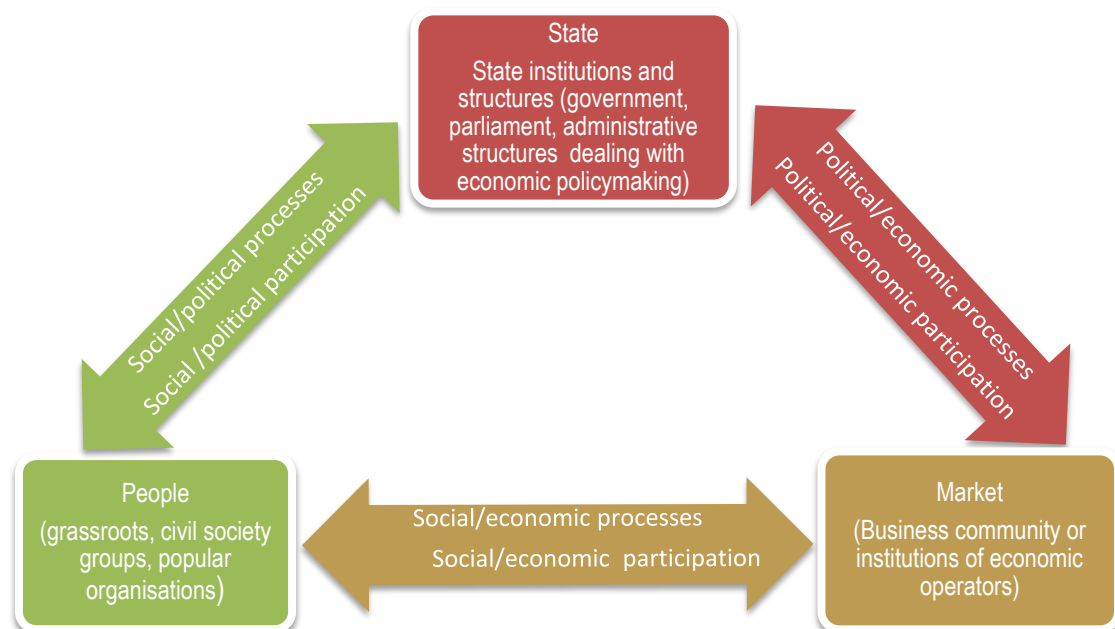
actualisation needs; empowering followers through intrinsic motivation; exhibiting confidence in subordinates ability to attain higher levels of achievement; and enhancing collective identity (Conger, 1999 cited by Aronson, 2001, p.246).

³⁴¹The idea of the community-as-reality and the community-as-value has been elaborated in a paper, *The Bantu Identity and the Quest for Economic Development in Sub-Saharan Africa*, presented to the Africa Working Group of the Kellogg Institute, University of Notre Dame. I am grateful to the Kellogg Institute for providing me with this opportunity and the Joint Japan/World Bank Fund for its financial support of this research. The questions asked and comments made by the participants are greatly appreciated

a socio-ethical way of life concerned with social relations as well as moral attitudes about what sorts of relationships should hold between individuals in society and about the need to take into account the interests of the wide society. If Gyekye's argument is followed, the conclusion would be that, in the African value system, the leadership is mainly concerned with social and moral make-up of the society. This would mean matters of economic development are not the immediate concern of the African traditional leadership. Gyekye shares this idea with Ayittey (1990, p.12). Gyekye and Ayittey are right to point out that the kind of communalism peculiar to African value system is a socio-ethical way of life. However, their failure to take note of the economic concern of African communalism is not fair. The popular and mythical belief of "*kuvugakana imbuto*" (to be born with seeds) which involves wealth and prosperity in the Burundian culture is a case in point. Social relations are inseparable from the production of wealth. In fact the economic question behind these social relations is always "how to be bake the cake together and share it together as we bake it?"³⁴²

The problem of the leader in Africa's quest for economic development then becomes that of the right interpretation of the African value system in terms of strategies and policies of economic development. Conversely, the challenge for the leadership in Africa is how to translate African communalism in economic terms. Below, I suggest the structure of economic development which I think is the best interpretation of the African value system in terms of economic policy for the responsible leadership. I shall call this "inclusive participatory economic development" (figure. 3).

Figure 3: The structure of economic development based on African value system



The dimensions of the African community are such that cohesion should be safeguarded and no aspects should be excluded. The kind of development that issues from this worldview is inclusive. The state, the people and the market are all needed to achieve sustainable economic development. In inclusive development, everybody is an agent and not a patient of development. Thus, the best responsible leadership in state managed economy does not qualify as responsible in the African value system because the exclusion of other forces that could equally play a role is unjust. The best leadership in market economy does not also qualify as a responsible leadership in the African value system for the same reason. The best leadership in people's local development does not quality as responsible leadership either because the sole material survival of the people does not guarantee their true freedom.

I turn to how this inclusive development could be effected by a responsible leader in Africa.

³⁴² The idea "baking the cake together" comes from my discussion (on the link between African development and Sen's capability approach) with Professor Georges Enderle from the University of Notre Dame. I am grateful to Professor Enderle for his enlightening insight.

6. Inculturation and democratisation of development: Sen's capability approach

First, I will explain the capability approach and justify its application in the context of leadership and the quest for economic development in the African value system.

6.1. Capability approach

The capability approach is becoming increasingly the cornerstone in the assessment of economic development as well as the methods and policies that should lead to such development. It was formulated by Amartya Sen and later joined by Martha Nussbaum. Both Nussbaum and Sen (1993) stress the capability approach back to Aristotle's conditions for human flourishing. Sen argues that the capability approach is related to Aristotle's analysis of the good for human beings, leading to an examination of the functions of a person as well as his exploration of life in terms of activity (Sen, 2003, p.4; 1992, p.5). He also stresses the capability approach to Adam Smith and Marx (Sen, 2003, p.4). Both Smith and Marx discussed the importance of functionings (further explained below) and the capability to function as determinants of human well-being. Marx's political economy conceived the success of human life in terms of fulfilling the needs of human activity (this links us back to Aristotle). Sen shows that the focus on freedom that capability reflects is featured by Marx's suggestion that we need to replace the "domination of circumstances and chances over individuals by the domination of individuals over chance and circumstances". Smith discussed the functioning of appearing in the community without shame, an achievement which is valued in all societies.

I now consider the concept "capability" closely. For Sen, capability refers to the ability of people to lead the lives they value and have reason to value. The concept of capability has two aspects which are central to Sen's philosophy of development, namely: functioning and agency.

The concept "functioning" comes from the verb "to function". To function is to be involved in activity. For Aristotle, the well-being or the flourishing of people depends on their ability to function, that is, to be involved in activity either actually or potentially. For Sen, "[A] functioning is an achievement of people, that is, what they manage or succeed to be or to do" (Sen, 1987, p.7). Precisely, functionings are physical or mental states (beings) and activities (doings) that allow people to participate in the life of their society. Functionings range from the elementary physical ones such as being well-nourished, being in good health, being clothed, and sheltered, avoiding escapable morbidity and premature mortality to the most complex social achievements such as being literate being happy, taking part in the life of the community, having self-respect or being able to appear in the public without shame (Sen, 1992, pp.5, 39 & 110). In relation to functionings, capability

represents the various combinations of functionings (beings and doings) that a person can achieve. [...] a set of vectors of functionings, reflecting the person's freedom to lead one type of life or another (Sen, 1992, p.40).

Conversely, capabilities are the functionings which a person has the potential to undertake (Jackson, 2005, p. 103). Capabilities indicate the extent of the freedom that people have in pursuing valuable activities or functionings (Drèze & Sen, 1989, p. 42). Capabilities may include such abilities as reading and writing, being well-informed, having real chances of participating freely in the life of the community- in short all those aspects of life that allow one to fully function as a human being individually and in community (Sen, 1999, p.233).

The second concept linked with capability is human agency. It is a person's capability to act. Sen talks of seeing people as agents rather than patients. He refers to an agent as "someone who acts and brings change, and whose achievements can be judged in terms of her own values and objectives" (Sen 1999:19). With this concept of agency, Sen has been accused of being individualistic in his approach insofar as he emphasizes individual capabilities and seemingly ignores the way collectivities affect individuals (Evans 2002, Stewart 2005). Certain scholars such as Ibrahim (2006), Ballet, et al. (2007), Cleaver (2007) have responded to such criticism by developing a perspective of collective capabilities. However, the critique of Sen as being individualistic in his capability approach is not warranted.

There are two perspectives from which Sen addresses the individual and the communal dimensions of capability. The first is that of culture to which he alludes abundantly (1999, 2005, 2006). The consideration of culture is dictated by the fact that neoclassical economics is done in a way that would make us believe that people live in a culture-free context. The second is the liberal philosophy of which the extreme could deprive the individual of the awareness that activities are undertaken in society. Hence Sen's concern is how to address economic and social circumstances that affect the individual. This concern brings him to consider not individualism but agency (see Jackson, 2005). Agency becomes an answer to the question of how individuals participate in the life of their own community while at the same time preserving their individual autonomy and responsibility.

Thus Sen concentrates on individual capabilities along with the fact that the individual is embedded in the society. He makes it clear that individuals are socially embedded agents who interact with their societies and flourish fully only by participating in political and social affairs (Sen 1999: xi-xii, 2002:79-80). Nevertheless, Sen is aware of the tension that exists between the individual and the community as is obvious in his reflection on culture and human rights, social choice and individual behaviour, individual freedom and social commitment (Sen, 1999), and recently his reflection on culture and development (2005) as well as violence and identity (2006).

The advantage of Sen's capability approach for this reflection on Africa's economic development is that it links well with the African value system as the locus of leadership in Africa. By emphasizing agency and the fact that individuals are socially embedded, Sen's capability approach gives us a clear picture of the harmonious interaction between the individual and the community which a responsible leadership has to foster in the process and achievement of a sustainable development. The responsibility of a leader in Africa must be seen in people exercising their agency and expanding the real freedoms people enjoy (cf. Sen, 1999, p.3). These freedoms include the freedom to engage in the process of development.

6.2. Capability approach and the operationalisation of inclusive economic development

There are two ways in which the capability approach could help in the operationalisation of inclusive economic development, namely, the very definition of capability as "the freedom of people to lead the lives they value and have reason to value" and agency. Both aspects allow to ground economic development in what people believe and value. They both start with the question of people's self-definition, the awareness of themselves, as well as their particular context and the potentialities they have. Their uniqueness and the uniqueness of their context include envisaging economic development on their own ground and the freedom to do so. This is what I refer to as the inculturation and democratisation of development.

While the concepts of democracy and democratisation are common to our socio-political vocabulary, the concept of inculturation is rather uncommon. I borrow this concept from Third World Christian theologians who use it to mean the process by which Christianity could take roots in and the colour of local cultures. It could equally be applied to economic development to mean the process by which economic development could be a validation of what people believe and value. Cardoso suggests that the involvement of all actors in development be linked to political activity (in Goulet, 1989, p.168), that is, bringing what is economic and cultural in the political sphere. According to Sen (1999, see also Pellissery and Bergh (2007, p.284, Crocker 2007, 2008), this could only be achieved through public reflection and debate. That is what I call "democratization of development".

The strategy to make this inculturation and democratisation of development possible is participation which is both the exercise of individual and collective agency. Participation means that all actors are agents; no one should be made patient in the processes of development (Sen, 1999; Crocker 2008). There are many kinds of participation but not all them make the inculturation and democratisation of economic development a reality as it is obvious in Crocker's typology (Crocker, 2007, pp. 432-3):

- *Nominal participation*: People participate in group decision-making only as a members of the group but, for instance, do not attend meetings, maybe because of responsibilities, lack of will, or feeling that they are harassed and unwelcome;
- *Passive participation*: A member of a group attends decision-making meetings only to listen to report about decision already made. For Drydyk (2005) passive participation is limited to being told what is going to happen or what is going on already;
- *Consultative participation*: This refers to the participation of non-elites participating by simply giving information or opinions to the elite. However, the non-elites neither deliberate among themselves nor make decisions;
- *Petitionary participation*: The non-elite participate by making petitions to authorities to make certain decisions or do certain things as a remedy to their grievances;
- *Participatory implementation*: Elites determine the goals and the main means while the non-elite implement the goals and decide the tactics. Drydyk (2005) calls it functional participation.
- *Bargaining participation*: The non-elite individually or collectively bargain with the elite, but mostly as adversaries rather than partners; the motive of the bargaining being largely or exclusive self-interest;
- *Deliberative participation*: Both the non-elites deliberate together, engage in reasoning and scrutinize the proposals, reflect in order to reach agreements on policies geared to the common good. Drydyk calls

this kind of participation interactive participation geared to a joint analysis and reflection in order to get solutions to issues.

The first five types of participation refer to what I may call *accidental participation*. There is no public reflection and debate involved as far as people are concerned. The occurrence or non-occurrence of this kind of participation does not prevent “the course of things” (what has been planned at the level of leadership and expertise) to take place. In this kind of participation, people’s involvement is practically limited to approval and execution as is the case in “top-down” strategies of economic development or autocratic type of leadership. Accidental participation does not fulfil the requirement of “capability as the freedom of people to lead the lives they value and have reason to value” and agency. It cannot respond fully to the exigencies of the African value system expressed in economic terms and the required kind of leadership.

Deliberative participation refers to *essential participation*. In this kind of participation, all actors are agents. Their full participation is essential to the process of development; in fact, it is already development in process. Development starts with them and is essential to what they become. It transforms them as they give it a shape (cf. Adediji, 1991, p. 49). In Hodgett’s terms, by exercising their agency, people acquire the political and social awareness that help them to leapfrog in their development (Hodgett, 2008). This progressive empowerment is what Sen (2003) refers to as capability expansion which is another definition of development. This is where the African responsible leadership (transformational leadership with participative and consensual blend) become crucial. Thus, the issue of how inculturation, democratisation, and deliberative participation in economic development link with the responsible leadership which issues in the African value system finds its answer here? The challenge that the responsible leadership in Africa must always face is to arrive to a kind of economic development which is an end-product of people’s essential participation. Put differently, leadership has to make sure that the socio-ethical African community becomes a political community which achieves economic development through public reflection and debate. The experience of African palaver, deliberation under the tree, traditional consultative institutions might need to be revisited.

Conclusion

The paper focused on a double question of whether the African value system provides a responsible leadership and whether this leadership could respond to the challenge of Africa’s quest of development. I defined the concept of leadership and argued that, in the African value system, a leader is both natured and nurtured, both born and made. I outlined the African value system and its various dimensions and argued that this value system in itself provides responsible leadership. I suggested that African leadership must to be transformational while retaining its participative and consensual flavour of the directive style.

I argue that the problem of leaders in Africa is always the right interpretation of the African value system in terms of economic policies. I put across the structure of economic development that fits with African value system and argued that this can’t but be inclusive participatory economic development which consists of the synergy of the state, the people and the market. I drew on Sen’s capability approach and suggested that this type of economic development could be translated into practice through a process of inculturation and democratisation of economic development thanks to the public debate and reflection, which expands people’s capabilities.

If the argument is convincing enough, the future leadership will need to mirror itself in the African culture and rethink the democratic quality of leadership beyond the Western pattern. I believe that the consensual processes characteristic of African traditional political ordering transcends the majoritarian democracy, and therefore, needs to be revisited. Sustainable economic development in Africa carries this price tag.

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“BEAU GESTE” AS A CRITICAL POSTURE: NOTES ABOUT A NEW HORIZON FOR RESPONSIBLE LEADERSHIP

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Abstract:

This text considers the status of the “beau geste” (“noble gesture”) in organizations, around and beyond the ethical point of view. First we consider the different perspectives already developed in the field of business ethics: the first is linked with the virtue ethics approach, the second one insists on the “physical” character of morality while the third one is attached to the specificities of an aesthetic approach of organizations. In this text, we don’t want to see the beau geste as unassailable, but as a strategy of criticism. This raises several questions. Could it be considered as a way of distorting the general “economy of gifts”? Can we be certain that *beau geste ethics* in business is only something which has to be “visible”? In conclusion, we examine the applicability of this *beau geste ethics* in the business world, then we discuss its consequences in terms of responsible leadership.

Keywords: Aesthetics, Body, Beau geste, Noble gesture, Responsible leadership.

“A very rich person should leave his kids enough to do anything but no enough to do nothing”

Warren Buffet, Fortune, September 29, 1986.

This text considers the status of the “beau geste”, the “noble gesture” (and we shall see that the translation specificities are relevant) in organizations, around and beyond the ethical point of view.

Several ways of illustrating this behaviour can be found in the organisational context. The first corresponds to the choice made by an individual who decides to work for the benefit of society. The foundation Mélinna and Bill Gates or even “Giving Pledge” recently proposed by Warren Buffet fit this first logic. But it can be also, more modestly, the case of a chairman who decides to lower his wages or to refuse his stock options (ex: Louis Gallois), or who gives his company to its employees (like Andre Faller, creator of the Karting brand), or when employees offer their spare time to help a colleague (ex: Fuji-Autotech). The second relates to involvements of organizations vis-à-vis society, where we find the well-known stream in business ethics of Corporate Social Responsibility (Bowen, 1958; Porter & Kramer, 2002).

Ethical figures of the beau geste

On a more theoretical level, the ethics of the “beau geste” is hardly new. In business ethics, it seems that it has been studied through three perspectives. The first is linked to the virtue ethics approach. This ethics of peripatetician origin values magnificence and magnanimity. Here, the virtuous leader will be a person accustomed to act in a noble way. For the ancient Greeks, virtuous happiness is precisely where you can find harmony between good and beauty. In order to be good it is necessary to appear beautiful (Solomon, 1992). The French expression of “beau geste” in fact carries this dimension, since it literary means “beautiful gesture”. The prolongation of this ethics in business ethics literature is the “humanism” stream, which can be separated into two perspectives: one pragmatic, the other deontological, the latter drawing its resources in the sublimity of gratuitousness, proceeding to some extent from an allegorical beauty. What matters here is the intention behind the gesture.

The second perspective is based on a philosophical analysis of the concept of gesture (Guerin, 1995). Ten Bos (2011) in particular insists on the “physical” character of morality (“incarnate morality”), which seems to be under-explored in the field of business ethics. The author also insists on two other positive elements of gestures, namely *invitation* and *opening*. According to him, the gesture is more important than words, regarding transparency, authenticity, responsibility and integrity. This is close to the concept of responsibility in Levinas (1982).

The third is attached to the specificities of an aesthetic approach of organizations (Gum, 2005; Linstead & Hopfl, 2002; Dobson, 1999, 2007; Hansen et al., 2007). These studies focus on the practical character of

ethics, which refers not only to what is necessary to do, but also to what is advisable to do concretely and, if possible, nicely. A bridge is thus created between moral life and aesthetic life.

Everything seems to lead us to the possibility of considering all Western ethics through this perspective. We would find among opposite positions a kind of common agreement on what would be an ethics of the “beau geste”, since in the end, this ethics seems to achieve unanimous support. Indeed, through its humanity, its physicality and its aesthetics, it always appears in a good light.

The “beau geste” as a critical posture?

In this text, we don’t want to see the beau geste as unassailable, but on the contrary as a strategy of criticism. In other words, it would be, in a great number of cases, the symptom of an opposition, a disagreement.

This implies starting by reconsidering the hidden dimensions and the uncertainties of the ethics of the “beau geste”, which raises numerous unsolved questions. Can the beauty of the gesture be a moral standard? Must something ethical be visible? Does one wonder enough about the motivations of the actor? (quest for image, self preoccupation, desire to escape from guilt, ...). In addition, how to evaluate the “beau geste” ? Gestures might be deceiving, gifts can promote in reality a bad cause. The “beau geste”, in fact, appears as relative.

Moreover, according to a study made by Ipsos for HSBC, 71% of Spanish and 51% of Italian for example consider that the philanthropists are insincere (La Tribune, 3/04/2008). Thus the debates around the activities and the financings of the Melinda and Bill Gates Foundation raise the question of the real impact of what is taken *a priori* for a “beau geste”. The shift of an aesthetics of production to an aesthetics of reception (Jauss, 1975), applied to the “beau geste”, could enable us to reconsider here, in a phenomenological turn, what this “beau geste” is “for us”, i.e., instead of defining what it is “in se”.

Beyond this ontological ambivalence of the “beau geste”, it seems that a dimension has been neglected: that of protest. In many cases (Buffett, Gates,...), the “beau geste” is accompanied by a severe criticism of the state and its weaknesses. This opposition, instead of taking the traditional way of the political game, relies on an alternative mode where an individual distributes instead of the State a significant part of his fortune. This act is not comparable, even if it has appearances of it, with the Roman “evergetism”, where rich patricians offered circus games to the citizens, because the Roman practice was related to subjacent political ambitions (Veyne, 1976). This opposition is a critical posture insofar as it is opposed in a visible way to the standards of the economic rationality. In some ways, we could temporarily compare this character with how Babeau and Chanlat define “the actions which, in the organization, are in contradiction with the rules (laws, rules of procedure, orders of superior etc) or the standards” (Babeau 2005; 2008, p. 202). Consequently, the “beau geste” does not concern only aesthetics, but also politics.

This raises several questions. Could it be considered as a way of distorting the general “economy of gifts”, because in this process of substitution State/individual, one personalizes the debt that everybody has towards him, whereas the distributive capacity of the State is made in the name of the “public thing”, i.e. of all? Can we establish a link between this practice of the “beau geste” and the “rise of the insignificance” (Castoriadis, 1996) which seems to characterize modern societies (Bauman, 2005, Sennett 2003)? Can we be certain that *beau geste* ethics in business is only something which has to be “visible” (Aubert & Haroche, 2011)?

Beau geste and managerial action: symbols of negativity

In all of these texts, it should be noted that the knowledge of aesthetics appears in a good light thanks to the humane, sensitive and emotional way in which it has been approached. Aesthetics is consistently presented in a favourable manner although some reservations are expressed here and there (regarding in particular the insincerity of leaders’ intentions) about the exercise of an aesthetic type of leadership (Zhang et al. 2011, p. 487). Yet, no mention can be found anywhere of what should be recognized as a central character of the beau geste: its *underlying negativity*.

Indeed, the beau geste is invariably viewed in a favourable manner; it is affirmative, revealing a sort of absolute, eternally positive value. But then, the beau geste as we presented it and as it presents itself in organizations seems to contain a given degree of negativity, which endows it precisely with its strength and specificity.

In organizations, the beau geste involves some expression of criticism, opposition, and provocation. In the ‘organized’ world of our postmodern societies, where rationality must prevail upon all actions of daily life, the beau geste is characteristically an act that suggests a form of disagreement, of resistance, which opposes the

prevailing system, a form of challenge to traditional economic rationality. The relation existing between the beau geste and an ethics stimulated by the power of a negative force becomes manifest in this particular context. Through the beau geste, lifestyles change into protests, aesthetics turn into politics, and beauty fades away to transform itself into ethical, economic and social significance.

What the beau geste is not

Generally, the beau geste has nothing to do with the standard exchange of gifts, as defined in the anthropological tradition (Mauss, 1968, Douglas, 1986). Indeed, if we refer to Mauss' threefold obligation associated to gifts (obligation to give, to receive and to reciprocate), then the beau geste finds itself in a dissymmetric relation to gifts, which sets it apart from the expected 'rules of the game' governing exchanges: the beau geste does not comply with any social obligation to give (as opposed to traditional gifts), it does not compel anyone to reciprocate, and even precludes it; for example, it is hard to imagine the sort of reciprocation which might follow a leader's relinquishment of his/her compensation. Consequently, the beau geste is in sharp contrast with pre-existing norms, regardless of whether they pertain to economic or political institutions.

It is possible to identify at least three distinct types of historically rooted behaviours which resemble the beau geste, but which are actually dissimilar: euergetism, patronage and philanthropic paternalism.

Euergetism of ancient times (Veyne, 1976). In Roman antiquity, euergetism meant that a citizen would distribute part of his wealth to offer mass activities and entertainment to all classes of society: circus games, festivals, etc. But at the end of the day, the citizen who indulges in such behaviour is a strategist who often harbours political ambitions. Expensive as it may be, this act is far from being disinterested: on the contrary, it is an 'investment' which is consistent with the rational logic of a long-term scheme.

Patronage. Numerous firms sponsor artists or concert halls, purchase works of art or rehabilitate monuments. Should we view such actions as *beaux gestes*? There is indeed a disproportion between their cost and the benefit derived, the common good aspect is present and the aesthetic dimension is central. Nonetheless, they are most frequently part of a communication strategy which aims at improving an organization's image in the eyes of the general public or of its employees. In such a situation, we are once again faced with a case of self-interest, which is a far cry from a beau geste. Henri de Castries, the CEO of Axa, who acquired the beautiful enamel paving stones of the Château de Polisy at a price of 2.25 million euros, offers one of many examples of such forms of cultural sponsoring which may prove alluring to some major companies. Axa later offered this unique artwork to the French government without anything in return, in order to contribute to the preservation of the national cultural heritage. Although this gesture is a good illustration of a modern form of magnanimity³⁴³, it reflects at the same time the interest derived by the firm in terms of communication; consequently, it can hardly be considered as a beau geste.

Philanthropic paternalism. In some respects, paternalism may be considered as pertaining to 'beau geste' (Lallement, 2009): magnanimity, focus on the welfare of others, superseding institutions regarded as failing in terms of education, medical care, social protection, housing or pension scheme. Yet, two arguments may be used to qualify this position. The first one is related to the fact that 19th century companies could obviously find an interest in implementing such systems which allowed them to build their employees' loyalty and to avail themselves of a skilled and grateful workforce. The second is that these attitudes frequently stem, for example in France, from movements essentially influenced by the rationalism inspired by Saint-Simon and Comte, which aimed at rationally reconstructing on the one hand the social framework in which modern firms were developing and, on the other hand, the new breed of men and women who were breaking with the social frameworks based on tradition. Consequently, what may seem to be a form of rejection of the prevailing rationalism is, on the contrary, the accomplishment at the social level of a rational perception of society, an achievement of scientific progress. Somehow, philanthropic paternalism cannot eschew the rationality inherent in this gesture; it still fails to establish an aesthetic relation to the world.

Beau geste and virtue: an historial outlook

First of all, one must recognize that the beau geste is by essence virtuous, it is endowed with nobility; in brief, it is magnanimous. This first definition makes the ethics of the beau geste dependent upon an ethics of virtues. Originating in the Peripateticians, this ethics extols the virtues of excellence, among them

³⁴³ That particular choice is highly symbolic since the motto engraved on these exceptional paving stones reads as follows: "Fortune goes together with virtue".

munificence. In this light, the virtuous leader is a person accustomed to doing what is literally magnificent. Indeed, in ancient Greece, virtuous happiness is precisely the locus where this harmony between good and beauty takes shape. To be good, you have to look beautiful. To be beautiful, you have to inspire goodness. This kind of ethics takes most of its resources from the sublime character of selflessness. It might be argued that what matters here is not only the act, but also the spirit of the gesture inasmuch as it shows the outstanding nature of the agent. The virtuous leader is, as it were, someone in the habit of doing what is noble, someone who reflects on the type of leader he/she wants to be (Solomon, 1992). It should be noted that nobility is first and foremost exercised by an individual who does not necessarily conform to the consensual social order; yet, he/she pays special attention to his/her own acts and words. The emphasis is placed on the progress made by the moral agent himself rather than the compliance with a rule (Deslandes, 2010). The nobility demonstrated by the virtue of magnanimousness – which is, by the way, just one among many potential virtues³⁴⁴ – corresponds to what might be dubbed ‘ethical competence’ and ethical behaviour (Arbouche, 2008).

Secondly, one should also consider the importance of the gesture in itself, its meaning and function as mediation. In fact, most frequently, the *beau geste* pertains to a sort of communication which would nowadays be referred to as non-verbal; it usually becomes manifest either through symbolic action or the act of ‘making’ a gesture, rather than any element of speech. It must be stated from the outset that establishing a relation between a gesture and ethics is in no way typical of modern times. As Jean-Claude Schmitt rightly showed, medieval society was the first one to present itself as a society in which gestures played a prominent role. This historical reference is bound to impact our present perception of gestures, even when the latter are of an aesthetic nature. In medieval rituals, leadership was embodied when “the pretended immobility, hieratic quality, the ‘ostension’ of bodies and ritual objects, the slow and solemn gaits are attributes of power and signs of sacrality.” (id. p. 29). The gesture is a movement of the body which is adapted to an intended action. The habitual gestures of a leader are therefore characterized by a methodology, a built-in chain of instructions, as the decision-maker who holds sway and power must absolutely avoid all ‘discordant movements’ (id. p. 184)³⁴⁵. In his renowned research work on the court society, Norbert Elias clearly demonstrated how important it is to be ‘the master of one’s gestures’ and expressions (Elias, 1969) in royal courts, that is to say to be in absolute control of one’s gestures and body (look, smile, walking pace, tone of voice, speed of delivery, etc.) in the environment dominated by power, as any gestural or bodily manifestation is meaningful.

To Elias, who developed and commented upon Saint-Simon’s work, court gestures are instruments which consolidate the power of the king and the high aristocracy through the firmly established rules of court etiquette and control at the same time the interactions between all people in the court. Such correlation is founded on three pillars: symbols (precedence and privileges governing access to the king at such codified moments as waking up and going to bed); an all-encompassing and self-claimed aesthetics (obligation of courtesy, elegant attire, ‘good manners’); the embodiment of power (through subtle ‘gestures’, the king expressed graces and disgraces to courtesans).

This quasi-technical aspect of learning is important because it is one of the two factors distinguishing it from gestures in society, as it is understood or perceived nowadays. Indeed, in antiquity, gestures were obviously influenced by culture, reflection, meditation, whereas today they would tend to seem or to present themselves (for right or wrong) as natural, spontaneous, almost visceral acts.

The second defining feature, which is coextensive with the first one, is that from the Middle Ages through the 18th century, gestures have corresponded to a compliance with a rule of propriety, whereas in today’s society it has become a way of expressing much more assertively one’s personal identity, without necessarily referring to an established etiquette. On the contrary, people now tend to do the exact opposite of what constitutes that order.

However, court gestures and the *beau geste* of modern day society may have something in common, which makes it worthwhile to take a historical perspective: in both periods, power and aesthetics are simultaneously

³⁴⁴ How can one identify managerial virtues, since they can assume so many different forms? For that purpose, we followed the method suggested by André Comte-Sponville in his *Petit traité des grandes vertus*: « How have I proceeded? » he asked. “I wondered what mental, emotional and personal makeup could increase my moral esteem for someone when present in a person [a manager, in the present case] or, on the contrary, could decrease it, when lacking.” (1995, p. 10).

³⁴⁵ “To be considered as virtuous, the gesture must be both gracious and stern, but characterized by a grace devoid of sluggishness (if it were overly soft, it would indeed be an expression of lasciviousness) and a strictness exempt from restlessness (as it would otherwise express impatience or anger). Furthermore, it must at the same time be quiet but not slack (betraying negligence), and mature but not impudent (betraying vainglory), grave without being too slow (the expression of sloth) and prompt without too much rashness (the expression of fickleness).” (Schmitt, 1990, p. 184).

at stake. Today, the beau geste comes in the form of a *gestus*, not a *gesticulatio*. The beau geste is the appropriate gesture, the one which is fully legitimate and timely. It is quite the opposite of a *gesticulation*, its antagonistic representation characterized by a lack of control, excess, even illegitimacy and uselessness, especially from a social point of view. As Schmitt explains, "*Gesticulatio*, an emphatic word stemming from *gestus*, conveys, as it did in antiquity, the notion of an exaggerated, excessive and immoral gesture. Hence its almost unavoidable association with the worst considered social categories" (id. p. 140). Fundamentally, this appreciation is still under the strong influence of Aristotle's morals where the only rule which seems to apply to different types of body movements is that of the golden mean, the *via media*, where virtue abides.

Discussion

The hermeneutic ambiguity of the beau geste

It has to be said that the *beaux gestes* cited as examples here – the giving pledge, relinquishing one's compensation or donations made by companies –, cannot escape criticism. Beyond the exceptional character of the beau geste, the surprise effect leaves much room for interpretation. For instance, Louis Gallois's decision to give up part of his variable compensation as a CEO can be construed in different ways: to some people, such sacrifice does not affect this leader's fixed pay, deemed to be amply sufficient (he would thus show that he does not need this substantial incentive income), whereas to others – the leaders of CAC 40 companies on the French Bourse – this gesture is viewed as an opportunity to get publicity for himself rather than as a favour extended to all his peers. Even worse, this may be considered as a form of counterpublicity for capitalism: indeed, if the act of giving what belongs to you was a good thing, what would be the use of owning anything?

Much criticism is also currently levelled at the activities of the *Bill and Melinda Gates Foundation*. In essence, it is blamed for radically opposing the democratic system by partially failing to comply with its obligations. At present, the *Foundation* actually invests wherever it sees fit, without any democratic legitimacy, without any supervision, and it wields much more power than several governments put together. Indeed, the following question can be raised: if such foundations are to assume the actions that should be the responsibility of national governments, does this not pose a threat to the very notion of general interest? Is there not a risk that citizens may no longer feel any commitment to such charitable actions, considering that their contributions have become insignificant?

Thus the debates around the activities and the financing of the Melinda and Bill Gates Foundation raise the question of the real impact of what is taken *a priori* for a "beau geste". The shift of an aesthetics of production to an aesthetics of reception (Jauss, 1975), applied to the "beau geste", could enable us to reconsider here, in a phenomenological perspective, what this "beau geste" is "to us" instead of defining what it is "per se".

By freeing itself from political or organizational institutions, and by extending its scope to fields in which governments are deemed to be failing, the beau geste involves the risk of being accused of unduly taking power, especially when it concerns private funding that supersedes the role of the state.

Beau geste and subjectivity

The 'beau geste' leaves room for subjectivity in the allegedly objective and rational world of organizations, where sometimes ethics is mistaken precisely for what it is not: scientific knowledge. The beau geste means action, it confers exemplary value to action and even turns action into a model. It accordingly achieves fullness in its exemplary value (Deslandes, 2012). The agents of *beaux gestes* become models for action or may present themselves as such; in this light, they may be regarded as the standard-bearers of underlying morality.

The beau geste implies a form of consciousness of one's acts (e.g. the surprise that it causes, upsetting the established order, etc.). In other words, it implies a strong self-awareness, not to say a capacity for self-criticism and self-analysis of one's actions. It might be assumed that the beau geste requires the virtue of courage, as it exemplifies choice opportunities. This is where the paths of aesthetics and ethics cross again: the beau geste is in no way an absolute necessity that cannot be discussed, cannot be questioned.

Conclusion

Here, we examined the applicability of an ethics of the "beau geste" in the business world, then we discuss its consequences in terms of new directions for leadership. "Business ethics" Cummings once wrote, "in step with

modern ethics in general, has come to be about the study and development of collective charters and codes of conduct that provide rules, enforceable by 'independent' bodies, for individual business people, organizations, industries and professions, to live by." (Cummings, 2000, p. 214); the beau geste is on the opposite side of this perspective. The aesthetics of beau geste is an alternative to universal modes of normative and codified prescription. It therefore exists only in the relation that it creates, in the perception of such or such action as a 'beau geste'.

In fact, the "beau geste" does not appear anymore as an ideal but as a critical posture which illuminates a new form of showing one's opposition. It is not a simple infringement to the common standards or the law, which would ineluctably make its author guilty; it is a gesture that consequently one can fully claim, because it is not ethically assailable. The beautiful gesture would symbolize a criticism of economic rationality and policy through an aesthetical approach.

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THE ETHICS OF CEO APOLOGIES

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Abstract

The number of corporate apologies has increased dramatically during the past decade. The trend has caught the eye of both rhetoricians and management scholars who have analyzed various corporate apologies, characterizing some as sincere and others as merely ritualistic. The classification schemes used by these analysts tend to be highly schematic—i.e., they focus on the necessary and sufficient logical qualities that an apology must possess in order to qualify as sincere. Another body of management literature overlaps with these logical analyses but focuses on public relations and considers which types of apologies by CEOs are most successful in repairing a firm's image. The logical and PR analyses are not completely distinct, for an apology by its very nature aims at restoring trust among parties and that restoration may involve damage control. This paper adds several important but overlooked dimensions to the debate by delving into the ethics of CEO apologies. First, rather than just listing traits or features that an apology should have, I ground these features in the nature or essence of an apology. Second, I explore the largely ignored role played by the speaker's ethos and pathos in genuine or ethical apologies and suggest that attention needs to be paid to the problems "role contamination" poses for CEO apologizers. Third, I conclude by arguing that it likely is not possible to specify all of the necessary and sufficient conditions for an apology to be ethically good. The most one can hope to do is to outline some key aspects of an ideally good apology.

The number of corporate apologies has increased dramatically during the past decade (Lindner, 2007). The trend has caught the eye of both rhetoricians and management scholars who have analyzed various corporate apologies, characterizing some as sincere and others as merely ritualistic. The classification schemes used by these analysts tend to be highly schematic—i.e., they focus on the necessary and sufficient logical qualities that an apology must possess in order to qualify as sincere. Another body of management literature overlaps with these logical analyses but focuses on public relations and considers which types of apologies by CEOs are most successful in repairing a firm's image (Souder, 2010; Benoit, 2005). The logical and PR analyses are not completely distinct, for an apology by its very nature aims at restoring trust among parties and that restoration may involve damage control.

This paper adds several important but overlooked dimensions to the debate by delving into the ethics of CEO apologies. First, rather than just listing traits or features that an apology should have, I ground these features in the nature or essence of an apology. Second, I explore the largely ignored role played by what I call "role contamination" and by the speaker's ethos and pathos in genuine or ethical apologies. The management literature has tended to overlook the important ethical dimension imbedded in the full rhetorical context of CEO apologies. For example, although the CEO acceptance of responsibility as part of an apology is surely important, it does not suffice to make an apology by a CEO ethically good. The tone and formality of an apology matters as well. The setting for the apology also influences whether an apology will be construed as authentic and ethical by the audience. What the recipient of the apology is likely to hear matters every bit as much as what the speaker says. Third, I conclude by arguing that it likely is not possible to specify all of the necessary and sufficient conditions for an apology to be ethically good. The most one can hope to do is to outline some key aspects of an ideally good apology. My goal here is not to establish and defend an elaborate framework for assessing CEO (or, more broadly, managerial) apologies but rather 1) to sketch what a more defensible framework than has been offered to date might look like; and 2) to point to some limitations of any such framework.

Before setting out this framework, I need to define what an apology is. *An apology, roughly speaking, is a verbal exchange in which someone who is perceived as having caused harm or offense to another party or parties speaks and/or behaves in a way that allows for a future reconciliation between the offender and those whom he or she has harmed.* Throughout this paper, I will treat an apology as ethically good if it functions (or at least has a chance of functioning) to restore trust between the CEO apologizer/CEO's firm and the parties injured by the apologizer. Note that my approach is, loosely speaking, Aristotelian. An apology by its very nature has a purpose, goal, or *telos* of "bridge-building" between the perceived offender and those who see themselves as harmed. An apology that is structured so as to fulfill that *telos* is both a true apology and an ethically good one.

Before beginning, I need to issue three caveats. First, an ethically good apology has a chance of restoring trust, but may not actually do so. I add this caveat because some injured parties may never accept an apology, even if that apology were to contain all of the elements specified in this paper. When recipients have hardened their hearts and refuse to give the speaker any chance to rebuild bridges, the apology likely will fail regardless of the logic, ethos and pathos and setting of the apology.

Second, for a speech act to qualify as an apology (good or bad), it is not necessary that speakers intend that their speech be an apology. If the audience hearing the speech thinks he or she has been harmed; and if the speech act occurs in a context in which the audience is looking for an apology, then the speech act may still be treated as an apology. Thus, if I injure a friend of mine and say to her, "I am sorry you are upset," I may not intend to be offering an apology. Perhaps I am just making a passing observation. However, my friend, for reasons explored below, may well hear my speech as a failed apology because she was legitimately hoping for me to apologize for having harmed her. Speech acts exist in a public realm, and the speaker does not get to decide unilaterally what will or will not count as an apology, promise, etc.³⁴⁶

Third, in the following discussion, I am considering only cases in which an apology is plausibly called for. We sometimes may take offense in cases in which no offense was actually given by the party whom we view as being a wrongdoer. For example, you may think that I spilled coffee on your silk shirt. In fact, somebody else did so. If you confront me, I might well express sympathy that you have been burned and that your shirt has been ruined. I need not, however, take responsibility for having spilled coffee on you. My murmured expression of sympathy fails to have certain elements typically possessed by an ethically good or authentic apology I specify below but my speech is not a failed apology because you have no right, as it were, to expect that that I, an innocent bystander who did you no harm, would offer you an apology.

To return to the main analysis: For a reconciliation to be possible, the apology must aim at healing the breach in trust that is perceived to have occurred (Lazare, 2005). That is why some apologizers seek to establish that the speaker and audience share values and thus have a mutual basis on which to rebuild bridges and resume a common life. The purpose or telos of an apology is not primarily, as some communications theorists seem to believe, image restoration. You may once have thought I was a jerk but now have begun to be unsure about the judgment. If I offer you an "apology" that confirms that I am a jerk, my image as a jerk has been "restored" in your eyes, but you likely will not think of my statement as a real apology. As Randy Cohen puts it, a genuine apology is not simply a public relations exercise; apologizing "can't be merely ritual theater" (quoted in Rehm, 2010).

Moreover, an apology does more than merely express regret.³⁴⁷ Apologizing is an activity with a specific implicit goal --trust restoration. Only to the extent that the apology is constructed and delivered in ways that support the fulfillment of that telos does the apology function as a genuine apology. Speech acts that are not so structured and delivered as to foster and restore trust are failed apologies. Indeed, one might even say that they border on not being apologies at all, even if the speaker says to an audience, "I apologize for..." or "I regret that..." Indeed, sometimes one hears audience members disgusted by the content or form of the speech act exclaim, "That wasn't an apology!"

Part 1: Logical or Content Elements for an Apology to Qualify as Authentic or Ethical

The goal of healing the breach of trust between parties imposes what Aristotle would term logical or content elements on what the apologizing CEO should say in order for his or her apology to qualify as a true apology. In this section, I sketch these content elements.

Element #1: Taking Personal Responsibility for the Wrongdoing

From the rough definition of an apology give above, we can conclude that the apology ought to be given by the person who has committed the wrongdoing or by one who is arguably in charge of those who did the wrong and thus ultimately accountable for the deviant deed. Just as I cannot apologize and repent for your sins, so CEOs must apologize for deeds either that they personally have initiated or that were initiated by agents who were, in principle, controllable by these CEOs and for which the apologizing executives are thus

³⁴⁶A lot more could be said about how speech acts are not defined by the speaker's intention, but I do not want to lose the focus on the ethics of CEO apologies. The general point I am making is, I think, clear enough. For a discussion of the public nature of speech acts, see J. L. Austin, *How to Do Things with Words* (Cambridge, MA: Harvard University, 1962).

³⁴⁷In his discussion of speech acts, Austin seems to think that an apology is primarily an expression of regret. The speaker could regret all kinds of things without saying anything that functioned to restore trust. So my desiderata for an authentic or ethically good apology are more extensive than Austin's.

justly and reasonably held accountable. An apology should make clear exactly who (e.g., the CEO) is responsible for the offensive or unjust deed for which an apology is required. CEOs who simply state, “Mistakes were made” or “I feel your pain” have not offered an apology because they have not indicated what they or their firm did that has been perceived as wrong (Ferrin et al, 2007). As a result, the person hearing the CEO’s words has no one in particular with whom to rebuild the bridge of trust, and no reconciliation is possible. The bridge metaphor is especially apt here. Just as there can be no bridge to nowhere because a bridge has two endpoints, so, too, an apology must link a particular perceived offender to those receiving the apology.

Moreover, the person offering an apology should himself or herself accept personal responsibility. Failure to take personal responsibility undermines the apology, for as I noted above, strictly speaking, one agent cannot apologize for an action for which he or she is in no way either morally or legally responsible. A statement made a few years back by Reed Hastings, the CEO of Netflix, has this “taking personal responsibility” element of an ethically good apology. Reed had jokingly told a Canadian audience that Netflix was charging the Canadians cheaper rates than those paid by Americans because the Americans were too self-involved to realize that they were paying higher fees than their neighbors to the north (Yarow, 2010). Hastings later apologized, saying, in effect, “I made a bad joke. This joke was offensive to my fellow Americans because I lied about them. Americans are a generous and philanthropic people.” One might add that the Americans weren’t so self-involved that they failed to notice that Netflix was charging differential fees based on location. Their awareness of the price variance was partly responsible for the ire with which Americans greeted this joke. In any case, in this case, the CEO apology was ethically good insofar as Hastings took direct personal responsibility for the perceived offense, using the active voice.³⁴⁸

Here is another case of an authentic apology. Chrysler CEO Bob Nardelli inadvertently confused the city of Kenosha (where Chrysler was closing a plant) with Trenton (which was retaining a plant). When asked about the Kenosha plant, Nardelli mistakenly told a state representative from Kenosha that Chrysler would manufacture its new line of V-6 engines there. Upon learning of his error, Nardelli promptly gave a straightforward apology, taking responsibility for his mistake using the first person pronoun:

I mistakenly conveyed the status of the Phoenix investment in Trenton, Michigan. The facts I described were accurate for Trenton and not Kenosha, Wisconsin. I recognize this has added further confusion to an already difficult situation (quoted in Rodell and Gilbert, 2009) (emphasis added).

Nardelli not only gave a public apology but apologized in a private phone call to Representative Gwen Moore from Milwaukee who had asked the original question about the status of the Kenosha plant. This CEO’s willingness to take personal responsibility in both the public and private spheres made his apology more effective at restoring trust in Chrysler and thus ethically better.

We can contrast this apology with those in which the CEO hides behind the collective. Leaders of firms that get involved in wrongdoing sometimes use the pronoun “we” or refer to the “team” when describing the firm’s deeds or strategies. For example, the bankers at the center of the financial collapse consistently referred to their “teams” and to the practices of other bankers when alluding to the causes of the debacle. These bankers suggested that many parties were to blame for the meltdown. Yet, when everyone is responsible, no one is. Furthermore, when CEOs fail to cast themselves as causes of the harm and the injury to which they refer in their statements, their words can wind up damaging trust even further. When no causal explanation is given, the audience is *more* likely to attribute an active intention to harm to the speaker (Mattila, 2009). The audience is looking for an apology from the CEO. When it does not get one, it reacts angrily and infers that the speaker is unjust or wicked.

To summarize: Simply saying “I am sorry” does not count as an ethically good apology. An apology qualifies as such only when the apologizer explicitly assumes personal responsibility for wrongdoing for which he or she is reasonably being held accountable by the audience. Acceptance of responsibility should be the dominant theme. Consequently, an ethically good apology does not turn argumentative, nor does the speaker plead ignorance of wrongdoing. In the case of the financial debacle, many financial CEOs have subsequently insisted that they were not even aware of the mortgage-backed securities at the root of the collapse. If they were genuinely ignorant; and if their ignorance was not the result of negligence but genuinely non-culpable ignorance, there is absolutely no reason to plead ignorance when offering an apology. Indeed, the speaker likely has nothing for which to apologize in the first place because we are assuming that he or she in no way contributed to the wrongdoing. On the other hand, if the situation does call for the speaker to apologize and to assume personal responsibility, then for the CEO to invoke ignorance merely clouds what is at issue in an apology—namely, what is the wrongdoing for which the CEO has been directly or indirectly responsible?

³⁴⁸ However, the apology may still not be fully authentic if it fails to contain other relevant elements.

Pleading ignorance has only one purpose: to deny or mitigate responsibility. But an apology is not an occasion for suspected wrongdoers to plead their case. Rather an apology aims at healing a rupture in trust by having the wrongdoer admit guilt and ask to make a new beginning. Apologizers should be self-effacingly remorseful when they acknowledge their personal error and their harming of others. Acts of injustice usually render those who are harmed more vulnerable, so apologizers, by themselves assuming a position of humble vulnerability, equalize relations and thereby make it easier to restore trust. An argumentative apologizer does not manifest the requisite vulnerability, a point to which I will return later.

Element #2: Naming the Wrongdoing for Which the Apologizer Accepts Personal Responsibility

In general, apologetic CEOs need to name the exact wrongdoing for which they are accepting personal responsibility. The aggrieved parties believe they have suffered some specific harm or have been treated unjustly in some particular way. Without explicit acknowledgement of this harm, CEOs will find it hard to restore trust because they and the audience will not know whether they are even on the same page regarding the breach of trust. Moreover, as I argue below, an ethically good apology will typically lay out some action steps for restoring trust by repairing the breach. So, on this score, too, the CEO needs to indicate that he or she acknowledges that the firm erred *in some particular way*.

A related point: The apologizer, by stating specifically what he or she did wrong, is implicitly admitting that the action in question was voluntary. As Aristotle notes, although we pity and pardon involuntary deeds, we praise and blame those that are voluntary. The apologizer must be willing, therefore, to accept blame.³⁴⁹ If the apologizer were to say, “I did the horrible deed X and accept responsibility for it, but I should not be blamed for X,” we would not think that he or she has actually apologized. Accepting blame is part of what it means to be held accountable. Such acceptance is also a first step toward mending one’s ways. As we shall see, giving evidence of a willingness to alter one’s behavior shows that the speaker has the ethos necessary for a reconciliation to proceed.

In some cases, the harm caused by a company may have been inadvertent. Still, if the leader was ignorant because he or she was negligent, then the leader needs to admit to this negligence (which is itself a kind of wrongdoing). In the rare case in which an unintended harm was completely unavoidable, the leader may not really be able to offer an apology in the strict sense of the term. In these cases, leaders may want to express solidarity with those who have suffered because of something that the corporation directly or indirectly did. Let us suppose that a terrorist set off a bomb at a fertilizer plant and the subsequent explosion of the plant killed and maimed many in the surrounding community. The CEO of the plant could certainly say, “I and my co-workers are sorry for the massive damage this community has suffered as a result of a terrorist bombing”. But, precisely because the CEO is not naming a specific wrong done by the firm, this sort of expression of sorrow is not an apology in the fullest sense of the term and should not be construed as such.

There have been several cases of noteworthy non-apologies, speech acts that signify regret but do not serve to restore trust because the speaker does not accept responsibility for the harm and suffering caused by his or her specific acts. Martha Stewart consistently denied that she was involved in insider trading or the obstruction of justice. She never apologized to her employees, customers or stockholders for the wrongdoing for which she was convicted and imprisoned, although she did express regret that their lives, like her own, had been disrupted when charges were brought against her (Dirks et al, 2004). SAP AG Co-Chief Executive Bill McDermott’s apology to Oracle for copyright infringement by SAP was so vague that someone unfamiliar with the case would be confused as to what the specific offense was: “They were doing things that required much closer scrutiny...I am sorry for that” (quoted in Borzo, 2010). His use of the third person pronoun calls into question why he is apologizing if someone else has acted unjustly. Who is the “they”? Are “they” employees or not? Who should have been scrutinizing what more closely? The absence of specificity undercuts the apology.

In many cases, CEOs say that they are sorry but then characterize what the injured parties view as wrongdoing in such a way that the CEOs responsibility is lessened. Consider the prepared statement Citigroup CEO Chuck Prince read when he testified before the Financial Crisis Inquiry Commission in April 2010:

Let me start by saying I’m sorry. I’m sorry the financial crisis has had such a devastating impact for our country. I’m sorry about the millions of people, average Americans, who lost their homes. And I’m sorry

³⁴⁹ The apologizer and/or his or her firm may not be legally culpable for the wrongdoing, but, if the CEO is apologizing, he or she must be willing to accept some measure of censure or what we might consider “ethical” blame.

that our management team, starting with me, like so many others could not see the unprecedented market collapse that lay before us (quoted in Dash, 2010).

Prince hides behind talk of the “team” and conspicuously avoids mentioning the particular doings of Citigroup that contributed to the crisis: the pushing of inappropriate mortgages, the use of unsafe credit default swaps to improve the bank’s balance sheet, the lowering of mortgage standards that enabled non-creditworthy borrowers to get loans, etc. Instead, Prince regrets his failure to foresee that which was allegedly unprecedented and, therefore, likely unforeseeable. In other words, his apology is not an apology at all because no one needs to express contrition for the failure to be omniscient.

Prince clearly understands that his audience is expecting an apology, for he, in effect, argues that neither he nor any other bank can legitimately be held accountable by the audience because everyone held the same false belief that mortgage-backed securities were safe: “Everyone, including our risk managers, other banks, and CDO structurers, all believed that these ...securities held virtually no risk. It is hard for me to fault the traders who made the decisions to retain these positions on Citi’s books” (quoted in Dash, 2010). Former Citigroup board member Robert Rubin provided an analogous minimization. As the Times put it, Citigroup board member Rubin “also showed some contrition but stopped short of accepting personal responsibility for the banks’ woes [by citing] at least nine different causes for the financial crisis, which formed a toxic cocktail that, he claims, ‘almost all of us’ missed” (quoted in Dash and Chan, 2010). Like his fellow bankers, Rubin was conspicuously vague when it came to admitting what he and the banks did (or failed to do) to contribute to the crisis.³⁵⁰

We can contrast these non-apologies by CEOs with a straightforward one by another prominent figure who names his wrongdoing and does not seek to minimize its egregiousness. In a much discussed column, the sportswriter and popular writer Mitch Albion frankly acknowledged what he did wrong and elaborates on why his deed was wrong:

To our readers: I made an assumption in a column this past weekend. It was a bad move. In a column written Friday for our Sunday newspaper, I assumed that what I had been told by Mateen Cleaves and Jason Richardson had indeed happened, that they had indeed flown to the Final Four, sat in the stands together rooting on Michigan State in Saturday’s game. That was their plan. Both told me so in separate interviews. Because the column had to be filed on Friday afternoon, but appeared on Sunday, I wrote it in the past tense, as if it already had happened. While it was hardly the thrust of the column - which was about nostalgia and college athletes - it was wrong just the same. You can’t write that something happened that didn’t, even if it’s just who sat in the stands. Perhaps, it seems a small detail to you - the players still love their teams, they are still nostalgic, they simply decided not to go after the column had been filed - but details are the backbone of journalism, and planning to be somewhere is not the same as being there. So I owe you and the Free Press an apology, and you have it right here. It wasn’t thorough journalism. While our deadlines would have required some weird writing - something like, “By the time you read this, if Mateen and Jason stuck to their plans, they would have sat in the stands for Saturday’s game”- it should have been done. We have high standards at this newspaper, and I have high standards for myself. We - the editors and I - got caught in an assumption that shouldn’t have happened. It won’t again. Thanks. (Albion, 2005).

Albion’s detailed discussion of why his specific act of misreporting was wrong reinforces the reader’s impression that Albion has grasped the magnitude of his error. That impression in turn makes the apology more effective at restoring trust because the readers begin to think that they and Albion share values on which a trusting relation can be re-established (for more on this point, see Condition #7).

Part 2: Speaker Ethos and Genuine Apologies

³⁵⁰ Some statements fall into a gray area because the audience’s desire to hear an apology can perhaps not be met by the CEO because the circumstances concerning the alleged wrongdoing are very unclear at the time the statement is being made. Thus, when British Petroleum CEO Tony Hayward said that he was sorry that the Gulf of Mexico “incident” happened and that he “deeply regretted the impact that the spill has had on the environment,” he was not offering a genuine apology (Hayward quoted in MSNBC, 2010). Given that, at the time of this writing, we still do not know exactly what caused the blowout, Hayward perhaps could not say much more than he did. On the other hand, we can equally understand why the Gulf residents who were hoping for an apology were completely unmoved by Hayward’s words (Simon and Muskall, 2010). Since he did not name any specific misdeed for which he was taking personal responsibility, his comments about this tragedy did not function in their eyes as an authentic apology.

So far I have been discussing the minimum logical or content elements that should be part of authentic or ethically good apologies. But there is more to a good apology. An genuine apology reveals a speaker who is struggling to act well and who is mindful of how others perceive him or her.

Element #3: Promptly Accepting Blame for the Specific Offense

The promptness with which Chrysler Nardelli and Netflix's Hastings offered their mea culpas conveys the impression that they were eager to make things right. This eagerness leads the audience to think the speaker is a just and considerate individual who does not want to be party to an injustice. That perception, in turn, suggests the CEO in question will actually do something to rectify the offence (see Element #8). This inference will usually predispose listeners to be open to reestablishing relations with the offender and his or her firm.

I would not insist, though, that an apology must follow immediately on the heels of the wrongdoing. One nation might apologize (through its leader) to another nation for a war crime years after the original offense occurred. If all the other elements sketched in this paper are present, even a belated assumption of responsibility for egregious wrongdoing may still function as a step toward reconciliation. However, a prompt apology is typically better than one that is long delayed (Seeger and Ulmer, 2001). A long delay may cause listeners to believe that the apology had to be wrested from the CEO, using threats of legal action, boycotts, etc. In general, an apology must be construed as freely given. An apology made under duress (like a promise) would be interpreted as null and void. A prompt apology lets the intended recipients hear the apology as voluntary, an important element already covered above.

Element #4: Conveying a Settled Just and Prudent Character

Insofar as the speaker's ethos or character is conveyed in and through what he or she says, the distinction between logos/content and ethos/expressed character is not hard and fast. Still, I believe that management scholars and public relations specialists have erred in not sufficiently considering the issue of speaker ethos. Consider the following sort of case: A CEO's firm has been held legally responsible for many wicked misdeeds, and the CEO has never apologized in the past for any of these harmful offenses. If she now comes before the public to apologize for a new offense, the audience likely will be very skeptical as to whether the CEO is truly willing to accept blame for the latest wrongdoing. The speaker's past actions (or lack thereof) are evidence of her character, and the audience hears what is said in light of judgments it makes about the speaker's ethos. For the apology to have a chance of being perceived as authentic, the speaker probably would have to address explicitly why she is apologizing now even though she had not done so in the past.

In some cases, the CEO role itself may be so contaminated by perceived past wrongdoings that the occupier of that role will have trouble convincing the public that he or she does have a just character. Japan's Tokyo Electric Power company (TEPCO) nicely illustrates this point. TEPCO had a history of not disclosing past problems at plants (Morse and Obe, 2011). It went so far as to falsify plant records and to re-edit video as part of a cover-up (Mostrous and Ralph, 2011). Nor did TEPCO transparently provide information about the steps it was taking to ensure that such ethical breaches would not occur in the future. Thus, even prior to the Fukushima nuclear disaster involving TEPCO's Daiichi plant, the Tokyo public doubted the honesty of TEPCO's management (CNET, 2011). The CEO at the time of the tsunami may have been trying to change the culture at the firm, but the public's suspicion of past TEPCO pronouncements and assurances led citizens to discount his recent expression of regret for the radiation leaks at Fukushima.

In other words, the past behavior of both the individual CEO and his or her immediate predecessors are part of the context in which the apology is given and in which it seeks to establish its authenticity. The past behavior of both parties is interpreted as revelatory of the CEO's character, which in turn is thought to shape his or her intention. This context of inferred character, habits, and motivations conditions how the apology is heard and, consequently, the extent to which it is meaningful as an apology—i.e., the extent to which it functions to restore trust. If the inferred character of the CEO is not thought to be just, then any acceptance of wrongdoing may fail to foster and restore trust. This point brings me to the next task required of the speaker.

Element #5: Creating a Supportive, Consistent Context

There is another important element in authentic apologies, an element that no one, to the best of my knowledge, has discussed. To the extent possible, the leader who wishes to apologize ought to be mindful of the context and structure that context in such a way that it supports (or at least does not contradict) the

logos/content of the speaker's statement. If the statement's import is contradicted by the larger context, then the audience may conclude that the speaker is not very mindful or prudent and so likely not very cognizant of the magnitude of the harm he or she has inflicted on others. If the CEO is seen as having a deficient character, those receiving the apology may be loath to believe that she is sufficiently wise or committed to alter her and her firm's future behavior. If the audience lacks this key belief, the putative apology will fail to do its work. Through structuring the context, apologizing CEOs must send the message that they are just and practically wise and, therefore, truly are seeking to rectify the breach in trust.

CEOs almost always choose the venue in which to make the initial apology. The audience recognizes that fact and interprets the CEO's choice as revelatory of his or her disposition, a disposition that will guide the leader's future behavior in a direction that may or may not be virtuous. When Ashland Oil caused a significant oil spill in Ohio, the firm's CEO John Hall went to the town, met with concerned citizens whose water supply was in danger of contamination, and took often hostile questions for several hours about the spill and Ashland Oil's planned clean-up efforts. Hall's willingness to meet these injured individuals in their hometown testified to his desire to know exactly what was going on and to show solidarity with the victims of the spill. This choice of venue reinforced his message of contrition and was very favorably received by his audience (Associated Press, 1988).

By contrast, Toyota CEO Akio Toyoda blundered when choosing the context for his apology. After discussing quality control problems with Toyota cars, the CEO left the venue in an Audi! It is irrelevant whether the conference organizers required that participants drive Audi cars. CEO Toyoda should have realized that choosing to exit in any car other than a Toyota would send the wrong signal. Viewers would conclude either that Toyotas were so unsafe that even the car manufacturer's CEO did not want to drive that make of car or that the CEO was so tone-deaf to what Toyota owners were saying about their fears that he did not think it worthwhile to choose a more appropriate venue (i.e., one that did not contractually require him to drive anything but a Toyota). In the first case, the audience will doubt the CEO's veracity; in the second case, his practical wisdom will be called into question. Either way, the CEO's statement will not serve to reestablish a basis for trust between the car owners and the firm.

For a statement to be heard as an apology, what is said, at a minimum, should be consistent with the content of the apology. That is why CEOs generally must appear in person in public when offering apologies. Merely sending a letter or text message is generally not adequate because these contexts are not sufficiently rich to restore trust. If the CEO is taking personal responsibility for wrongdoing, the audience wants the CEO to appear before them personally. Otherwise they may infer that a law or public relations firm has drafted the CEO's comments and that the CEO is unwilling to be accountable for what he or she has done. Moreover, they want to be able to see the speaker's face and affect in order to assess his or her pathos, which brings me to the next important dimension of an apology.

Part 3: Speaker Pathos and Genuine Apologies

In addition to the logical content of the apology and the speaker's character as conveyed in the apology and the choice of context for the apology, the emotion or pathos expressed in and aroused by the apology matters. Aristotle did not distinguish sharply between the cognitive and emotive (Nussbaum, 1990). For him, a right action must also be accompanied in the right way at the right time with the right emotion (Aristotle, 2005, 1106b20 and 1109b29). For the audience to accept a statement of contrition as an apology, members must believe that the speaker truly regrets his or her wrongdoing. This observation suggests several additional elements an apology should possess in order to qualify as ethically good.

Element #6: Delivering the Apology in Person

As I noted above, injured customers or employees want to see the demeanor of the apologizing CEO. Does he look contrite and sorrowful? Does her bearing suggest hubris or indifference? Unlike Austin (Austin, 1962), I would not require that the speaker actually intend to restore trust with his or her audience. The speaker's intention is not something that can be easily determined by the audience. However, executives must at least seem to be experiencing the correct, relevant emotions or feelings. When delivering an apology, CEOs typically should appear in person not only to show their willingness to be held accountable (Element #5) but also to give those hearing the comments an opportunity to assess the state of the speaker's emotions. These emotions manifest themselves physically in the face and bearing of the speaker. Therefore, an in-person appearance is usually most effective. Of course, when the speaker is genuinely remorseful and truly intends to act justly, the underlying truth of his or her expressed emotions usually will make the executive's

statement or fictive persona even more credible. For the projected persona and actual character are one and the same in that case.

Element #7: Exhibiting Empathy

Engendering trust with a view to rectifying past harm is easier when the audience perceives the apologizer as exhibiting empathy. (I say “perceived” because we cannot know for sure what someone’s internal state or intentions are.³⁵¹) Rather than minimizing the damage their corporations have done, ethically good CEOs demonstrate an awareness of the wide array of people whom they may have injured and/or the painfulness of the injuries caused. Chrysler CEO Nardelli’s apology quoted above reflected his awareness that his incorrect response concerning plant closings may have raised false hopes only to dash them. By explicitly stating as much, Nardelli showed that he had given some thought to the extent of harm his error had caused. In Aristotelian terms, CEOs who show empathy and give evidence that they understand the magnitude of suffering caused by their firms, reveal through speech that they possess some measure of compassion. Such compassion makes their statement of regret more believable in the eyes of their audience.

Expressing empathy not only reflects the presumed emotions of the speaker but creates similar feelings in the listener. The apologizer’s expressed empathy, when coupled with an explicit statement of corporate wrongdoing, stirs the audience’s memory of the event and evokes the constellation of feelings they have had concerning the corporation’s action and consequences of that deed. If those receiving the putative apology perceive that the speaker shares their feelings at that very moment, both parties are more likely to arrive at a mutual understanding and to be able to repair the breach of trust in their relationship and to move on. Their shared humanity is brought to the fore, and while the past cannot be undone, both the speaker and the audience have a basis for hope in the future. They are sufficiently alike that they may legitimately hope to share common ideals and goals.

On the other hand, should the CEO appear to lack empathy, the intended audience likely will infer that the “apology” is insincere because the speaker does not seem to grasp the magnitude of the wrongdoing for which he or she is responsible. When British Petroleum’s CEO Tony Hayward whined that he would “like to have his life back,” the relatives of the eleven men who were killed on the oil rigs were incensed by Hayward’s apparent callousness (Simon and Muskall, 2010). Hayward eventually would “get his life back,” but these victims would forever be dead. Hayward’s earlier expression of regret (which arguably was not a genuine or ethically good apology—see endnote #5), followed by this inappropriate lament, suggested that his character was insensitive and perhaps even petty. To take another case: Bernie Madoff’s courtroom “apology” talked more about the harm he had caused to his immediate family than to the thousands of investors whom he swindled. Given that his family gained and retained millions from his wrongdoing, Madoff’s expression of contrition left many listeners (including the judge) feeling that Madoff still did not appreciate how unjustly he had behaved and that he felt no empathy with those outside of his immediate circle. To that extent, his “apology” was nothing of the sort.

The tone of voice in which the CEO’s *mea culpa* is delivered matters crucially. An empathetic speaker does speak in a hectoring or harsh way. Compassion coupled with sorrowful and regretful humility softens the heart, making the voice gentle. Coupling an “apology” with a joke cartoon renders it less effective, because the jocular tone suggests that the speaker is not truly repentant and still “does not get it.” When Dreamhost CEO Josh Jones included a picture of Homer Simpson with his statement expressing his regret for the firm’s over-billing of many customers, the cheated customers were understandably not amused (Jones, 2008). They didn’t think that being cheated was in the least bit funny, so Jones’ cartoonish “apology” struck them as wildly inappropriate and perhaps a bit cruel.

Formal language is generally better than informal speech or text for conveying empathy and establishing a common emotional bond with the audience. This point needs to be emphasized, especially given the rise of social media. Consider the following apology issued as part of a major marketing campaign presumably approved by the CEO. After Pepsi released an iPhone app making it easy for men to boast about their sexual conquests, the firm sent out the following tweet: “Our app tried 2 show the humorous lengths guys go 2 pick up women. We apologize if it’s in bad taste & appreciate your feedback. #pepsifail”. The flippancy of this sloppily crafted text message and argumentative tone (*if* our ad was in bad taste) makes it hard to take the expressed regret seriously. “Hashtagging” the “apology” cheapens it further.³⁵² It looks as though Pepsi is using the tweet to generate publicity and to create a following among the same men whom they initially

³⁵¹As J. L. Austin observes, speakers who use the correct form of words for a promise and use them in the right circumstance and in the right way have promised even if they do not have the intention of following through on the promise. Austin, 15-16. I would argue that a similar point applies to an apology—the form is public, so CEOs do not get to decide unilaterally whether they have apologized or not.

³⁵²A tag is a keyword attached to information in order to make the information more easily found by browsing or searching with an online search engine. Hashtagging is a form of tagging used on Twitter.

targeted with this offensive ad. Ethical or authentic apologies foreground those harmed. Self-referential meta-tags put the speaker's ego at the forefront and substitute cunning for fellow feeling.

Element #8: Following through on the Apology

As the word “emotions” suggests, emotions set us in motion. If the speaker's contrition is genuinely felt, she will be moved to make amends. Meaningful or authentic apologies not only state the wrongdoing and acknowledge the role the speaker has had in voluntarily causing the harm. Expressions of regret and contrition are most likely to heal the breach in trust when the speaker indicates what he or she is currently doing to make things right and what future steps he or she will take to restore trust (Austin, 1962).

Netflix CEO Hastings not only said he was sorry for joking about the fact that the firm was charging Americans more than Canadians for the service. He went on to state that Netflix was planning to offer the same lower cost pricing in the US in the near future. We may usefully contrast this apology with its promise to rectify matters with that offered by Lloyd Blankfein, the CEO of Goldman Sachs, after the near meltdown of the financial sector. Blankfein stumbled about when offering a vague “apology” for his firms' involvement in “things”: “There's also people who feel—and who are right—that there's some meaningful things where we may have—not may have, certainly our industry is responsible for things. And we're a leader in our industry, and we participated in things that were clearly wrong, and we have reasons to regret and apologize for.” When pressed, Blankfein would not admit any specific wrongdoing connected with the sales that trouble outside observers. Goldman had packaged and sold bonds backed by sub-prime mortgages worth more than \$40 billion in 2006 and 2007. At the same time, Goldman was laying huge bets that the house market would experience a sharp downturn that would reduce or even destroy the value of these same bonds (Morgenstern, 2011). Goldman did not disclose these bets to investors. Blankfein refused to admit that analysts at Goldman doubted the value of these bonds, responding that Goldman was simply “in the world of risk management, not in the world of guessing where things were going.” This answer would be a lot more believable if there were any evidence that Goldman was also buying large amounts of mortgage-backed securities for its own portfolios at the same time as it was offloading billions of dollars' worth of these securities onto unwary investors. Equally troubling, Blankfein would not specify any particular steps Goldman Sachs was taking to deal with the “things” that the firm did. When he was specifically asked about lessons he had learned, he replied:

Listen, there was a lot of negligent behavior, improper bad behavior, behavior that has to be fixed and sorted through. There's no doubt about it, everybody succumbed to it, some more or less. We don't take ourselves out of that. I include ourselves in that (quoted in Gordon, 2009).

Who is going to fix the bad behavior? Blankfein doesn't say. What specifically are Blankfein and Goldman Sachs doing to prevent future negligent—or is it bad—behavior? Again, no answer.

DDB Worldwide CEO Chuck Brymer's apology for an ill-considered advertisement was more authentic because he and members of the firm went on to discuss what DDB Worldwide was doing to avoid offensive ads in the future. DDB Brazil had produced an ad for the World Wildlife Fund minimizing the horror of the 9/11 attacks. The ad stated that the loss of human life in the 2001 episodes was of little significance compared to the ongoing damage to wildlife around the world (Patel, 2009).³⁵³ The ad was roundly protested in the US and abroad, and Brymer apologized in print. Using the first person pronoun, he named the offense he and others at his firm had committed: “I find the advertisement offensive and insensitive and I humbly apologize on behalf of myself and the employees of DDB Worldwide.” In the same article, DDB Worldwide elaborated what the CEO and firm were doing to avoid this kind of debacle in the future: “We are taking corrective actions to ensure that future *pro bono* work from our offices undergoes a more rigorous review.”³⁵⁴ By printing the apology in the industry's flagship magazine *Advertising Age*, DDB Worldwide helped as well to educate competitors about the need to supervise rigorously all of a firm's work, including work for not-for-profits. In a similar vein, CEO Toyoda's apology, while falling short in some respects, was ethically good insofar as he began his talk by making Toyota's plans to improve their cars a central part of his apology (Montopoli, 2010).

Speaker contrition manifesting itself *in changed behavior* is a crucial factor when making an apology. If the speaker can specify future plans to act in a more responsible and caring way, the audience will interpret the speaker's emotions as more authentic because the expressed emotions are more moving—their effect is

³⁵³ The television ad can be viewed at <http://adland.tv/content/ddb-worldwide-ceo-apologizes-one-show-banned-scam-ads-wwf-911-ad-still-bad>.

³⁵⁴ Brymer's apology might have been even stronger if he, not his staffer, had discussed the firm's future plans and done so in greater detail.

extending from the present into the future. This continuity of emotions reinforces a perception that the speaker's character is changing for the better. The recipients of the apology are witnessing the emergence of a new settled set of habits or *ethos*.

As we have seen, when the character of the speaker is deemed virtuous, the statement of regret gains in meaning and in persuasiveness insofar as the audience becomes emotionally more favorably disposed to hear and believe what the CEO is saying. Of course, the CEO will need to take concrete steps to realize the stated corrective steps. That is why some audience members take a "wait and see" attitude before accepting an apology as such. If a CEO promises reparations and then does not make the specified payments, those who initially accepted the CEO at his or her word and began to reconcile with the firm may subsequently come to doubt the validity and value of CEO's "apology". In that case, the CEO's comments may wind up doing more harm than good.

Conclusion

The above account attempts to specify some elements a CEO apology should possess in order to be perceived as ethically good—i.e., as healing the breach of trust that has occurred as the result of wrongdoing by the corporation and/or by the CEO. I would not claim that these elements are either necessary or sufficient. Apologies are extremely complex speech acts, and much depends on factors outside of the CEO's control. For example, some people who have been offended or harmed by a corporate misdeed may be unwilling to reconcile with a sincerely regretful speaker and with his or her firm regardless of what the corporate leader says or does. In that case, an expression of regret with all of the above elements may nevertheless fail to do the work of reconciliation that an apology is designed to accomplish.

Not only are some audience attitudes unchangeable. It should also be noted that CEOs do not get to choose their audience. How a given audience construes itself will affect how the apology is heard and how effectively it mends trust. Fehr and Gelfand's experiments suggest that listeners who are especially relationship-centered want to hear ample evidence of the speaker's empathy with those harmed; apology recipients who are more individualistic want to hear more from the apologizer about compensation (Fehr and Gelfand, 2010). So, although I would argue that ethically good apologies tend to possess all of the above elements, some elements of the apology may need to be stronger or more developed for certain audience members. Other research suggests that it is easier for an audience to accept an apology in which the speaker confesses to incompetence rather than to a breach of integrity (Schepkrer and Poppo, 2010). If so, then in a case involving primarily perceived incompetence, the speaker's apology may need to stress on his or her lack of skill while suggesting that he or she nevertheless remains a person of integrity. Given that one-size-fits-all apologies are close to impossible, I question whether any public apology by any CEO is or could be entirely effective with respect to every audience member.

Cultural differences, too, may affect what an audience will accept as a genuine apology: "Japanese apologies are more apt to communicate submissiveness, humility, and meekness whereas Americas are more apt to communicate sincerity" (Lazare, 2005, 33). Placing tremendous value on social harmony, Japanese audience members may be more willing than Westerners to accept a somewhat indirect apology as genuine (Kelts, 2010).³⁵⁵ To the extent that being more indirect facilitates social harmony, Japanese CEOs understandably may opt for opacity rather than transparency. This cultural variation does not vitiate the above analysis, but it does mean that how speakers set about incorporating desired elements will vary from culture to culture.

There may also be external factors involving other firms that lie beyond a CEO's purview but that nonetheless affect how effective his or her apology is when it comes to restoring trust. Let us assume that BP CEO Tony Hayward had given an apology with all of the above elements. If the following day another firm's rig in the Gulf of Mexico had blown out and caused a massive spill, many Gulf residents likely would rage against all oil companies and dismiss Hayward's apology. In these sorts of cases, we might want to make an Aristotelian distinction between potential and actual goodness: The CEO's apology would be *potentially* ethically good insofar as it contained the ideal logical, ethical, and emotional elements typically needed to restore trust but it would have failed to realize or to *actualize* its implicit goal under these particular circumstances.³⁵⁶ The point

³⁵⁵ Some of the text of the apology in English is in Justin McCurry, "Japan Airlines Files for Bankruptcy," The Guardian online, January 19, 2010, <http://www.guardian.co.uk/business/2010/jan/19/japan-airlines-files-bankruptcy>

³⁵⁶ As Aristotle himself notes in Book 1 of the *Nicomachean Ethics*, individual happiness (which is the ethical good or goal of life) depends to some extent on circumstances beyond the individual's control. If the person has cultivated virtue but had unrelentingly bad luck (the agent's children have died young; the agent's friends have all been murdered, etc.), then happiness may not be actualized or realized even though ethical goodness was potentially present in the individual. Aristotle's point does not make him an ethical relativist but does show that realizing one's ethical goodness is objectively dependent upon some conditions that may be out of the agent's control.

is analogous to one Aristotle makes in his *Rhetoric*. Someone who can find the available means of persuasion in every given case is a rhetorician. But it does not follow that

the rhetorician will be able to convince under all circumstances. Rather he is in a situation similar to that of the physician: the latter has a complete grasp of his art only if he neglects nothing that might heal his patient, though he is not able to heal every patient. Similarly, the rhetorician has a complete grasp of his method, if he discovers the available means of persuasion, though he is not able to convince *everybody* (Rap, 2010).

In other cases, an apology simply may not be able to incorporate some element—e.g., a specification of steps to be taken to correct the situation. In retrospect, the nuclear power plant disaster in Japan appears preventable. Yet, at the time that TEPCO constructed its plant, it used the best science available (Chang, 2011), opting for a site it considered to be at less risk of a major earthquake. It did consider the possibility of the region being hit by a tsunami, but neither the firm nor other experts foresaw that a level 9 earthquake would generate a tsunami so great that the waves would overwhelm the reactors. In general, experts have tremendous difficulty assessing the risk of nuclear accidents because they cannot quantify the likelihood of catastrophic events occurring (Broder et al, 2011). Therefore, the TEPCO CEO's statement, even if it had been textbook perfect in other respects, might still have failed to restore trust with many recipients because it simply is not clear how and whether the effects of the disaster can be lessened, much less reversed. Trust needs to be restored because harm has been done by the firm; some of that harm can be viewed as voluntary (e.g., executives' early choice to defer some containment measures because they wanted to preserve the economic value of the plants). However, no one knows exactly how to remedy the primary ongoing harm--continuing emissions of radiation into the atmosphere and sea. At this juncture, making an ethically good or authentic apology may be close to impossible.

The recent explosion in CEO apologies poses its own challenges for contrite executives. As Adams (2000) observed a decade ago, CEOs now love to say "I'm sorry." If audiences begin to perceive CEO apologies as *pro forma*, these listeners may dismiss all executive apologies as mere ritual theater, regardless of how well they crafted they are. I would be remiss if I did not also acknowledge that legal considerations often limit what an apologetic CEO is willing to say, especially in highly litigious countries. A CEO may be willing to admit some wrongdoing in general but may be reluctant to say too much about the misdeed if the corporation is likely to wind up in court (Tyler, 1997).³⁵⁷

However, apologies do not necessarily equate to an admission of guilt under the law and create no legal liability for the firm (Patel and Reinsch, 2003). Furthermore, some states have now passed "apology laws" that afford some protection to hospitals/health care firms who issue apologies (Widman, 2010). Therefore, "the folklore about the [negative] legal consequences of [corporate] apologies is oversimplified" (Patel and Reinsch, 2003, 9). Still, whether a firm's conduct rises to the level of a crime often will turn out to be a matter for court adjudication. So it would be naive to expect that CEOs will start publicly admitting to have engaged voluntarily in criminal misconduct. In these cases, perhaps an apology may be considered ethically good to the extent the CEO assumes some personal responsibility for a problem or error (though not for a crime), shows empathy, outlines steps to rectify any harm and measures to prevent future wrongdoing.

When we take into account speaker ethos, speaker and audience pathos, and audience needs coupled with content elements and circumstantial constraints, we find that the ethically good apology is a kind of regulative ideal. CEOs can definitely offer ethically better and worse apologies. The better ones more closely approximate the sort outlined above but perhaps no apology will ever be fully meaningful and restorative in the eyes of every intended recipients.

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³⁵⁷ However, apologies do not necessarily equate to an admission of guilt under the law. See Ameeta Patel and Lamar Reinsch, "Companies Can Apologize: Corporate Apologies and Legal Liability," *Business Communications Quarterly* 66(1): 9-25.

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DIFFICULT INTERRELATION BETWEEN MORAL COMPETENCIES AND SOFT SKILLS IN PRACTICE AND THEORY OF HUMAN RESOURCES

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Abstract

Several organizations (European Commission, governments of different countries, NGOs and firms themselves) strive to increase the level of ethical performance and CSR to achieve, in the long-run, development in their economic performance and, thereby, the economy as a whole. The most part of these entities endeavor to promote soft skills as they contribute to the employability (reducing the potential unemployment) of human resources. Some social science researchers include moral qualities in the category of soft skills (although the ambiguous relationship between the two persists), while others seem to put them aside, as belonging to a different category. A similar dichotomy is current among philosophers of morality, too. In any case, the possession of certain soft skills seems to have no impact on ethical competencies and inversely. Moreover, companies are likely to value certain kinds of soft skills than others, but apart from statements on the importance of ethics and CSR, they do not seem to assign value to ethical competencies, finding them sometimes disturbing to the achievement of the economic goal. This paper aims to present the problem, focusing on the inconsistencies in practice and theory as well as between statements and actions. The methodology is based on a review of the literature, and it contemplates the analysis of cases from the Portuguese social life, which highlight the hypothesized inconsistencies.

Key words: moral/ethical competencies; soft & hard skills; Human Resources Management

Introduction

The institutional effort of several organizations in propagating the idea of ethical conduct and social responsibility in order to increase corporate responsibility for environmental and social issues is a fact (Commission of the European Communities, 2001; Diamantopoulou, 2005; Bé, 2005; European Commission, 2009; Eberhard-Harribey, 2006; Souto, 2009), whether it is real or only apparent (cf. Gasparski, 2005; Neves & Bento, 2005). Even in countries, which have recently accessed the European Union, these concepts have become increasingly popular, "both in academic circles through researching its theoretical foundations, and among managers and businessmen who want to put these theories to use in everyday business practice"

(Lewicka-Strzańska, 2006, p. 440). The promotion of ethics and CSR matters to governments both as complementary measures to tackle the shortcomings of the welfare state and as means of self-regulation of economies and markets, while firms attempt to exploit them as sources of competitive advantage and transform them into profit or other benefits to their stakeholders. As Diamantopoulou (2005) states: "CSR helps businesses to build up credibility and trust which are the key to hiring – and retaining – the best and brightest staff" (p. V), and Walter (2005) adds further: "Socially responsible companies are more competitive, as they have highly motivated staff and as they are attractive employers for committed and qualified people" (p. IX).

The ethical approach to the management of organizations is increasing in importance whilst human resources management (HRM) can be a crucial instrument in this process, because all HRM policies and practices, such as selection, performance appraisal, compensation and retention, are pervaded by ethical issues and problems (Buckley et al., 2001; Miceli & Near, 2001). There is, however, no code of ethics, no ethical training nor value statement that can be effective without the involvement of leaders and top management, whose example serves to be followed by the whole company (Ferrell & Fraedrich, 1997; Lewicka-Strzańska, 1999; Salopek, 2001; Puga & Martinez, 2008). Regarding this aspect, statements and their implementation often differ one from another (Salopek, 2001) and "it is concluded that HRM is ethically deficient" (Greenwood, 2002, p. 262). Moreover, the subject of ethics bothers entrepreneurs (Puga & Martinez, 2008).

Soft skills, contributing to the creation of competitive advantage, are widely recognized by economic agents as essential to the rise of corporate profits and to make companies better places to work (Raftopoulos, Coetzee & Visser, 2009; Maniscalco, 2010). According to Deist & Winterton (2005), "a competency framework is typically viewed as a mechanism to link HRD [Human Resource Development] with organizational strategy" (p. 33), while Jamison (2010) claims that "it is generally recognized that many business students lack 'soft skills' that are necessary for success" (p. 102). However, Puga & Martinez (2008) argue that one of the biggest mistakes made in the processes of human resources selection is the excessive importance given to background, such as experience and academic level, while attributes like honesty, positive attitude and moral values, among others, are, at best, accessory, when they should be an essential part in the evaluation of the candidate. According to Miceli & Near (2001), organizations can build an ethical workforce by recruiting and selecting people with histories of work or dispositions that demonstrate they are less prone to engage in unethical conduct due to their sensibility and ability to recognize ethical dilemmas or, as Hartman (2006) states, the kind of people that take into account the salient features of a situation and are able to recognize ethical issues, "an experienced person with a good moral track" (p. 74). "Unfortunately, selection criteria for identifying such individuals seem to be murky" (Miceli & Near, 2001, p. 6). "Selection also obviously determines who will be holding the levers of organizational power. Yet on this crucial of all questions for moral psychology – who commands and what are their moral credentials – research has thus far shed almost no direct light at all" (Emler & Hogan, 1991, p. 84). Nevertheless, it seems that the problem of how to prevent or reduce effectively the occurrence of internal or external progression of practically skilled, but ethically weak people continues to be difficult and persistent. The doubt arises as one cannot be sure about the social will, because both organizations and society expect and reward often ethically reprehensible, though successful behavior.

Human beings – as Naughton & Cornwall (2009) state – "may have conquered markets, introduced technical innovations, built enterprises, and accumulated great wealth, but we may be failing in one of the most important tasks of our culture – the passing on of moral tradition that builds good character in our children that contributes to the moral and spiritual capital of the country" (p. 2). In today's democracies it is expected that employees, managers and executives "subordinate the interests of society to the interests of the economy and for reason of personal welfare they do so. They are provided with economism as a salve for their conscience" (Bartlett & Preston, 2000, p. 203).

The present paper explores, in an introductory and incomplete manner, the problematic relationship between moral/ethical competencies and other types of skills of human resources, especially the soft skills, in order to demonstrate the inconsistencies between the statements/expectations and the implementation/action, both in theory and practice of HRM, using case studies to illustrate the issue. This essay is intended to serve as a starting point for further empirical study. This approach to the problem is also eclectic in nature.

Two Portuguese cases exemplifying the linkage between soft skills and moral competencies

Among the cases available in Portugal, the selected ones show clearly the difficult relationship between soft skills and moral competencies, they are recent and widely known in Portuguese context and represent different areas of application or utility of skills. The choice of the cases was intentional, because this is the appropriate methodology in a case study (Tellis, 1997; Lutostański, 2005). The information about the cases was collected in Portuguese newspapers and magazines accessible on the Internet. In the presentation of each case, the skills ascribed to the objects of analysis by others are described as well as it is given a short biographical characterization of the individual.

Mr. A. In the opinion of others (colleagues/peers, subordinates, employers and even some journalists), "he is a friend of his friend, very generous, and he has a strong personality. Sometimes he proves to be very obstinate" (Correia, 2005); "Some people say that he is polite, **discreet**; **life** taught him to not have **the ticks of a celebrity** /.../ 'He is a professional'. If there are those who say **neither no, nor yes**, [Mr. A] says **either** yes or no./.../. The hostile voices recognize that [Mr. A] likes to solve problems, he is dispatched and earned the respect of the branch" (Ferreira, 2009).

Mr. A was born in 1954; at the age of 30 he was a deputy representing the Socialist Party (PS) in the Portuguese parliament; he had only a high school certificate while he was working at the bank branch *Caixa Geral de Depósitos* (CGD) – a bank with public funds; he has studied philosophy at Nova University of Lisbon, but he dropped it without obtaining any academic degree (Correia, 2005; Ferreira, 2009); before obtaining any undergraduate degree, he got a post-graduate diploma in Business Management at *ISCTE* – University Institute of Lisbon; during the socialist government he was a secretary of state in the Ministry of Internal Administration, a deputy secretary of state in the same Ministry, and a minister in 2000 (Correia, 2005); he was close to several very influential people in Portugal, including the prime minister and some ministers. "Some not denied news have linked him to Freemasonry" (Ferreira, 2009); in 2005 he obtained the undergraduate degree (*licenciatura*) in International Relations at the *Universidade Independente* (which was compulsorily closed in 2007), a short time before he was appointed director of the bank CGD; a month and a half after he had left the CGD to assume the vice presidency of another bank Millennium/BCP, he was promoted in the former institution (CGD) to the maximum scale of wages, what will have a great impact on his future retirement pension (Soares & Ferreira 2009). In October 2009, Mr. A was suspected of crimes under the operation called "Hidden Face" ("Face Oculta" – in Portuguese language); in November his mandate as vice president of Millennium/BCP was suspended; giving up the position he received 260,000 euros indemnity (Marques, 2010); in 2010, despite being suspended and consequently not working, he received 882,000 euros compensation (*Expresso*, 2011); in September 2010 he was hired as president of the board of directors of the company *Camargo Corrêa África* (Curto, 2010); in February 2011, prosecutors accused Mr. A of three crimes of influence peddling and intention (*Diário de Notícias*, 2011, February 9); "one day in February 2011, Mr. A outraged the patients of a health center in Lisbon when /.../ he did not respect the waiting queue of patients and gave orders to a doctor to pass his medical certificate claiming to be in a hurry to catch a flight" (*Jornal de Notícias*, 2011). Today Mr. A receives a state lifetime allowance of 2,000 euros monthly and continues as president of the company *Camargo Corrêa África*. "The investors of the bank give him the benefit of the doubt. And they ask: Why would he tarnish his reputation because of 10,000 euros when he earns about 500,000 euros in one year?" (Ferreira, 2009).

Mrs. F. In the opinion of others (city inhabitants, voters), she is considered innocent, she is a good willing person, a president with an unparalleled success democratically recognized; she has been pursued frivolously and she would **never** escape from **any struggle**, "And she did not escape"; "one of the organizers of the vigil held on her behalf stated that [Mrs. F] did not escape, but she rather found herself obliged to a 'forced exile'. /.../ She had never turned her back to the challenges" (*Público*, 2003); she is a very good lady (Pinto, 2003).

Mrs. F was born in 1954; she is the daughter of Portuguese immigrants in Brazil; when she was four years old she returned to Portugal; she attended a private primary school and a high school in Guimarães; she got an undergraduate degree (*licenciatura*) in Germanic Philology at the University of Coimbra; she began her career as a secondary school teacher; in 1979 she was elected to the municipal assembly in a northern district of the country from the list of PS; in 1989 she was alderwoman in the city council and in 1995 she became mayor of the same council; she was reelected mayor in 1997 and in 2001, always within the PS; in 1999, an anonymous document was sent to /.../ the general prosecutor, entitled "report of active and passive corruption, favoring of self-interest and others, influence peddling and other illegalities" /.../ The fact had been 'communicated to the permanent commission of the PS' /.../ which 'remained quite passive' instead of putting an end to the situation" (Silva, 2003). Mrs. F as mayor was accused of corruption and illegal funding of the local section of the PS; she lost the confidence of the national leadership of the PS despite declaring her innocence and in spite of receiving support from a significant part of the local population; an order of preventive detention issued by a judge had no effect, because she managed to flee from the country and take refuge in Rio de Janeiro; possessing Brazilian nationality, as well as Portuguese, she would not be extradited from Brazil; in September 2005 she returned to Portugal, where she was arrested but immediately released, awaiting for trial in freedom; in municipal elections 2005 she was again elected a mayor by the list of an independent movement; in March 2006 the court upheld the indictment of 23 alleged crimes against Mrs. F, rejecting the appeal made by the defense attorney; legal fees of the case were paid with funds of the municipality, "a situation that the mayor's defense attorney considers 'banal and normal'. 'The mayor has, according to the law, right to legal aid'" (Chaar, 2007); in November 2008 she was convicted of three of the 23 crimes she was accused of in the case of the "Blue Bag" ("Saco Azul" – in Portuguese language) and she was condemned to three years and three months of suspended sentence and loss of mandate; in December 2010 she returned to court to answer for the

alleged practice of a crime of economic participation in a business and another of abuse of power (*Jornal de Notícias*, 2010); in March 2011, "the appellate judges/... /considered that one of the crimes of embezzlement and the crime of abuse of power had already prescribed. As for the 'remaining' crime, another one of embezzlement, the court of appeal ordered that the case returned to the first instance to be considered again as a substantial change in facts had occurred" (Lima, 2011); in April 2011 Mrs. F. "was sentenced to one year and eight months imprisonment with suspended sentence, and/... /a fine for the crime of economic participation in a business", as well as she was ordered "to give back to the municipality the fees paid by the municipality to the Brazilian lawyer" (*Diário de Notícias*, 2011, April 14). In July 2011 Mrs. F. "was acquitted of all crimes she was accused of in the process known as 'Blue Bag'" (Vinhas, 2011).

As one can see in the cases described above, beyond the facts, the available information brings a more explicit reference regarding soft skills (purposely highlighted in bold), whereas the moral competencies, implicit in the description of the facts and in the course of events, are rather perceived by drawing indirectly conclusions, and by deducting them from the descriptions and court sentences. In the analyzed texts there are no explicit negative moral judgments about the objects under consideration, except a few euphemisms, whose interpretation at least may be ambiguous.

The cases described refer to individuals who appear to be some of the best human resources considering the possession of soft skills, what is confirmed by the development of their careers and the achievement of professional success, but they failed so far as their moral competencies were concerned. The failure in terms of moral competencies, however, seems to have been no obstacle to the success almost uninterrupted of these individuals. In all these cases, these individuals seem somehow to be valued for the possession and demonstration of usefulness of their soft skills, independently or at the expense of the moral competencies they display.

Bento (2011) in the first chapter of his recent book concludes, that "people's behavior is influenced by the dominant social morality in any society and this depends, among others, on the evaluative 'anchors' in which it is based and on examples which are provided as a rule, particularly on the part of socially referential personalities" (p. 34). In relation to a wider context, not restricted to the Portuguese cases, Naughton & Cornwall (2009) state, that "moral collapse of dot.coms, Enron, and WorldCom were for the most part not caused by vicious people, but by technically skilled and financially knowledgeable people who lost sight of any moral norms in their attempts to achieve their economic goals" (p. 3). But these personalities, managers, entrepreneurs, or other kind of leaders "have a responsibility to make moral decisions greater than that of those they command, even they exercise this responsibility by doing nothing", because "the effects of morally uninformed leadership are, to all dangers", too much catastrophic (Emler & Hogan, 1991, p. 86).

The concept of competence and its division into hard and soft skills

According to Deist & Winterton (2005), "despite the central role of competence, there is considerable confusion surrounding the term, which reflects conflation of distinct concepts and inconsistent usage as much as differences in systems, structures and cultures /.../ that it is impossible to identify or impute a coherent theory or to arrive at a definition capable of accommodating and reconciling all the different ways that the term is used" (pp. 28-9). On the other hand, Handel (2003) considers that it is difficult to determine accurately what competencies an employee possesses, but it is even harder to know which skills employers demand from workers to fulfill the job.

In strategic HRM the concept of core competence emphasizes the importance of competencies or capabilities that are specific, unique and distinctive for each company and that constitute an intangible source of value, a competitive advantage of the company (Hagan, 1996; Deist & Winterton, 2005), while in human resource development and vocational education and training, using the same name of core competence or different names, focuses more on generic and transferable skills necessary to perform any job (Deist & Winterton, 2005); or, as Lopes et al. (2000) suggest, the supply-side cares about the skills that can be deployed in varying professional situations new or unpredictable, because they condition the level of employability of workers, while the demand side is more interested in the specificity of skills in order to ensure greater productivity and competitiveness rather than in academic skills.

Lopes et al. (2000) in a study of company specific, strategic skills versus generic, transversal skills, that are valued and demanded by Portuguese firms, found that these two types of skills are complementary and not rivals. Similarly Dulewicz (cited in Deist & Winterton, 2005), found that 70% of the total analyzed competencies were common to a wide range of organizations and only 30% of skills were distinctive and specific to the company.

Management literature usually distinguishes conceptual, human and technical skills or competencies (Hersey & Blanchard, 1977). However, what matters most here is the skills approach in terms of employability of human

resources and the valorization of these skills by firms and their leaders; so the focus here is on distinguishing between technical and soft skills.

Competencies, skills or abilities constitute traits that allow an individual to attain certain achievement or performance; they should not be, however, confused with the performance itself, which may vary depending, inter alia, of motivation (Ferreira et al., 1996). The skills exist when they are demonstrated, i.e., when a person is able to apply their aptitudes and abilities in a professional activity; skills are procedures which are defined in the specific action of an individual; to act with competence encompasses several dimensions: knowing how to act, the will to act and be able to act (Le Boterof cited by Lopes et al., 2000 and Cabral-Cardoso, Estêvão & Silva, 2006); competence as related to the action only makes sense when referring to the objective of this action (Lopes et al., 2000). "Competency thus captures skills and dispositions beyond cognitive ability such as self-awareness, self-regulation and social skills; while some of these may also be found in personality taxonomies, competencies are fundamentally behavioral and, unlike personality and intelligence, may be learned through training and development" (Deist & Winterton, 2005, p. 31).

"Hard skills" are competencies of the technical domain; especially those acquired through vocational and/or academic training, but they also include administrative procedures related to the area of activity of the organization (Leroux & Lafleur, 1995; Cabral-Cardoso, Estêvão & Silva, 2006; Maniscalco, 2010). According to Jamison (2010) "teaching student technical skills, while certainly necessary, does not guarantee that the student will make a good employee or a good leader" (p. 102).

"Soft skills", "employability skills", "critical abilities", "generic skills", "transferable skills", "non-academic skills" are the abilities of a relational and social context; the concept was introduced by Robert Mertens, according to Lopes et al. (1999) and Cabral-Cardoso, Estêvão & Silva (2006), under the term of "key qualifications" and refers to skills that are not related to the training or technical function a person performs, and they are not intrinsic to the technique of learning a particular area of study or domain of knowledge (Cabral-Cardoso, Estêvão & Silva, 2006); they are generic and specific skills simultaneously (Leroux & Lafleur, 1995); they are transversal, transferable and adaptable, but there is no single and stabilized definition of these type of skills (Lopes et al., 2000); they are career attributes that people must have (Mitchell, Skinner & White, 2010); they help the students to develop assertiveness and self-esteem, essential to complete their studies, to do well during the interviews for the jobs, to secure an initial position in the workplace, and to become successful business leader (Jamison, 2010). Some authors stress that this type of skills is more difficult to train, observe, quantify and measure than the type of the technical ones (Raftopoulos, Coetzee & Visser, 2009; Shakir, 2009; Maniscalco, 2010).

According to Leroux & Lafleur (1995), the Conference Board of Canada in 1992 prepared "Employability Skills Profile", which comprised three categories of critical abilities: "personal management skills" (ability to set goals, take responsibility, positive attitudes, self-esteem and initiative), "academic skills" (communication, critical thinking, problem solving and recognition of the need to learn for life) and "team work skills" (ability to work with others, respect for others, abilities to lead and follow as appropriate, 'give and take' behaviors). Applying the questionnaire with these three types of skills in the study of secondary schools teachers, Leroux & Lafleur (1995) found that they ranked as more important "personal management skills" before "academic skills" and "team work skills". However, Handel (2003) argues that many studies conclude that employers ascribe more importance to interpersonal skills, work habits, work effort and cooperative attitudes and are less interested in cognitive skills deficits.

According to Maniscalco (2010) "it is often said that hard skills provide a job but then soft skills are necessary to keep it" (p. 58). The possession of technical skills is therefore necessary but not a sufficient condition and because "hard and soft skills complement each other.../superior performers possess both technical and good behavioral skills" (Shakir, 2009, pp. 309-310).

The confusion among soft skills and moral competencies: What are moral competencies?

Earlier literature does not incorporate moral competencies in the category of soft skills, nor even talks about them (cf. Tizard, 1995; Leroux & Lafleur, 1995; Lopes et al., 2000); yet, in recent years it is common, in the literature of the HRM and professional discourse, to include the moral competencies indifferently in a wide range of soft skills, often without any reference to the content that should cover such skills (see Moore & Voltmer, 2003; Roberts, 2008; Shakir, 2009; Mitchell, Skinner & White, 2010; *People & Management*, 2010). It is often only mentioned a generic form of "ethical skills", "general ethics" or simply "ethics", and we do not really know whether it refers to the ethics of a "thief" or to the ethics of a "good Samaritan", whether it describes the morality of a selfish or an altruistic person. The content, apparently obvious, remains enigmatic. This problem is even more pertinent, when one intends to build or use a measuring instrument that addresses the moral skills, which will induce socially desirable responses and a wide range of possible interpretations (cp., Mitchell, Skinner & White, 2010).

Mitchell, Skinner & White (2010), for example, including among eleven types of soft skills of their questionnaire, a generic category of “general ethics”, come to the conclusion that Alabama business educators consider all of these skills very important to the success of the workforce in the twenty-first century (M=4.95 on a 1-6 scale), but, among all the categories they value more “general ethics” and “general communication”, with 75% and 73% of respondents respectively pointing out these skills as extremely important. Roberts (2008), indicating that organizations increasingly rely on the web (e-learning) to improve/train the skills of workers, includes ethics in soft skills, whereas *People & Management* (2010) magazine considers soft skills, such as ethics, engagement and sustainability, as core business essentials for all leaders and not only for the elite. Voltmer & Moore (2003), referring to the skills needed in the future to a professional in engineering, include professionalism and ethics in a set of soft skills. In turn Salopek (2001), citing the phrase uttered by Jennifer Stempel, writes that “ethical behavior is the softest of the soft skills” (p. 42).

Lind (2009) states, that “there is little agreement on the meaning of competence and teaching in regard to morality.” and adds further: “Socrates taught us, we must distinguish two important aspects, namely ‘the desires to be moral’, that is, *moral orientation* or motivation, and the ability to attain this ideal, that is, *moral competence*, as we would say today. /.../ But we must not talk about these aspects as if they were *things* or *components*, which can be physically separated” (p. 1-2). Lind (2000) defines moral competence or, as he sometimes calls it, moral judgment competence as “the link between moral ideals and everyday decision-making” (p. 4).

For the purpose of this text, the possession of moral competencies is attributed to honest and righteous people, who demonstrate integrity, are respectful of the rights of others, who disgust using favoritism or other forms of immoral conduct for achieving their own goals; the possession of these skills is denied to people who demonstrate in their behavior abuse of power, influence peddling, logrolling, favoritism, misuse of funds, etc., regardless of whether it serves the purposes of the organization, a professional group or personal goals, and regardless of whether they demonstrate, in their exercise/practice, proficiency, mastery, professionalism or other instrumental skills. Puga & Martínez (2008) adopt a similar approach in their article, when they write that “the ethical manager is committed to his community, he avoids misleading the consumer regarding the quality or attributes of his products, he respects and values his employees, he reports to shareholders in due course, he is positively linked with his natural environment, he combines the benefit of the company with the benefit for employees and generally behaves in a humane, fair and responsible manner” (pp. 95-96).

Behavior cannot “be called morally good if it does not show moral competence. A person who only desires to be good but does not strive to attain this ideal, is not morally good in the fully sense of the meaning” (Lind, 2009, p. 4). But “if you do the right thing while gritting your teeth, you are not really a person of good character, and virtuous action is not in your best interests. The person of good character has an enjoyable life, acting rationally and doing good things /.../, but virtues sometimes impose costs. Courage would not be courage if the courageous person did not sometimes pay a price for it. Honesty entails opportunity costs” (Hartman, 2006, pp. 70-71). The last quoted contributions also convey fully what the ideal of life was (“being efficient in a decent goal”) and the essence of the concept of “trustworthy guardian” (“spolegliwy opiekun” in Polish language) of Tadeusz Kotarbiński’s works (Kotarbiński, 1987; Lewicka-Strzałecka, 2003).

Practical skills (soft and/or hard?) vs. moral/ethical competencies

According to Ossowska (1970/85) there is a set of practical human dispositions (qualities, abilities, skills or competencies), which the author calls sometimes virtues, such as perseverance, thrift, prudence, moderation, exactness, accuracy, temperance, predictability, conscientiousness, providence, diligence, etc., whose moral status is doubtful. Human capabilities of this type can be often found in political speeches, as leitmotif of propaganda and moralizing discourses of the so-called Protestant ethic (Ossowska, 1970/85). And “Protestant Ethic tells us that to be a good person we must work hard to achieve success and the business organization tells us that success means profits and nothing else” (Bartlett & Preston, 2000, p. 201).

The Ethicists - according to Ossowska (1970/85) - have doubts about the inclusion of practical abilities (virtues of prudence) of human being into moral virtues, because of three distinctive factors. First of all, morality refers to what we give to others out of ourselves, while the practical virtues belong to a different kind, in which we get benefits to ourselves. Secondly, this type of human skills has no social nature, it means that they can be practiced in isolation, without the presence of others, while morality needs a social life (Ossowska, 1970/85) or reflects the social nature of human beings (Maxwell, 1991). Thirdly, these virtues can serve any purpose, since they are instrumental skills. All these provisions, according to Ossowska (1970/85) serve the effectiveness of the action, so they are also the object of study of Praxeology (cf. Kotarbiński, 1987; Gasparski, 1996; Lewicka-Strzałecka, 2003).

While Ossowska (1970/85) focus of analysis is any human being, Naughton & Cornwall (2009), who have a similar perspective, restrict it to entrepreneurs and more broadly to managers. According to these two last authors, the enormous creativity of people belonging to this category “stems from their skills, experiences, and characteristics – habits if you will – that some people describe as ‘entrepreneurial virtues’. These virtues focus on the habits that generate and accumulate wealth: ambition, resourcefulness, ingenuity, diligence, perseverance, tenacity, and self-discipline. While such virtues are necessary for successful entrepreneurship they ignore the question: for what *purpose* do I create wealth – myself, family, investors, the commonwealth, etc.? These entrepreneurial virtues can be exercised in new ways to fight cancer or market tobacco, in creating pornographic films or producing historical documentaries. Such virtues, by themselves, do not determine whether wealth creation is good or not or whether the entrepreneur is good or not” (pp. 2-3).

Ossowska (1970/85) in her study of moral norms lists principles/values, such as “do not lie”, “be responsible”, “do not steal”, “do not cheat”, “be loyal”; the compliance of these principles promotes mutual trust. From an economic point of view, trust and other similar ethical values constitute goods because they have a real and practical value, i.e., they increase the efficiency of a socioeconomic system, but they cannot be traded in the market, what really does not make any sense (Arrow, 1974/85; Williamson, 1985/98).

The regulatory role of trust and other moral/ethical principles/values in economic activity has been perceived by thinkers, scientists and business agents since ancient times. Not going so far, Arrow (1974/85) writes that “the trust, in addition to everything else, has a very important pragmatic value. Trust is an important lubricant of the social system. It is very effective, because sufficient trust in the word of others saves a lot of worries. Unfortunately it is not a good one can easily acquire. When you need to purchase it, doubts immediately arise about what has been purchased” (pp. 16-7).

“Among ethical theories – as Kaler (2000) states –, only perhaps ethical egoism rejects any distinction between the moral and the self-interested” (p. 172).

Final remarks

The relationship between soft skills and moral competencies appear to assume nowadays increasingly the characteristics of other human artifacts. Surely everyone has experience a rotten apple, apparently tasty, that ultimately tasted like cotton after the first bite or was rotten inside; everyone has heard a political speech which was eloquent and captivating, but did not convey any message, just demagoguery, etc. The same seems to characterize often the relationship between soft skills and moral competencies.

The possession and development of soft skill serves instrumental ends, being the means to achieve specific objectives. Therefore, these skills can be used for purposes worthy or not from the moral point of view, while the instrumentalization of moral/ethical competencies withdraws immediately their positive value, because they are ends in themselves, and it means that the person ceases to own them. “Apart from anything else, there is the apparently undeniable fact that behavior is invariably a mixture of prudential and altruistic reasons. So to insist on altruism alone is to leave very little behavior that counts as ‘moral’” (Kaler, 2000, p. 162) or, as Hartman (2006) states from his Aristotelian perspective: “Most of us have limited strength of character. We cannot choose to enjoy courage and generosity at all times: we find them occasionally burdensome” (p. 71). In too many cases, however, “the choice between abstract values and actual benefit often becomes a non-choice” (Sousa, 2011, p. 98).

Furthermore, people often, even knowing that a leader, boss or colleague/peer did something immoral condone that kind of conduct by demonstrating respect for those individuals who, thanks to that achieved success. The results obtained in the 2003 National Business Ethics Survey conducted by the Ethics Resource Center on a representative sample of U.S. working population confirm this phenomenon (Joseph, 2003): “a third of respondents say their coworkers condone questionable ethics practices by showing respect for those who achieve success using them” (p. ii). Such behavior is clearly visible in both Portuguese cases presented above, where the pragmatic skills are more valued than moral purity. The survey carried out at national level in Portugal on corruption shows that “the majority of the Portuguese (54%) tends to have an idea somewhat permissive of corruption” (Sousa & Triães, 2008, p. 195). In abstract terms, there is in Portugal, almost total condemnation of the phenomenon of corruption, but “this intolerance occurs only at the symbolic level (as a value), while at the strategic level when anchoring the judgments, there is some flexibility” (Sousa, 2011, p. 100). Most Portuguese are still tolerant of a variety of unethical practices, such as conflict of interest, exchange of favors, gifts, influence peddling, etc. (Sousa & Triães, 2008; Sousa, 2011). Bartlett & Preston (2000), when referring to the study of Jackall, write that U.S. managers indicate conformism to expected norms of thinking and behavior, political skill in building relationships with the right people and the ability to outrun one’s mistakes as qualities needed to succeed. Aharony & Geva (2003) in their article on tax loopholes assumed that “unlike unlawful acts of fraud and theft, taxpaying avoidance is viewed with ambivalence” (p. 378). Common sense tells us that people and societies unfortunately can go further, seeing

with ambivalence or even applauding illegal and unethical but effective conduct, where the soft skills are better placed. In the latter case, Hannah Arendt (2007) considerations seem to provide a good example as she points out the behavior of German society during the trial of German war criminals, and reports the empathy and moral support shown to the perpetrators of crimes, as if they were innocent and ordinary people in the neighborhood.

Maxwell (1991) states that "in the human moral system is simply the option of deviance: individuals can opt to deviate from the rules of society. /.../ Humans can cynically calculate the wages of virtue and the profit of sin. /.../ The society has to pour considerable energy into protecting itself from these entrepreneurs" (p. 7). Moral principles are not fixed once and for all to influence the conduct of people, quite the contrary, they must be activated in each situation or activity; there are also several psychosocial ways that allow people to selectively (dis)connect the mechanisms of (im)moral self-conduct; people easily justify the immoral deeds as well-intentioned acts, perfecting these skills when they gain cognitive competence (Bandura, 1991, 2001; Barsky, 2011). The conduct of people in organizations, as well as in the whole society, is subject to several types of "control through a social hierarchy. The higher the position an individual occupies in a hierarchy, the more consequential that individual's decision becomes" (Emler & Hogan, 1991, p. 69), therefore, the requirements should be also greater in terms of moral competencies of these types of people. The results obtained from a convenience sample of Portuguese workers have shown, however, that the tolerance of certain types of unethical conduct (submission of false information to superiors; lying to employees, customers or the public in general; falsification of reports or data; insider trading; taking advantage of legal loopholes, etc.) is growing significantly with the increase of education level of respondents (Swiatkiewicz, 2009). Patiño-González (2009), when referring to corruption and to the small percentage of the population in Mexico that has an opportunity to obtain a bachelor degree, claims that "sometimes these unscrupulous people are the 'mejor educados' ['better educated']", and that "people with higher qualifications can sometimes misuse their knowledge and skills" (pp. 538-539). The moral socialization does not guarantee people's moral conduct according to principles or norms, leaving them vulnerable to the influence of immoral or corrupt authorities (Emler & Hogan, 1991). The human moral agency can be suppressed and brings out the ethical inertia as a result of the vulnerability of its autonomy to contextual factors, for example when people are afraid to risk their actual or future job prospects, due to external pressures felt by them (Lovell, 2002, 2002a).

Unethical conduct occurs, according to Gebler (cited by Salopek, 2001), in many cases, not because people are evil by nature, but because they think they are doing the right thing. The entrepreneurs and managers, that may have achieved great achievements and technical competence, are driven not by bad character, but rather by lack of character (Naughton & Cornwall, 2009). Lind (2009) shares a similar opinion when he states: "if particular citizens were really as bad-minded as some people believe teaching would not work. Rather we would either to detain them in prison or change their moral motivation by means of coercion" (p. 5). But, as Hartman (2006) argues, "our character is malleable and vulnerable to some degree, for organizations exert a powerful socializing and sometimes corrupting influence" (p. 72). Furthermore, "in a free society, it is hard for 'evil' people to do 'evil', especially since one man's good is another's evil" (Friedman, 1970). On the other hand, "there is a growing body of literature and research indicating that the ethical standards applied by individuals at work may be different /.../ and probably significantly lower /.../ than those they follow in situations outside the business environment" (Bartlett & Preston, 2000, pp. 201-202), or as Werbel & Balkin (2010) write: "lower level of moral integrity appear to be relatively common in business" (p. 319). According to Buckley et al. (2001) there is extensive literature on the performance appraisal process that describes managers as less committed to honesty and accuracy and states that they often use that process for political purposes.

Sousa & Triães (2008) conclude in their research report on corruption in Portugal that, "the Portuguese often for doing less than ethics requires and more than the law allows. /.../ people do not care to sacrifice the legitimacy of the process for the legitimacy of the output, i.e., they trade transparency and integrity for effectiveness" (pp. 196-200). Whereas Lopes et al. (2000) in a study of company strategic vs. generic skills, that are valued/demanded by firms and their leaders in Portugal, conclude that "companies give greater emphasis to the production of instrumental skills" (p. 279). In the process of recruitment of workers Portuguese companies value higher level of education as a guarantee of the possession of soft skills, while in the process of reduction of human resources companies tend to keep workers who hold specific strategic skills, whether they are or not the soft skills (Lopes et al., 2000).

Taking into account what has been exposed in the present text, it is assumed, being subject to further empirical confirmation, that the skills actually sought and valued by the Portuguese companies and their leaders in human resources, in most cases, are the soft (in addition to hard) skills and not all of them. In turn, the moral competencies, which constitute a separate category, are not currently appreciated despite the statements of organizational leaders. This probably happens because moral competencies are perceived as

stiff or as lacking the flexibility needed to track situational evolution of business, or as they often enter into conflict with the soft skills in the pursuit of economic objectives.

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**INTEGRATING MANAGERIAL WISDOM,
THE COMMON GOOD APPROACH AND ORGANIZATIONAL JUSTICE
IN LONG-TERM-PERFORMANCE ANALYSIS. EMPIRICAL EVIDENCE FROM AUSTRIA**

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ABSTRACT

It is well documented that business failures very often involve not only poor business models or misjudgments of the markets, but also substantial and well-documented ethical failures. In this paper, we propose that if a manager or an owner-manager of an SME generally seeks to perform business actions by applying practical wisdom, a character trait which morally enhances the practice of decision-making, he will lead his company according to a determined ethical or moral orientation which we call the common good approach of management. It is particularly of interest to understand how practical wisdom and the orientation towards the common good will also have a positive effect on the perceived organizational justice and on long-term corporate performance.

Keywords: practical wisdom, common good of the firm, organizational justice, long-term performance analysis

INTRODUCTION & RESEARCH GAP

In the aftermath of an economic and financial crisis that also marked the beginning of an ongoing discussion about the future of our modern free market system, we have been witnessing a growing interest for the ethical dimension of economic decision-making. Through the so-called “separation thesis” (Freeman, 1994; Melé, 2010) this dimension had been theoretically isolated from the managerial and economic decision-making-process. “Rational decisions”, according to this thesis, would only have to suffice a calculative assessment of efficiency i.e. using a cost-benefit analysis. Rationality would be defined in mere economic terms i.e. as a mere instrumental or technical rationality. However, as Thomas et al (2004) pointed out, business failures very often involve not only poor business models or misjudgments of the markets, but also substantial and well-documented ethical failures. This goes in line with Carroll (1987), who states that “moral issues in management are not isolated and distinct from traditional business decision making but right smack in the middle of it”. According to Trevino (1986), ethical issues always play a role in managerial decision-making, especially when uncertainty is high. Hence, sound and effective decision making in management implies a strong sense of responsibility as well as an awareness of the social and moral consequences of every business action.

As Melé (2011) and others (Fontrodona et al., 2010) argue, ethics are embedded in management in the following ways: first, through decision-making, second, through the ideas that drive the practice of management; and third, through the moral character of the manager himself. Following Carroll (1987) and Paine (1996) moral competence is an essential managerial competence.

In this paper, we propose that if a manager or an owner-manager of an SME generally seeks to perform business actions by applying practical wisdom, a character trait which morally enhances the practice of decision-making, he will lead his company according to a determined ethical or moral orientation which we call the common good approach of management. In other words, practical wisdom will influence his understanding of the nature of the firm as a community with a concrete responsibility towards the contribution to the common good of the constituents of the firm and of society.

The conceptual relationship between the consideration of a firm as a real community of persons (or “humanistic conception”) and the ethical or moral character of management has been studied by some authors (Melé, 2012; Fontrodona & Sison, 2006). However, an empirical analysis is still lacking. It is particularly of interest to understand how practical wisdom and the orientation towards the common good will also have a positive effect on the perceived organizational justice and on long-term corporate performance. The aim of this research is to develop a comprehensive model which integrates the above described element of an ethical management and leadership style and which shows their influence on the long-term performance of a company.

MODEL DEVELOPMENT & HYPOTHESES

In this section, we develop our research model, as shown in figure 1.

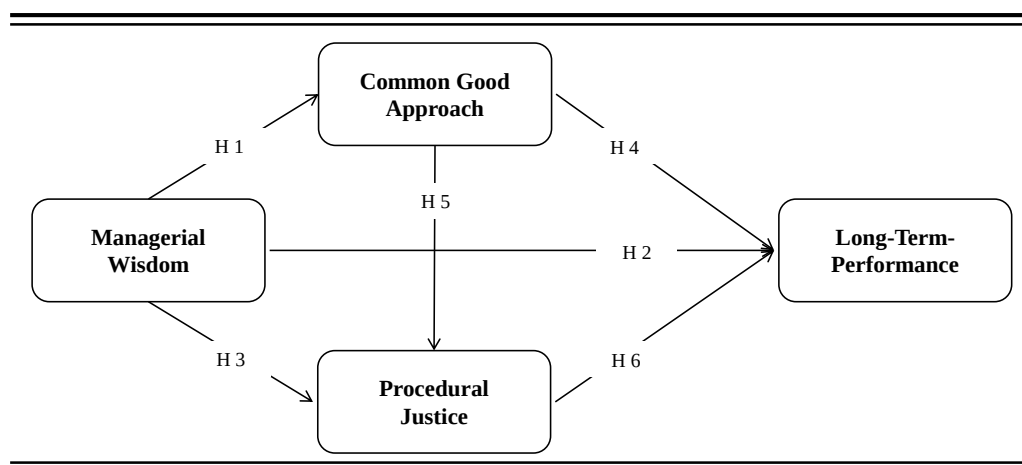


Figure 1: Conceptual framework

In a first step, we define and discuss the main concepts and deduce our underlying hypotheses.

Practical wisdom / managerial wisdom

Practical wisdom is defined here following the classical Aristotelian understanding as proposed by several authors (Solomon, 1992; Pellegrino & Thomasma, 1993; Morris 1997; Peterson & Seligman, 2004; Moberg, 2007; Melé, 2010). We will use the term managerial wisdom as a synonym, as we especially apply this concept to the realm of managerial decision-making. In this sense it is a trait of character which enhances practical rationality. By this we understand the human capacity to discern and act according to what is identified as a real good to be achieved; the so-called moral sense. A “real good” in what concerns us here, relates to an action of a manager that is able to contribute to human flourishing (i.e. as it enhances the moral character of the acting person) and also to serve to the purpose of the firm, considered under what we call the “common good approach of the firm”. As Melé (2009, p. 75) defines it: “Practical rationality is the intellectual capacity of the human person to direct conduct towards the most appropriate aim by the use of the right means (called *prudence* or *phronesis* in classical nomenclature). It differs from the concept of rationality mainly used in economics, which refers to an action’s evaluation in mere terms of its effectiveness or efficiency for obtaining a given goal.” The latter kind of reasoning is most appropriately called “instrumental or calculative rationality”. Instrumental rationality in this sense mainly looks at the technical (economic) aspect of the action, whereas practical rationality considers all relevant dimensions of the action as it looks for the consequences of the action, not only in economic terms, but also regarding the influence of a decision in the acting person – i.e. the development of her moral character, as well as concerning the effect on the acting person’s social environment.

Practical rationality is a trait that leads to better resolving situations with conflicting spontaneous motivations, e.g. when having to decide between a short term economic profit and fulfilling obligations that stem from contractual or even moral obligations with suppliers or employees. As Salomon states, the importance of *phronesis* or *prudence* “has to do with the inevitable conflicts of both concerns and principles that concern every ethical dilemma” (Solomon 1992, p. 329). An agent whose habitual acts are guided by this *extended form* of rationality, which we call practical rationality, i.e. a reflective subject who evaluates her decisions taking into account all or at least more than one of the relevant dimensions mentioned, develops the strength or skill (virtue) called “practical wisdom”.

Peterson and Seligman (2004), who studied the classical virtues from a psychological point of view, consider wisdom a character strength in which cognition is salient i.e. includes positive traits related to the acquisition and use of information in the service of the good or well-being of oneself and that of others. The authors give an insightful overview of the development of the concept from ancient philosophy to today (p. 183). For ancient thinkers, wisdom was understood as erudition, also as the ability of judging correctly in matters relating to life and conduct, as well as an understanding of what was true, meaningful, and lasting. The emphasis on wisdom as good judgment in the service of effective living is to be found already in writings from the ancient Near East (Greeks, Hebrews and Egyptians) and ancient Middle Eastern Civilization (Sumerians, Babylonians, Canaanites and Phoenicians). A more modern approach, as in that of Descartes, views wisdom as the counterpoint to scientific knowledge: Knowledge involved the accumulation of facts, whereas wisdom involved the organization and interpretation of those facts.

Robert Sternberg (1998) relates the term wisdom with practical intelligence by stating that it is “wisdom deployed for social ends”. He states that “wisdom is involved when practical intelligence is applied to maximizing not just one's own or someone else's self-interest, but rather a balance of various self-interests (intrapersonal) with the interests of others (interpersonal) and of other aspects of the context in which one lives (extrapersonal), such as one's city or country or environment or even God” (Sternberg, 1998, p. 354). This circumscribed definition of wisdom helps us to understand in which way this character strength can support managerial decision-making. As Sternberg writes that there are various environments which constitute the interests of the wise person, thus, we conclude that wisdom can also refer to life in a company or in the workplace.

As Melé (2010) states, practical wisdom helps the decision maker to determine how an action will contribute to the human good in each particular situation: “Practical wisdom, helped by respect and benevolence for persons and a real contribution to the common good, not only determines what alternatives are not ethically acceptable but also helps to solve dilemmas and above all, identifies which alternatives can bring about the greater human good” (p. 643). As the author states, the greater possible good also includes the economic viability of the firm, which is why practical wisdom is part of an “integral rationality”. This active desire leads the decision-maker to search for advice, to take into account the circumstances and expected consequences of an action and to avoid situations of doubt.

With Moberg (2007) and Beabout (2012) we consider that practical wisdom is required in various contexts that arise in business, such as information uncertainties and ambiguities, execution binds, and moral dilemmas. They also see it as a requirement for ethical leadership, especially in order to solve some difficult predicaments.

Peterson and Seligman (2004) distinguish practical wisdom from the virtue of prudence, although in the classical Aristotelian thinking, these character traits are strongly related. The authors define prudence as “a cognitive orientation to the personal future, a form of practical reasoning and self-management that helps to achieve the individual's long term goals effectively. Prudent individuals show a farsighted and deliberative concern for the consequences of their actions and decisions, successfully resist impulses and other choices that satisfy shorter term goals at the expense of longer term ones, have a flexible and moderate approach to life, and strive for balance among their goals and ends” (p. 478). As an attribute of the prudent persons, they claim that these show “a style of thinking about everyday life choices that is reflective, deliberate, and practical”. The authors base their description of prudence on the Aristotelian *phronesis*, which includes our concept of practical wisdom. Therefore, we will also use the attributes of Peterson and Seligman's prudence in the definition of the concept of practical wisdom which we use in this paper.

Summarizing, managerial wisdom is defined in this paper as the character trait which leads the decision-maker in a company to apply practical intelligence “to maximizing not just one's own or someone else's self-interest, but rather a balance of various self-interests (intrapersonal) with the interests of others (interpersonal) and of other aspects of the context in which one lives (extrapersonal)” (Sternberg 1998), as well as to make decisions regarding practical issues “with a farsighted and deliberative concern for the consequences of these actions and decisions”. A wise manager thinks about her everyday choices in a reflective, deliberate and practical manner, i.e. taking into account past experiences and trying to foresee future consequences. In order to measure this character strength, we want to find out which consequences arise when managers present this reflective and deliberate approach to decision making, i.e. when they behave in ways which foster managerial wisdom (Melé, 2009, p. 208).

Melé (2009, p. 208) recognizes that managerial wisdom can inspire leadership, as it contributes to generate trust in those who show this character trait, and it also entails being a dependable leader, someone able to take creative decisions with a sense of ethics, in short a wise manager who will motivate employees and peers to turn into followers. As leadership-styles have an enormous impact on the organization in terms of organizational behavior, we assume the same effect for leaders with managerial wisdom. As our study concentrates on SME which are mainly embossed by owners and/or CEOs, we propose that those people have an enormous impact on the management orientation of the organization. They will lead the company in a way which seeks to contribute to a good which is in the interest of the constituents of the firm or stakeholders, i.e. they will understand their managerial actions as actions oriented towards the achievement of a common good (Melé, 2012; Fontrodona & Sison, 2006; Canals, 2010).

Thus we pose as first hypothesis:

H1: Managerial wisdom has a positive effect on the common good approach.

There is strong empirical evidence, that leadership styles are strongly interrelated with firm performance (Howell & Frost, 1989; Matzler et al., 2008). As managerial wisdom and leadership style are interrelated constructs, we therefore propose:

H2: Managerial wisdom has a positive performance effect.

We also propose:

H3: Managerial wisdom has a positive influence on organizational justice.

The orientation of management towards a common good

We consider that if a manager develops managerial wisdom, he will at least implicitly have the conviction that the firm is a social organization formed by free individuals who actively pursue a common goal without excluding their own private goals (Fontrodona & Sison, 2006; Melé 2002; Melé 2009). A common goal unites the organization and motivates its members; it can be defined also as the mission of the firm, and it describes its contribution to the common good of society. We thus define a firm according to the proposal made by Melé (2012): "A simple way to express what a business enterprise is, is simply that the business enterprise is a community of persons based on cooperative activity to provide goods and services in an efficient, competitive and profitable way" (p. 97). This definition is a valid alternative to other definitions that put mere profit-maximization in the center of every business venture (Canals, 2010; Fontrodona & Sison, 2006).

As Melé (2002 and 2009) states, the concept of common good refers to goods shared by those who are united in some way or belong to a community. A community is hereby generally understood as an enduring unity of persons involved in a common action for a shared purpose, although personal motivations can vary (Melé, 2009, p. 160). People who join a corporation find themselves, once hired, members of a social collective (Solomon 1994).

The common work of entrepreneur and employees to offer goods and services to customers is in line with the concept of common good we use in this paper. The concept of the common good appears precisely upon considering the social dimension of the person and how people live and act in a collaborative manner, establishing more or less lasting ties.

As Melé (2009) further writes, "the specific determination of what contributes to the common good in each community – e.g. a firm – depends on circumstances, and it must be discovered with practical wisdom and also, frequently, through sincere social dialogue. Within a community, the final decision on particular aspects of the common good is the job of those who rule (guide or run) the community (e.g. the managers), but it must always respect human dignity and human rights" (p. 85). Koslowski (2005) claims that the obligation to realize the common good of the institution is the fiduciary duty of the manager towards the firm he works for. "The fiduciary duty defines the duties of the manager as the duty to good faith, the duty to loyalty towards the firm, the duty of care and prudence, and the duty of disclosure" (p. 306).

Management is thus oriented by a common good approach if it seeks to develop and achieve the common goal of all constituencies of the firm (entrepreneur, employees, suppliers, customers, etc.) through decision-making. Wise managers will try to pursue this common objective "in an efficient, competitive and profitable way" (Melé 2012). Hence, they will also be interested in a positive long term performance. Therefore, we propose:

H4: The common good approach has a positive effect on performance.

And

H5: The common good approach has a positive effect on organizational justice.

Organizational justice

The practice of managerial wisdom and the common good approach are very strongly related with taking into consideration the effects of business actions in the relational aspect of the firm, i.e. in the relationships between management and the employees and between employees themselves. As Melé (2012, p. 98) states: "Another ethical requirement which generally converges with good managerial practice is to provide communication on and participation in matters which affect people's life. People tend to want to know what is happening in organizations in which they are involved. Communication gives knowledge of the whole

(situation) and fosters a sense of belonging". We thus consider organizational justice as an important indicator of the orientation of the manager of a company towards the achievement of the common good of the firm.

Organizational justice can be described as the perceived fairness in a firm setting (Ellis, Reus, & Lamont, 2009). Colquitt and colleagues (2001) examined, in a meta-analysis, four different types of justice: procedural justice, distributive justice, informational justice, and interpersonal justice (Collquitt, Colon, Wesson, Porter, & Ng, 2001). As the last three types of justice are more likely to be judged by employees, the focus of our study is on procedural justice. We take procedural justice as an indicator for organizational justice. Ellis et al (2009) have defined procedural justice as the extent to which the main decision-maker in a company (i.e. the owner or CEO) makes an effort to assure fairness of procedures and processes in decision-making in the form of allowing involvement in decision-making, informing about important decisions or providing for an ability to control procedures.

Lastly, studies have given clear empirical evidence that justice has a positive effect on performance (e.g. Ellis, Reus, & Lamont, 2009). Thus, we propose:

H6: Procedural justice influences long term performance positively.

METHODOLOGY

Sample & Data

We used internet survey methodology for data collection which was conducted in April 2012. In our survey we focused on Austrian SME. Our sample was constructed randomly. As respondents we selected top managers and entrepreneurs as they tend to be most knowledgeable about the surveyed issues. Our survey instrument was pre-tested with a two-step pre-test in February and March (Churchill, 1995). Concerning the design and structure of our questionnaire, we followed the recommendations of Dillman (2000). We sent out our online survey to 2.000 companies. After two reminder Emails, we gathered 109 completed questionnaires. Non-response bias was tested by comparing our different survey waves (Armstrong & Overton, 1977). The results of the Kruskal-Wallis test indicate that non-response bias is not a serious concern for our date. Furthermore we tested item response bias (Berdie & Anderson, 1976). The maximum number of missing values was 7.3% and all missing values were missing at random. Thus we conclude that item response bias is not a problem.

Measurement development

In developing the measurement models we follow the advice of Diller (2006) and do not just create new measurement models, but rather rely on already-existing and well tested ones (to some extent modified (Churchill & Peter, 1984)).

Long-term performance The dependent variable in our study is long-term performance. The assessment of performance is a widely discussed topic in management research. Its measurement reaches from stock market and accounting-based measures to the assessment of key informants. Stock market-based measures are usually one-dimensional measures that capture a short period of time. King and colleagues (2004) state, that "potentially relevant dimensions of firm performance" are ignored. Nonetheless, as our study focuses on Austrian SME which are usually not noticed on the stock market, those performance measures cannot be taken into consideration. The same problem occurs with accounting-based measures as SME have less stringent requirements with regards to financial disclosures. Therefore, we chose a survey based assessment. By now, several studies give clear empirical evidence which shows that managerial ratings correlate significantly with objective ones (Datta, 1991; Homburg & Bucerius, 2005). To display the long-term performance, we chose a borrowed modified measurement model from the M&A literature, as it tries to capture performance 3-5 years after the initial transaction. Wirtz and Becker (2006) developed their performance measure with two dimensions, each operationalized with four items.

Common good approach For assessing the common good approach, we chose the items – identified by Melé (2009, p. 164) – that express how a firm can become a contributor to the common good. Respondents had to specify if these items reflected the mission statement of their companies.

Managerial wisdom For the assessment of practical or managerial wisdom, we rely on those behaviors which foster managerial wisdom, i.e. those behaviors which show a reflective and deliberate approach to decision making (Melé 2009, p. 208). Melé (2009) suggests eight behaviors that foster managerial wisdom.

Procedural justice For assessing procedural justice, we modified the measurement model from Moorman (1991). Therefore, justice is measured with seven items.

As control variables we use the age of the company, education and age of the respondent, sex, proximity to ownership, and company size.

RESULTS

Descriptive data & research approach

In table one, we show the descriptive data of our survey research. In detail, we display the position of the respondents, company size (measured with the number of employees and turnover) and the age of the company.

Descriptive Data			
Current Position			
	in %		
CEO	55		
Owner	30		
Upper Management	15		
Employees			
	in %	Turnover	in %
< 50	96,3	< 10 Mio. €	96,3
		10 - 19 Mio. €	
50-99	1,8		1,8
100-149	1,8	> 20 Mio. €	1,8

Table 1: Descriptive data

For analyzing our research model, we used structural equation modeling. We applied a variance based approach (with SmartPLS (Ringle, Wende, & Will, 2005)) instead of a covariance based approach for four reasons: (1) PLS is better suited for more complex models (Haenlein & Kaplan, 2004), (2) sample size requirements are lower (Fornell & Bookstein, 1982; Haenlein & Kaplan, 2004; Tenenhaus, Vinzi, Chatelin, & Lauro, 2005), (3) we only use reflective measurement models and, therefore the accuracy of the results can be compared with the accuracy of covariance based approaches (Vilares, Almeida, & Coelho, 2010), (4) our objective is to explain long-term performance, keeping in mind that PLS has a high predictive character. For assessing the second order construct of long-term performance, we chose the hierarchical components approach suggested by Lohmöller (1989) instead of the often used two-step mean-value based approach (Agarwal & Karhanna, 2000) for the reason that this approach employs two independent approximations. The underlying assumptions (Fornell & Yi, 1992) of this approach can lead to confusing results (Burt, 1973). Before analyzing our research model in two steps (assessment of measurement models and the assessment of the structural model), following the guidelines of Hulland (1999) and the guidelines for second order constructs developed by Wetzels and colleagues (Wetzels, Odekerken-Schröder, & van Oppen, 2009), we tested our data for a potential common method bias.

Common method bias

As we used self-reported data in our study, a potential common method bias remains for several reasons (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). For assessing a potential common method bias, we employed two different tests. Firstly, we applied the Harman's single factor test (Podsakoff & Organ, 1986) whose results indicate that common method bias is not a serious concern for our study. Secondly, we applied the stricter ad hoc approach suggested by Podsakoff and colleagues (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). We followed the guidelines developed by Liang and colleagues (Liang, Saraf, Hu, & Xue, 2007). The ratio of substantive variance to method variance is XXX to XXX (for details see Appendix A). Thus, we conclude that common method bias is not a serious concern in our data.

Assessing the measurement models

For assessing the structural model, we follow the two-step approach suggested by Chin (1998). That means we start with the assessment of the first and second order constructs. Our proposed measurement model on

managerial wisdom was not reliable and valid, as loadings of most indicators were too low. The results of an exploratory factor analysis showed that there are – from a numerical perspective – two different dimensions of managerial wisdom. This separation seems to be valuable with regards to content, as one dimension determines the “awareness of future consequences” and the other dimension describes “evolved know how”. Both constructs show factor loadings above the recommended value of 0.7 except one item with a loading of 0.639. We follow the argumentation of Hulland, who states that in new research fields loadings are accepted to be lower than the recommended value (Hulland, 1999). As all factors are at a 0.01 level, significant, indicator reliability is given. Both Cronbach’s Alpha as well as Composite Reliability values – indicators for construct reliability – are clearly above the recommended value of 0.6 (Bagozzi & Yi, 1988). Both quality criteria can be seen as alternatives even though composite reliability is more robust due to the fact that it is independent from the amount of indicators (Fornell & Larcker, 1981).

To sum up, it can be stated that construct reliability is for both “managerial wisdom” dimensions at a satisfactory level. After the deletion of two items in our “common good approach” construct and one item in our measurement model of “justice”, indicator reliability as well as construct reliability is given for all first and second order constructs. Average Variance Extracted (AVE), as indicator for the variance explained of indicator and construct, should be greater than 0.5 (50%) to guarantee a sufficient convergent validity (Hulland, 1999). All AVE values of our constructs are above this recommended value, thus convergent validity can be taken for granted. For assessing discriminant validity we employed an analysis on indicator level (cross loadings) and on construct level (Fornell-Larcker criterion). As the following table shows, all indicators have higher loadings with their proposed construct than with any other construct. Thus, discriminant validity on indicator level can be taken for granted.

Crossloadings						
Constructs	Common			Evolved	Performance-	Performance-
Indicators	Good	Justice	Future	know-	objective	subjective
			consequences	how		
CG2	0,6628	0,4333	0,252	0,3659	0,3286	0,3223
CG3	0,8038	0,5113	0,3084	0,5495	0,114	0,1632
CG5	0,7249	0,3926	0,3471	0,3883	0,3522	0,3258
CG6	0,8084	0,5809	0,2968	0,4097	0,1481	0,2334
Jus2	0,5353	0,8233	0,3893	0,538	0,0589	0,0939
Jus3	0,5614	0,8836	0,2293	0,3637	0,2078	0,1554
Jus4	0,5018	0,7854	0,182	0,3844	0,1199	0,222
MW1	0,2999	0,1597	0,6482	0,368	0,0277	0,034
MW4	0,2962	0,2984	0,7537	0,3653	0,07	0,1522
MW5	0,2956	0,2462	0,8124	0,3821	0,0763	-0,0138
MW2	0,5056	0,4195	0,3524	0,7327	0,0911	0,0772
MW6	0,4676	0,3804	0,3355	0,847	0,0783	0,0712
MW7	0,2894	0,3673	0,4723	0,6762	0,1718	0,0221
PO1	0,2818	0,222	0,0934	0,2466	0,8904	0,574
PO2	0,2057	0,0379	-0,0008	0,1043	0,9082	0,6051
PO3	0,2802	0,1929	0,0883	0,0696	0,755	0,5679
PO4	0,2768	0,0888	0,096	0,069	0,8502	0,7486
PS1	0,2823	0,1459	0,071	0,0392	0,656	0,8591
PS2	0,3696	0,1062	0,0071	0,0253	0,3895	0,7481
PS3	0,1833	0,1822	0,1019	0,0942	0,7198	0,7581
PS4	0,2997	0,1633	0,0793	0,0922	0,5794	0,8758

Table 2: Crossloadings

The results of the test on discriminant validity on construct level are shown in the next table. As all AVE values are higher than the squared correlations among the constructs, the Fornell-Larcker criterion is fulfilled.

Fornell-Larcker-Criterion

AVE		Common Good	Justice	Future consequences	Evolved know-how	Performance-objective	Performance-subjective
AVE:	Common	1					
.566	Good						
AVE:	Justice	.412	1				
.692							
AVE:	Future	.328	.268	1			
.570	consequences						
AVE:	Evolved	.160	.105	.251	1		
.549	know-how						
AVE:	Performance-objective	.093	.024	.021	.006	1	
.728							
AVE:	Performance-subjective	.177	.035	.006	.007	.541	1
.660							

Table 3: Fornell-Larcker-Criterion

The next table gives an overview of the quality criteria of all measurement models. As all measurement models are valid and reliable, we start with the evaluation of the structural model in the next section.

Quality Assessment of Measurement Models								
Measurement model		Indicator reliability				Construct reliability		Average variance extracted
Construct	Item	Loading	Loading ²	T-Value	Significance	Cronbach's Alpha	Composite Reliability	AVE
Evolved know-how	MW_2	.648	.420	4.931	***	.623	.784	.549
	MW_6	.754	.569	7.967	***			
	MW_7	.812	.660	10.610	***			
Awareness of future consequences	MW_1	.733	.537	11.638	***	.587	.798	.570
	MW_4	.847	.717	13.603	***			
	MW5	.676	.457	7.748	***			
Justice	Jus_2	.823	.677	23.089	***	.776	.870	.692
	Jus_3	.884	.781	27.461	***			
	Jus_4	.785	.616	12.443	***			
Common Good	CG_2	.663	.440	7.446	***	.741	.870	.566
	CG_3	.804	.646	14.494	***			
	CG_5	.725	.526	8.946	***			
	CG_6	.808	.652	16.373	***			
Performance-objective	OBJ_1	.890	.792	33.556	***	.873	.914	.728
	OBJ_2	.908	.824	44.528	***			
	OBJ_3	.755	.570	12.245	***			
	OBJ_4	.860	.740	26.546	***			
Performance-subjective	SUB_1	.859	.738	28.135	***	.827	.885	.660
	SUB_2	.748	.560	12.126	***			
	SUB_3	.758	.575	17.905	***			
	SUB_4	.876	.767	39.705	***			
Quality		>0.7	>0.5	>1.93=*		>0.6	>0.6	>0.5

assessment	>2.576=**, >3.291=***

Table 4: Quality Assessment

Assessing the structural model

The PLS estimation results are shown in the next figure. As the R^2 value of our dependent variable long term performance shows, a moderate amount of variance could be explained by our model (.148). The Stone Geisser criterion (Q^2) shows values above 0. This indicates that the empirical data reconstructs our proposed research model in a substantive way.

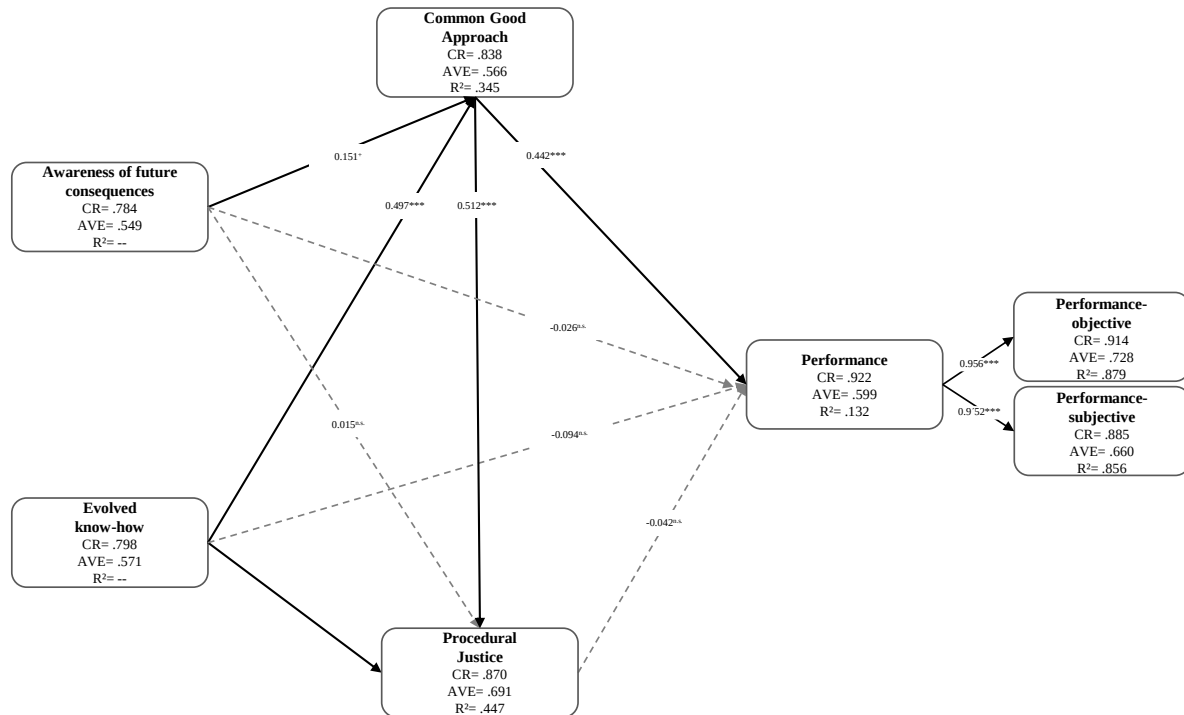


Figure 2: Results of the structural model

The Goodness of Fit index (GoF) is a relevant indicator for assessing the model fit. The GoF value of .428 indicates a good model fit (Wetzels, Odekerken-Schröder, & van Oppen, 2009).

Hypothesis testing

Our data shows strong empirical support for hypothesis 1. The awareness of future consequences by the decision maker has a positive and significant influence on the common good approach. The path coefficient is .151, and at a 10% level, significant. The effect size f^2 is, with a value of .024, rather low. The hypothesis of the second dimension of managerial wisdom, from “evolved know how” to the common good approach can be confirmed too. The path is .497*** and the effect size f^2 is .281 and therefore, rather strong.³⁵⁸ For our second hypothesis, from both managerial wisdom dimensions on long term performance, we found no empirical support, both paths are not significant. Interestingly, when going a step further, we found a full mediation effect (Baron & Kenny, 1986). With an isolated perspective, the hypothesis could be confirmed, but when integrating the latent variable “common good approach” in our model, the direct effects loose enormously statistical power. Thus, we propose that there is no direct effect of managerial wisdom on long term performance, but an indirect effect via the common good approach. Our hypothesis three must be partially rejected.

³⁵⁸*** means $p < 0.001$; ** means $p < 0.01$; * means $p < 0.05$; + means $p < 0.1$

The path from awareness of future consequences to organizational justice is not significant, while the path from evolved know how is, at a ten percent level, significant. The path coefficient is, with .213⁺, positive and the effect size f^2 , with .063, medium. Thus, evolved know how has a positive effect on organizational justice. For hypothesis 4 we found strong empirical evidence. The path is positive and significant .442*, the effect size is .115 and can be evaluated as medium. Hence, justice mainly depends on the common good approach. Hypothesis 5 is confirmed with a path coefficient of .512*** and a strong effect size f^2 with a value of .280. Hypothesis 6 must be rejected, as the path is not significant.

To sum it up, hypothesis 1, 3, 4 and 5 could be confirmed. For hypothesis 6 we found no empirical evidence at all. For hypothesis 2 we found no direct effect, but a full mediation effect on long term performance via the common good approach (Baron & Kenny, 1986).

Hypothesis	Description	β	T-Value	Significance	f^2	
H1	Awareness of future consequences --> Common good	.151	1.794	+	.024	confirmed
H2	Awareness of future consequences --> Long term performance	-.026	.227	n.s.	.001	not confirmed
H3	Awareness of future consequences --> Justice	.009	.106	n.s.	.000	not confirmed
H4	Evolved know-how --> Common Good	.497	3.945	***	.281	confirmed
H5	Evolved know-how --> Long term performance	-.098	.835	n.s.	.000	not confirmed
H6	Evolved know-how --> Justice	.219	1.781	+	.063	confirmed
H7	Common good --> Long term performance	.442	2.462	*	.115	confirmed
H8	Common good --> Justice	.512	5.162	***	.280	confirmed
H9	Justice --> Long term performance	-.042	.390	n.s.	.000	not confirmed
		0.02			0.02	
		weak			weak	
		0,15			0,15	
		medium			medium	
		0.35			0.35	
		strong			strong	
					n.a. = not applicable	

Table 5: Hypothesis testing

The control variables have, to some extent, influence on our model. Company age positively influences the awareness of future consequences (path coefficient equals .307*). The education of the surveyed person influences evolved know how positively (.185⁺) but the estimation of procedural justice negatively (-.157⁺). Sex influences the awareness of future consequences (.295*) and evolved know how (.129⁺) positively, that means, female respondents are more aware of both dimensions. Interestingly, they rate justice more negatively (-.277***). The age of the respondent has a positive impact on evolved know how (.219⁺) but no effect on awareness of future consequences. We found no empirical evidence that proximity to ownership has influence on our research model. Company size (measured with turnover and number of employees) influences the awareness of future consequences positively (.125⁺) while there are no other significant effects on other constructs.

DISCUSSION

Limitations

Regarding content Melé (2010) also suggests that practical wisdom not only considers the cognitive aspects which we stressed in the present paper, but also the explicit application of universal ethical principles (as personal values) in the decision-making process. However, whereas there is plenty of evidence for personal values as drivers of managerial behavior (Hemingway, 2005), the influence of the cognitive aspect (i.e. a reflective and deliberative acquisition and use of information) is still under-explored. The addition of universal principles as factors influencing decision-making would certainly add complexity to our model.

Also, the measurement models we chose are for empirical quantitative testing theoretically under-developed. Therefore, it could be useful for future research to develop better measurement models. A relevant source for process guidelines could be Churchill's article on developing scales in marketing research.

Regarding methodology From our research we expect to gain a deeper understanding of the underlying relationships. Our cross sectional survey was to some extent exploratory, and we focused mainly on the behavior of owner-managers and managers in Austrian SMEs. We consider that by extending our sample by region or company size, further elements can be added to the model, e.g. the influence of legal culture, field of activity or industry, corporate governance structure, etc. on the practice of managerial wisdom and on the development of the common good approach.

A second limitation is the correlation of the number of observations and the statistical power. Even though it is mentioned that PLS is applicable even for very small sample sizes, and our sample is bigger than the minimum required size (Chin, 1998), we have to state that the statistical power as well as some hypotheses could be verified with a larger sample.

A third limitation is the perspective of our study. We follow a company's owner-manager visual angle and ignore the other stakeholder's perspective. Thus, we have to rely on the self-assessment of CEO's and owners. Even though our performance data can be compared with the Austrian development, we cannot exclude a potential for Key Informant Bias.

Contribution and implications

Managerial wisdom was found to be a complex and diversified construct. The latent variable we proposed first had to be separated into two different constructs, namely "awareness of future consequences" and "evolved know how", which each describe different aspects of the practice of managerial wisdom, especially according to the specific use of acquired knowledge and its application for foreseeing future consequences. Wisdom as a single construct may not be definable as such in a model and it most probably is not represented here completely with all its relevant dimensions. The difficulty to do so is probably one of the reasons why there is a lack of empirical studies in management literature about it, whereas some indicators of wisdom have been already thoroughly explored in psychological studies (Peterson & Seligman, 2004). In order to capture the relevance of managerial wisdom for decision-making, it may be necessary to develop higher order constructs which each capture the distinct dimensions of this character trait, concretely in a business setting. It is also interesting to note that the single elements of wisdom we identified each have a different amount of influence on "the common good approach" and on "organizational justice", which is also a fact that should be explored more deeply in further research.

The cognitive dimensions of managerial wisdom "awareness of future consequences" and "evolved know how" influence the management's orientation towards the common good approach, which is a reason why it is interesting to understand how these traits can be developed for future business leaders. According to Peterson & Seligman (2004, p. 191), early engagement in relevant life and career tasks can have important long-term effects on wisdom, i.e. one primarily learns how to take important managerial decisions by being put in a position where it is necessary to take them in order to advance. Also, the occupational setting and the social position can help to enhance practical wisdom. We see evidence for this statement in our empirical data as there is a positive relationship between age, education and evolved know how.

Lastly, we have evidence that the practice of managerial wisdom does not have a direct positive effect on the long term performance, but an indirect effect via the common good approach. This means that managers who see themselves embedded in a community - and explicitly define their company goal (mission statement) as being a collaborative contribution of the firm constituents to the common good of society - will apply their experience and knowledge in order to provide this common good "in an efficient, competitive and profitable way". This strengthens our claim that wisdom is involved when practical intelligence is applied to maximize not just one's self-interest but rather a balance of various (self-) interests. It is striking to see that wisdom has to be related to the consecution of the common good in order to have a positive influence on corporate performance. The implications of this relationship need to be further researched.

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ETHICS IN COACHING. **AXIOLOGICAL FOUNDATIONS SUPPORTING INTRAPERSONAL CHANGE (INTERNAL) AND** **BEHAVIOURAL (EXTERNAL) PROCESSES IN COURSE OF COACHING IN CONNECTION WITH** **CHANGES IN SOCIAL CONSCIOUSNESS**

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Summary

The article describes the significance of coaching in management sciences in connection with current ethical issues. Initially, the authors outline the origins and philosophical foundations of coaching, as well as the present condition of coaching ethics research in literature. They follow with a description of telic and autotelic values concept in coaching and its core philosophical and ethical principles. In subsequent part of the article, the authors consider the position of coaching as reflected in the changes of social awareness on the basis of a number of own models, as well as those already existing in literature. Finally, they describe the idea of leadership coaching followed by conclusions and suggestions for further research.

Keywords: *ethics in coaching, values in coaching, axiological foundations of coaching, transformation of social consciousness, leadership coaching.*

The origins and philosophical foundations of coaching

Coaching is a relatively new phenomenon in management which has been gaining in importance in recent years. In principle, it is a process of support of another person in realizing their primary objectives. This takes place by means of a methodologically conducted conversation whose distinctive features are the exceptionality of rapport, appropriate questions and feedback.

The literature defines coaching in various ways. What is being repeatedly emphasizes its voluntary and short-term nature, goal orientation, as well as tangibility of results. For the purposes of this article, three particular approaches towards coaching will be discussed, namely:

- 1) Process of assisting another person which aims at intensification of their development and reaching peak performance. (Parsloe, Wray 2003; Kilburg 2000; Grant 2004)
- 2) Partnership relation which aims at bringing out client's resources during their development process (ICF; Downey 1999).
- 3) A conversation or series of conversations regarding issues relevant to the client (Starr 2003).

Coaching remains an interdisciplinary area of science. Its roots can be traced to some of the theories from the field of psychology (humanistic, cognitive, social), as well as management. Philosophy of coaching is based on pragmatism, praxeology, and its methodology has roots in andragogy. What remains particularly noteworthy within the scope of sciences dealing with organizations and marketing are well-documented in the history of science experiments conducted by Elton Mayo, Douglas's McGregor's and William Ouchi's X/Y/Z theory, Frederick Herzberg's concept of motivators and hygiene factors, Abraham Maslow's model of hierarchy of needs and others. Generally speaking, the above approaches can be described as ones taking into consideration a humanistic, i.e. non-deterministic human resources management dimension, which can be referred to as coaching (Czarkowska 2010a; Rosinski 2011b).

The concept of coaching dates back to 1830, and in Oxford University slang it amounted to having a tutor, who assisted the student in completing exams. Coaching in business took shape towards the end of the third decade of the previous century. In the 1960's the term was often associated with confidential psychological help for managers, or the position of an in-company consultant. (Tobias 1996; Kilburg 2000). Coaching assumed its present form in the end of 1970's, when it entered business as a specific type of autonomous intervention and gained acclaim as a specific method that fostered prompt achievement of intended objectives (Judge, Cowell 1997).

From the 1980's dual specialization of coaching in its two main trends could be observed – business and personal. Coaching in business, due to the scope of implementations, underwent a division into *professional coaching*, *executive coaching*, *leadership coaching*, whereas coaching in private and personal areas split into *personal coaching*, *life coaching*, *health coaching* and such like. Business coaching relates to the managerial competence development, vital to the achievement of goals set by the company. Personal coaching, on the other hand, is connected with assistance in achieving personal goals, which might be dependent on professional ones. The above applies to such spheres of personal life as relations, health, intellectual development, finances, and spirituality. Since the personal and professional spheres are intertwined, coaching might also concern both these areas, such as the balance between professional role and family, cohesion of individual values and corporate culture, and the like.

With the development of globalization in the 1990's, a new phenomenon in the scope of coaching implementations emerged – business multiculturalism (Mangala 2005). Corporations began to virtually reach the farthest corners of the world. A single project team suddenly consisted of people with diverse cultural backgrounds, different styles of work and life philosophies (Leduchowska, Wujec 2012). Global development of business provided coaches with new challenges – assisting clients in reaching their goals which are dependent on cultural context (Rosinski 2011a). Therefore *multicultural coaching* appeared, which demands on the part of the coach not only the ability to understand his/her own and client's culture, but additionally the culture that the client's company originates from (Rosinski 2011a; Pasmore 2009; Abbott 2006).

Diversity coaching is now a new dimension of coaching (Pasmore, 2009). Such diversity does no longer exclusively entail cultural varieties, but also those connected with gender, sexual orientation, age, religion, and world outlook (Mangala 2005). Four decades of experience have taught coaches that each individual group of clients has its own specific nature. Co-operation with women and men of alpha type differ from each other. The specificity of transitional life coaching is also dissimilar to the one conducted among ethnic environments and diasporas (Pasmore 2009), both in the context of international and multicultural organizations.

Coaching considerably varies from other similar interventions such as training, mentoring, counselling, or therapy (Czarkowska 2008). What seems to be a novelty here is a particular **development process** which aims at assisting the client in overcoming their own limitations with simultaneous seeking and utilizing their strong points. Partnership relation, friendly atmosphere of coaching, conversation focused on precise goals, establishing development tasks and feedback are additional factors of considerable importance.

Two fundamental dimensions are worthy of consideration here: the course of competence development process based on a more or less directive approach and the primary aim of the process: from furtherance in situations requiring correction to the development of the potential (see diagram 1).

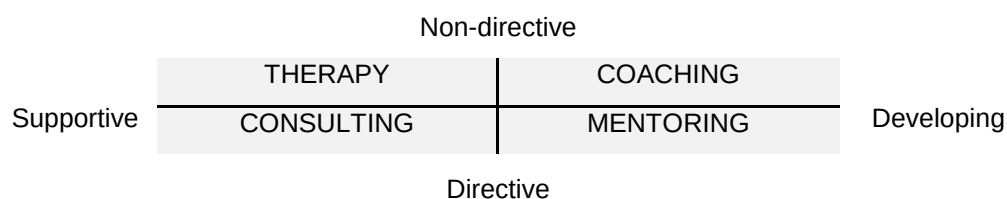


Diagram 1: *Types of methods of fostering employee development highlighted due to their course and the type of relation - own analysis (compare Czarkowska, 2008).*

The distinctive feature of coaching is its process based on methodology of particular steps and sequences. Various authors emphasize numerous elements of this process (Whitmore 1997; Czarkowska, Wujec 2011), but certain elements seem to possess common traits:

- 1) Building rapport with the client, which entails good emotional, intellectual and physical shape,
- 2) Determining the framework contract, trust and confidentiality,
- 3) Determining challenges and goals to be realized,
- 4) Discovering potential resources and obstacles,
- 5) Planning the manner of realization, successive steps, schedule of activities,
- 6) Establishing internal motivation, strength and courage to realize objectives,
- 7) Monitoring activities, setting own coaching tasks and celebrating success.

In modern organizations coaching remains one of the methods of human potential development. At times it is being included into the area of knowledge management (it derives its resources from the wisdom of managers – tacit knowledge). The importance of coaching is signified by its high profitability. The investment calculated in ROI brings at least fivefold return from the investment in coaching (McGovern 2006; Stajszczak, Wujec 2012) and this is why the interest in this form of the development of senior management potential is very high.

Coaching as a profession generates enormous interest. Newly established international professional organizations gather coaches and make initial attempts at regulating it, such as the introduction of the code of ethics, regulating accessibility of the profession (chiefly within European Union), educating coaches and accreditation. Leading universities provide MA studies in this field (Australia), post-graduate studies (Poland) and even specialized PhD studies (USA, Brazil). The process of professionalization in coach profession advances gradually in order to create precise principles and maintain high standards of coaching services (Czarkowska 2010a).

Ethics in coaching literature

This article aims at the exploration of ethics in coaching. Since the interest in coaching ethics goes back to the establishment of professional associations, the initial attention towards coaching ethics was devoted to codes of ethics, then to moral dilemmas connected with supporting ethically questionable decisions of managers, and finally, to ethics in the context of cultural differences.

The comparable analysis of the existing codes of ethics of the major professional coaching associations such as International Coach Federation (ICF), European Mentoring & Coaching Council (EMCC), European Coaching Institute (ECI) or International Association of Coaching (IAC) to some extent form an outer layer of ethical disputes in coaching and has been the most extensively explored topic in coaching ethics literature (ICF 2011).

The second topic, which has been increasingly touched upon, particularly during coaching supervision, is the attention to who is being helped by the coach and for what purpose. Business coaching is based on a clearly defined philosophy of profit and provides a series of techniques which help the manager and their organization accumulate the above profit. Disputes of moral nature arise: Is assisting the managers in maximizing business results of armaments companies, or ones with questionable social reputation ethical (Passmore 2009). Another frequently discussed issue is the way the manager should behave in case of the conflict between economic interest of the coaching company (the sponsor) and the interest which results from broadly understood well-being in private life of immediate client (the manager) of the coaching process (Czarkowska, Wujec 2011).

Ethical problems in coaching which stem from cultural diversity generate considerable controversy. An ethical and desirable human behaviour in one culture might prove to be the opposite in another. The question of determining competence gaps of senior manager or the openness in sharing feedback triggers serious controversy even among some of the Polish companies, let alone Asian countries where such practice is considered tactless. To avoid ethical matters disrupting coaching process, such issues – particularly of confidentiality and reporting, should be explicitly defined at the beginning of initial sessions (Rosinski 2011a; Wujec 2011).

Although the above three areas require further scientific exploration, in this article we would like to devote attention to deeper aspects of ethics, namely axiological foundations in coaching in the view of changes taking

place in social awareness. These changes affect leadership styles, the manner of training leaders and their self-improvement, in which coaching increasingly participates.

Telic and autotelic values in coaching

Coaching can be described on various planes - from the definitions that stress its most external, immediately observable effects, which result in perceiving it as a set of tools necessary for the successful realization of goals, to a deep reflection on fundamental, internal beliefs concerning the nature of a human as an entity equipped with an inner development potential and freedom.

Similar considerations regarding ethics in coaching can be reduced to an outer layer, namely the comparable analysis of the existing ethical codes of the major professional coaching associations. We can reach a lot deeper and conduct an analysis of axiological foundations which have not always been formulated explicitly, but possess fundamental significance in the process of internal (intrapersonal, in the scope of self-awareness), as well as external (behavioural and relational) changes that take place during coaching. Both these changes should lead to the increase of personal integrity, the increased cohesion between human attitude and behaviour, which in turn contributes to more effective revaluation of the potential and more successful realization of goals.

These foundations at times are not formulated explicitly, but if adopted by the coach, can help him/her ensure an easier and more efficient process of internal (conscious) and external (behavioural) transformation of the client, with full respect towards his/her exceptionality, individuality and his independent choices he/she makes.

In this journey, the coach is not the guide but rather the companion, or - to be more precise – the witness of the occurring change. He/She might, in a non-evaluating manner, become a mirror reflection of what he/she perceives due to his/her attentive presence, thus becoming an indispensable source of feedback, which allows the client to connect with his/her internal and external truth (compare Czarkowska, 2011). Having such clean mirror provides the client with the sense of clarity and allows him/her to follow the chosen path with greater certainty.

The above paragraph is already teaming with axiological foundations which function within the framework of approach of coaching towards work with the client. Some of them appeal to autotelic values in coaching and give meaning to its existence, while others are of telic, utilitarian nature since their purpose is to realize the aforementioned values. We do not claim the right to draw the final description of all values present in coaching since every arbitrary approach of this type is bound to fail. We only wish to invite the reader to reflect on some of them. Ultimately, the criteria of choosing the above values are subjective and result from the knowledge of various schools (approaches) that function within the framework of coaching and emphasize its numerous, differently achieved goals, as well as from our coaching practice with clients.

Autotelic values in coaching, which remain goals in themselves being considered as positive by nature, are:

- 1) freedom of choice – extending client's autonomy through searching for new possibilities in the scope of decision-making and action, as well as methods of eliminating the existing limitations,
- 2) self-awareness – deepening client's understanding of their own conditioning reflected in behaviour; specifying their identity, personal values, motivators, beliefs and strengths (talents and competences), as well as further areas of development,
- 3) integrity –developing greater internal coherence between identity, values and beliefs, and actions of the client (integrity within the framework of attitudes as well as between attitudes and actions),
- 4) effectiveness – seeking effective methods of realizing declared objectives, reinforcing consequences and perseverance in realizing goals, and the client's ultimate sense of causative power,
- 5) responsibility – to stress etymology: supporting 'the ability to give answers' which show the ability as well as readiness to link intentions, declarations and promises with particular behaviour and willingness to accept the consequences of own decisions and actions,
- 6) Self-realization – recognition and actualization of client's development potential through goals of greatest importance at a certain stage of client's life,
- 7) Self-transcendence – perceived as overcoming one's limitations, service to supreme ideals achieved by giving transpersonal meaning to one's existence.

The above values surface while answering the questions: 'Why does coaching actually exist? Where does it lead? What is its ultimate objective?' If at the end of the coaching process the client possesses a higher level of the realization of these values (even if on subjective comparable scale), the coaching process might be considered successful.

Once the fundamental values through ultimate goals have been established, what arises is the question of the criteria of choosing methods and their realization. Consequently, when the nature of coaching has been specified, additional questions emerge: 'How to achieve it? How to realize it? What are the effective methods that guarantee the security of those autotelic values?' Such formulated questions result in the emergence of another set of values of telic nature that will serve to realize the previously mentioned values. The above values simultaneously describe the attitude of the coach and remain as follows:

- 1) acceptance – manifested in the attitude of openness and following the client – a non-evaluating, fully open and receptive attitude of the coach towards client's personal choices and decisions,
- 2) awareness – extending the range of client's self-awareness by the coach through noticing and mirroring what exists in the inner resources (talents and experiences) of the client and what is reflected in their behaviour,
- 3) veracity – providing the client with true, clear, honest and understandable feedback,
- 4) accuracy – the choice of means adequate for the realization of the goals chosen by the client and building the strategy of change on the basis of achieved results,
- 5) partnership – building an equal coaching relation with clear division of the range of coach's and client's responsibilities,
- 6) trust – coach's belief in client's potential for intellectual, emotional and volitional development,
- 7) respect – coach's respect towards client's discovery of life mission and vision during coaching process, as well as having common identity and the then emerging hierarchy of values.

Quite significantly, the order of these values is not accidental. The seven consecutive values correspond with seven autotelic values, although all of them form a specific system being interrelated in a manner in which each affect another and *all influence each other*. Autotelic values with the corresponding telic values which particularly condition the farmer are presented in table 1.

Table 1 Telic and autotelic values in coaching- own analysis

Value type	Telic value – describing the method of achieving autotelic values (Coach's input)	Autotelic value – describing the nature, the core and the point of coaching process (Developed by the client)
Question:	How? By what means?	What for? What is the goal? To what end?
1	Through acceptance	To freedom
2	Through awareness	To self-awareness
3	Through veracity	To integrity
4	Through accuracy	To effectiveness
5	Through partnership	To responsibility
6	Through trust	To Self-realization
7	Through respect	To Self-transcendence

Through his/her own attitude in relations with the client, the coach becomes a tool that ensures the achievement of what is at the very core of the coaching process, its ultimate goal. Telic values manifest themselves in the attitudes and the behaviour of the coach, whereas autotelic values describe qualities which will gradually develop in the attitudes and actions of the client as a result of coaching. They are, simultaneously, calibrated indicators and might serve as a specific quality measurement of the coaching process. If at the termination of coaching the client possesses a greater range of freedom perceived as the possibility to make choices, deeper self-awareness, stronger integrity, higher effectiveness and responsibility,

as well as more complete Self-realization and readiness to live in agreement with their own vision, mission, identity and values – then the process might be considered to have been successful and served its purpose.

Philosophical and ethical foundations of coaching

The above, thoroughly described values are connected with fundamental, ontological premises regarding human nature which considerably distinguish coaching from other disciplines that deal with the development of human potential. The literature adopts six pillars of coaching approach towards work with people (Czarkowska 2011), which are inspired by the cornerstones of coaching stemming chiefly from positive psychology, and the rules of International Coach Federation's Code of Ethics, as well as five principles of working with the client taken from Milton Erickson's practice (Atkinson, Choisi 2010):

1. The client is OK the way he/she is and does not require healing or repair.
2. The client already possesses all necessary resources (features, skills and talents).
3. Behind each client's behaviour there is a positive intention.
4. The client will always make potentially the most suitable choice.
5. The changes – internal (meaning intrapersonal) and external (meaning situational) are inevitable.
6. The development of a person is a voluntary process of expanding self-awareness and the realization of his/her own potential.

The axiological foundations of coaching, which will be described below, serve the purpose of useful theses rather than axioms. However, the existing evidence suggests that making such assumptions *a posteriori* – by achieved results, *ex post factum* proves sensible. The method called philosophical pragmatism can be employed here: judging all 'metaphysical' assertions by their practical consequences. It is sufficient to bring to attention the results of research by Robert Rosenthal, known in the literature as Pygmalion effect (Rosenthal, Jacobson 1968), which show how one's belief in aptitude and abilities positively translates into achieved results. Other extensive evidence also proves, quite fortunately, that the development of awareness cannot be forced or blocked - all that can be created are favourable conditions for it.

The first foundation: *The client is OK the way he/she is and does not require healing or repair* relates directly, and to the greatest extent, to the first pair of values *Through acceptance to freedom*. This foundation reflects the approach to client, which is fundamental for coaching, and considerably differs from psychotherapy and counselling. It does not assume client's inability or hopelessness while confronted with challenges, which entails the necessity to use the external, professional support of an expert.

In coaching we encounter a different image of clients, who are treated as mentally healthy, self-aware, self-sufficient and stable in a way that they do not require 'care,' 'help,' 'healing,' or 'repair,' and definitely do not need to be deprived of the possibility to be responsible for the achieved results. During his/her work the coach should present the position of trust towards the client as he/she is, as well as complete trust that the client is capable of taking responsibility for their decisions, choices and consequences of their actions. Ideally, with the end of coaching process, the client should assume full responsibility for their life and achieve a higher level of self-awareness which will help them actively search for the required resources, creatively build useful solutions and adopt new, functional operational strategies. In consequence, acceptance leads to freedom, which in turn creates: higher self-awareness, full responsibility and the sense of instrumental power (autotelic values from 1, and then 2, 3 and 5).

The second foundation: *The clients already possess all necessary resources (features, skills and talents)* is directly connected with the pair of values: *Through awareness to self-awareness*.

The client is the best expert in the sphere of life, work and the situation he/she encounters. He/She possesses unquestionably sufficient knowledge and experience to make adequate decisions and to discover and implement methods that best suit particular situation. In this relation, the coach is only a tool that, through posing adequate questions and attentive, multi-level listening and reflecting, creates the conditions adequate for providing the client with the insight of the situation, potential opportunities and resources at their disposal. Awareness, therefore, leads to self-awareness in the sense that it increases self-reflection capabilities, the ability to make best choices, to create plans and strategies, to search for necessary resources and to implement actions to achieve the desired goals. The coach is a mirror which allows the client to take a close look at himself/herself and search the whole spectrum of experience for the features possessed, already acquired abilities and developed talents from the perspective of their usefulness for further actions. Also in this

case, the extended self-awareness creates conditions for the development of other values such as responsibility, integrity and effectiveness (value and the resulting 3, 4 and 5).

The third foundation is the proposition that: *a positive intention is behind each behaviour of the client*. It is directly connected with another pair of values: *through veracity to integrity*.

The above foundation does not call on philosophical arguments of John Locke, Jean Jacques Rousseau or Ludwig Andreas Feuerbach that people are inherently good, but indicates that each human behaviour is justified and adaptive having internal sense from the point of view of the client. What is particularly noteworthy is the fact that it also relates to the seemingly 'bad' or 'damaging' behaviour. As established, such behaviour is functional, in the sense it has been determined by the attempts at realization of some substantial needs or values. Here emerge very strong, practical postulates for coaching:

- a) Instead of an immediate evaluation of client's behaviour from an outside perspective – focusing on deeply hidden positive motives of actions,
- b) Instead of searching for problems from the past that triggered particular behaviour - conscious directing the attention towards internal and positive premises behind particular behaviour,
- c) Searching for the reasons why the client displays it and if the behaviour itself brings the consequences or costs unacceptable for the client – then searching for other behaviour that would satisfy substantial needs or protect important values in a fuller, favourable manner.

In this case, the coach, through honest feedback, gives the client an opportunity to see their authentic, true needs and values and then to choose and adequate and moral (consistent with beliefs) behaviour, which leads to integrity of personality and to more complete life.

The growth of integrity reinforces responsibility, efficiency and, finally, brings closer self-realization (value followed by 4, 5 and 6).

The fourth foundation: *The client always makes potentially most suitable choice* is again connected with the pair of values *through awareness to self-awareness and through veracity to integrity*.

This foundation is not necessarily about rational choice, which, since awarding the Nobel Prize to Herbert A. Simon for proving that people act in accordance with the rule of 'limited rationality', has been beyond doubt. Additionally, it is not necessarily about making the best conscious choice, which since the days of one of psychology's fathers William James, who introduced the division between conscious and unconscious sphere, has been regarded as truism by human mind specialists.

The above foundation is best described by the assertion that in particular situation man, equipped with certain possibilities and anticipating particular consequences, will choose the best available solution regardless of whether he follows 'the heart and stomach' – meaning emotions and instincts (unconscious sphere), or reason (conscious sphere). It is vital to stress that in case of the conflict between these two spheres people in principle follow phylogenetically older structures.

It is reflected in an interesting phenomenon: when our decisions, regardless of, or perhaps because of, pride connected with the term 'homo sapiens' – are driven by the instinct or the heart, then we search for rational explanations of our decisions, which has been described by psychoanalysts as one of ego's defence mechanisms and called rationalization mechanism. Here also the growth of self-awareness leads to making better choices and integrity. In such case, the coach provides the space, which allows the client to see if there is harmony between what the heart tells (eagerness) and the mind demands (will), since only then we can avoid the trap of 'not doing what we are supposed to' or 'doing what we are not supposed to.' It results in the growth of self-awareness and integrity of the client, and effective judgment of actions, which helps reinforce responsibility and effectiveness. Higher effectiveness, on the other hand, fosters self-realization (values 2 and 3 followed by 4, 5 and 6).

The fifth foundation: *The changes – internal (meaning intrapersonal) and external (meaning situational) are inevitable* refers to another pair of values: *through accuracy to effectiveness thus reinforcing client's sense of responsibility, influence and causative power*.

Regardless of whether the present situation suits us, and if we want it to finish or last eternally – it will certainly change. Whether we like our way of thinking or not, with time we will become new selves and will recall old habits with embarrassment. On the one hand, what is crucial in coaching is full awareness of the present moment, on the other, understanding that everything is a process, permanent states are non-existent, and the only invariable phenomenon is constant change. This foundation relates to both –external situations and the client. The coach, like a mirror, precisely shows the client the particular moment, what actually 'is.' His/Her task is to help the client in realistic preparation and going through change, so it is pleasant,

permanent and effective. By means of questions and solid feedback, the coach reinforces the effectiveness of external and internal changes that take place in the course of coaching process. This way the accuracy of the coach and client's openness to feedback determine gradual growth of effectiveness which fosters client's sense of causative power. It also builds foundations for taking responsibility for the results of actions and encourage the client to maximize the realization of the potential, achieve most important goals, thus conditioning self-realization (value 4 followed by 5 and 6).

Foundation six: *The development of a person is a voluntary process of expanding self-awareness and the realization of his/her own potential* relates to another pair of values: *through partnership to responsibility and through trust to self-realization*.

The process of development is a gift in the sense that it is a phenomenon inherent and natural for humankind, which we are given together with the freedom of choice. On the one hand, once enlarged spectrum of awareness does not shrink to the previous size - what has been understood and absorbed stays understood and absorbed (Ken Wilber). On the other, no one can be either forced or obliged to deepen the awareness of oneself. The natural process of progress cannot be halted but no one is obliged to develop their inner self.

Whether client's development is perpetuated by internal need or external necessity, ultimately his/her freedom of choice amounts to what can be said to this process at a particular moment: yes or no, and the coach is obliged to respect it. In this sense coaching is a partnership relation: it is based on voluntariness, deep trust and ultimate respect. Responsibility of the coach is reduced to ensuring high quality of service (adequate relation, tools and methods), the development itself stays within the realm of responsibilities of the client, who makes all the choices independently, but also suffers their consequences. This is why the growth of client's responsibility leads him towards self-realization, achievement of which may lead to overcoming his/her own ego, i.e. Self-transcendence (values 5,6 and optionally 7). The coach does not exert any influence on the client – he/she has to maintain full respect and accept whatever the client decides in the name of the first value: the ultimate freedom of the client.

The process of human awareness development is also present in the literature metaphorically as Joseph Campbell's 'the hero's journey'. The development of consciousness is therefore a kind of a journey – uncertain and full of perils, which ultimately leads to the victory over one's inner weaknesses, brings happiness and prosperity. Described in both ancient myths and contemporary sciences - psychology (Maslow 1943), anthropology (Bateson 1973) or philosophy (Graves 2002; Wilber 2006), the awareness usually takes a similar course: through sacrifice or fulfilment the man reaches a point where the realization of next levels of development (e.g. Abraham Maslow's hierarchy of needs) is completed and lacks purpose, thus losing motivating power. The most pressing needs of an individual, in his/her subjective view have either been deprived – which most commonly leads to crisis, or fully satisfied – which paradoxically might also lead to the same effect. In both cases the crisis is connected with birth of a new level of awareness called transpersonal because this level of awareness entails surpassing oneself; to put it in other words - going beyond desires that stem from ego. It happens through suffering as well as fulfilment: because what I desire is beyond reach, or because I have gained everything I desire. Then the questions arise of what is larger than our personal desires, so what is larger than we are, and this is where one might enter the path of transcendental surpassing oneself, namely the path of service. Having entered the path, a need to discover the mission is born and one embarks on 'the hero's journey.'

The development towards Self-transcendence is a natural direction of human development. In the coaching process it emerges from the realization and materialization of values vital to the individual, which presently are inscribed in a broader context of social awareness development.

Development of social awareness

Applied sciences, for instance organization and management, in order to achieve the desired results, have to promptly react to changes in the material world, as well as in human consciousness. This is why every once and a while it happens that the paradigm in force exhausts its usefulness. Then the crisis takes place which, as described by Thomas S. Kuhn, triggers multidimensional transformation of thinking and acting.

Present paradigm changes in organization management considerably influence the development of coaching. Increasingly common implementation of coaching perceived not only as a method of work, but also as a set of axiological foundations concerning possibilities for human potential development including human talents and resources, might serve as one of the indicators of this phenomenon. Coaching came into existence in reply to internal needs of people and organizations, but primarily as a response to the cultural and social changes in human consciousness. The scale and the scope of the changes are written about in book of Thomas L. Friedman, Grzegorz Kołodko or Andrzej Koźmiński.

Psychologists, sociologists and philosophers have long been trying to describe the levels of social awareness including them in mathematical theories (Russel, 1903), motivation (Maslow 1943) and communication theories (Bateson 1973, Dilts 2006) or philosophy Wilber (2007). The above levels present the evolution from the most elemental values to advanced ones such as self-awareness, self-development, self-realization or Self-transcendence since, in accordance with the theories of researchers, social awareness evolves towards higher, more developed levels. The evolution of human consciousness is curiously described in Beck's model of Spiral Dynamics, whose foundations were formulated by C.W. Graves.

Graves assumed the existence of particular ways, patterns or models of life and while researching the development of humankind over the centuries came to the conclusion that human decisions and choices are the effect of the adaptation of consciousness to variable conditions. Along with the changing environment what takes place above all is the shift in systems of values in force and ways of understanding the world. It leads to the change of social structures as well as individual models of life. The final model of Spiral Dynamics designed by his continuators Beck and Cowan includes 8 levels of existence which are experienced by the whole humankind as well as an individual (see table 2).

Levels of existence and consciousness of a human in spiral dynamics model

The first phase of existence and consciousness of a human in spiral dynamics model is instinctive phase (beige). It characterizes the level of consciousness of a human in which survival and preservation of life are primary objectives. The most important factor is securing physical safety for oneself and basic, according to Maslow, needs – food, shelter and survival of the species. The model of life at this level focuses on providing oneself with physical and physiological satisfaction: it's difficult to talk about higher values here.

Along with the development of consciousness we enter the second level of the model in which existence chiefly focuses on securing the safety of one's life by being in a group. This animistic and magical (purple) stage of the development of consciousness is a ritual phase, where forces of nature are perceived as magical. Secure life is provided by the ancestors of the clan and following rituals and traditional law of the community. Nowadays, those groups are sports teams, some corporation teams or criminal organizations belong. Each one of them exhibits particular forms of 'ritual' communication and magical methods of appeasing 'gods.'

The third level of the development of consciousness the desire for power prevails for the first time. Egocentric phase (red) brings values such as expressing oneself through dominance, conquest and power over others. Against it appear moral dilemmas along with the fight for freedom against the hostile world. Strength and power are of importance. Today, this phase is represented by media stars, terrorist groups and gangs.

The fourth level of existence, called absolutist (blue), treats the existence of God or the holy truth as the highest virtue. Emergence of ideology, from the viewpoint of the development of consciousness, is tasked with bringing order to human life. If what is good and evil has been explicitly established, it is easier to preserve stability and order. Establishing stringent rules and suggesting the necessity of obeying them serves as means of retaining power e.g. to secure future safety and salvation.

The next, fifth phase of the development of consciousness, points to the rise of individual needs. In this individualistic (orange) phase, the existence focuses on values such as effectiveness, realizing goals and success. It is manifested by high social position and authority obtained through resourcefulness, practicing science and money (liberalism). The world is no longer based on mutually excluding contradictions: it is full of alternatives and opportunities for success.

The sixth level in the development of consciousness – Egalitarian and Relativistic (green) means establishing bonds between people, groups, nature and the development due to cooperation – above the prior religious and political divisions. This is a phase of pluralism and tolerance towards social and cultural differences. Social justice, environment protection and achieving harmony in relations gain importance.

The seventh level – Integrative or Systematic (yellow) is the phase in which humankind discovers and appreciates human potential. At this stage of the development of consciousness the world is already perceived as a complex, turbulent and chaotic system. The successive phases of crises threaten the very foundations of the system, hence the adoption of the responsibility for creating the world and one's existence. Realizing one's potential in creative integration with other beings is of value. Quite significantly, this stage in human development created the need for such forms of self-improvement and education as coaching. Therefore, coaching is the answer to the social need for development and self-improvement.

The eighth level – Holistic and Transpersonal (turquoise) is an awakening, new level of consciousness directed at creating peaceful and coherent world that cannot be embraced by three-dimensional perception. The world is holistic; science depicts it as set of precise, balanced, interrelated powers with the humankind as

an important, but not dominant element. At this stage, the interest focuses around developing intuition and crossing the boundaries of traditional cognition.

Table 2 *Levels of existence and consciousness in Spiral Dynamics model*

Level	Values – what is most important	Instances of societies	Life model – what success means?
Holistic	Global community, vision, humankind	Holistic body	Harmony and peace, unity of existence
Systemic Integrative	Self-respect, realization of potential, pluralism, flexibility	Postmodernism, Task teams	Full development of ones potential
Relativistic Egalitarian	Harmony, egalitarianism, tolerance, social justice, personalism	Civil society Network structures	Inner peace, responsibility for common good
Individualistic	Success, achievements, resourcefulness, education, competition, strategy	Enterprise, Early Capitalism	Authority through money, high social position
Absolutist	Stability and order, compliance with rules	Absolutism Feudalism Totalitarianism	Authority through law, sanctity
Egocentric	Strength, dominance, exploitation, conquest, power	States of strong leaders, Mafia, slavery	Self-determination through actions Strong rule, weak serve
Animistic Magical	Community, belonging, respect for the powers of nature	Clan, tribe	Being a member of community
Instinctivistic	Survival of the individual	Absence of communities	Physiological satisfaction, survival

Compilation Czarkowska L.D. (2010b) on the basis of: Beck, D.E. and Cowan, Ch. (1996), Graves, C.W. (2005), Wilber, K. (2006).

Don Beck's research indicates the existence of all levels of consciousness in the contemporary world. Collective consciousness places itself a bit higher than the statistical average of individual ones since its shape is mostly influenced by people of power (including the fourth power – the media). The number of representatives of individual phases is distributed unevenly around the globe – it is influenced by social, political and economic conditions of particular regions.

On the basis of the above levels, from the perspective of the coach it is extremely vital to inspire the client to answer important questions: What phase does my consciousness reflect? What is important for me and where does the need come from? What influences the choice of what I desire? Do the needs I fulfil result from my deep values? To what extent do they mirror the fashion and social trends and to what degree do they reflect my personal potential? Finding the answer to these questions allows for greater self-awareness and better appreciation of what directs individual choices and decisions.

Leadership coaching

The changes in social awareness also influence management sciences within which certain traceable, quite well depicted historic periods may be observed (diagram 2). The omens of a new era also appear e.g. in the shape of new trends or 'recommendations for a new age' (Hamel 2009). Surely, no single commonly accepted name has yet been given to the phenomena, which appeared after post-modernism, and the title: *Integrated management (holistic) based on values* inscribed in the above pattern is a proposal resulting from the analysis of the terms appearing in contemporary literature (Grudziński, Hejduk, Sankowska, Wańtuchowicz 2009 or

Kuc 2008) and adequate to the dominating values and the resultant style of thinking and actions of organization leaders.

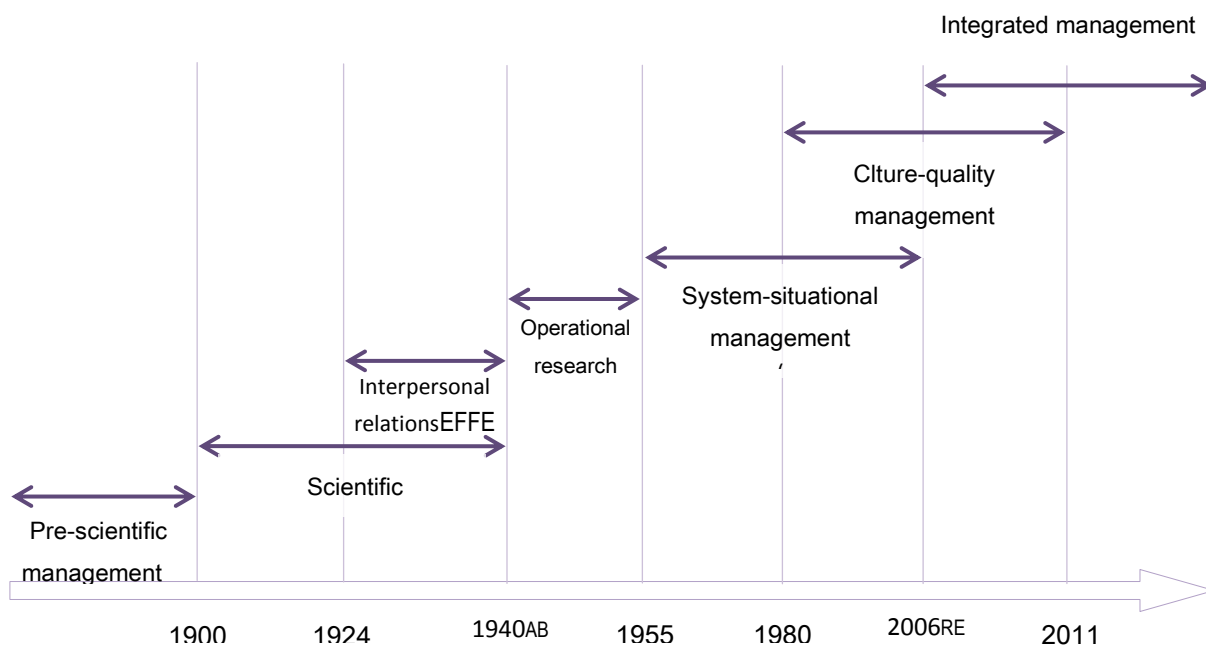


Diagram 2 Periods – the change of management paradigms – own analysis (Czarkowska 2012, p.69).

What inspires the description of these paradigmatic changes in management as divided into four correlative areas is AWAL model (ALL Quadrants, All Levels within Ken Wilber's integrated theory (2006), which utilizes the previously described Don Beck's and Christopher C. Cowan's idea of Spiral Dynamics (1996) designed on the basis of Clare W. Graves's theory (1970).

Wilber proposed a model of reality which results from systematized ways of thinking about reality from the perspective of the range of phenomena (individual or collective) and their type (subjective – internal and objective – external). Having considered both factors, we can obtain four areas – quadrants (diagram 3) called respectively: intentional, behavioural, social and cultural. Different scientific theories are useful for the analysis of these areas.

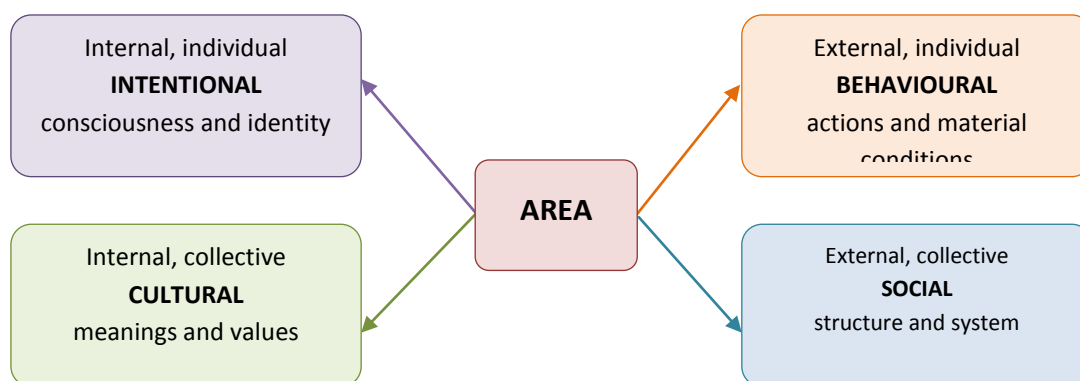


Diagram 3 Areas of paradigmatic change (All Quadrants) – own analysis following Wilber K. (2006) (Czarkowska 2012, p.69).

Analogically, each human activity contains all the above aspects:

- 1) **intentional** (*mind*- inner, singular consciousness)
- 2) **behavioural** (*brain* – neurophysiologic activity of the brain and observable body reaction)
- 3) **social** (*system, structure* – external and objective relation towards social reality)
- 4) **cultural** (*common value and meaning* – point of reference for shared values and meanings) (Chybicki 2007).

Looking at organisation management from the perspective of coaching, to fully utilise the latter as a method of increasing self-awareness and causative power we can pose fundamental questions that relate to four respective quadrants (table 3):

Table 3 Fundamental coaching questions for four spheres of organization management – own analysis (Czarkowska 2012, p.72).

Identity and awareness Who we are? Why we exist? What we want to achieve? VISION AND MISSION	Resources and actions What is at our disposal? What can we do? How are we going to act? STRATEGIES
Culture and values What is real? What is valuable? What is most important? CULTURE	Structures and procedures How does the world operate? What is our position in the system? What is permitted, possible? SYSTEM AND STRUCTURE

The type of answers to such formulated questions will depend on the degree of self-awareness development of organisation leaders. Professionals running companies and left without coaching assistance because of the educational profile present in economic educational institutions are fully aware of only material and structural factors. Being aware of mainly economic and organizational considerations, they focus their attention and efforts on managing what exists in the physical sphere (first and second quadrant in Table 3 – resources and actions, structures and procedures). The question of leader education system reappears here. As the research of Stanford University graduates indicates, 90 % of education time is devoted to gaining knowledge and professional skills. Only 10 % is dedicated to education aimed at self-awareness development, emotional intelligence and ethicality of decisions. Simultaneously, the researched graduates – high class managers admitted that the success they achieved is mainly owed to these aspects of personal development neglected by traditional education (ICF). The development of leader's consciousness proves to be extremely beneficial to the organisation itself since, as we have already mentioned, coaching usually brings 5fold ROI.

The next dimension of management that became the subject of systematic studies no sooner than in the 1980's is the impact of cultural factors on organizations (third quadrant). Social sciences noticed the significance of cultural dimension in all areas of human activities much earlier – it has been noticeable from the ancient thought to works of early social and cultural anthropologists (amongst others Max Weber, Bronisław Malinowski, Mary Douglas or Ruth Benedict). The works of Hofstede, Clifford Geertz (1975) Charles Hampden-Turner and Fons Trompenaars (2006), together with the works from the field of coaching by Philippe Rosinski (2011) contributed to extending the scope of management by the sphere of organizational and multi-national culture, as well as the cultural context in which particular organization functions. Presently, a considerable challenge in coaching practice is the reflection on understanding management ethics when cultural differences come into play (Wujec 2011). The diagnosis of cultural factors and recognizing them as relevant variables that condition decision-making, organizational behaviour and leadership styles definitely remains one of the subsequent directions in coaching ethics development in the world.

The new, being presently discovered, marketing dimension which has long been present in social sciences is the dimension of human consciousness (fourth quadrant). Just as the noticing previously unconscious cultural conditions permits to understand the formative nature towards their own values and break free from their restrictive influence, the realization of the range of one's awareness puts us in a position of our own

observers. It provides the opportunity to liberate oneself from acting on the level of instinctive responses or passively learned patterns and scripts that function on the level of habits. It gives us the opportunity to become the creators of our own reality in the true sense of the word.

In order to discuss the consequences of such a notion any further, a few prior assumptions have to be made. Firstly, the model in which the human being is in the position of a passive product of culture and the existing socio-economic conditions because, in such formulation, the individual being determined biologically (instinctively) and economically (materially), as well as being conditioned socially (stratificationally) and culturally socialized can only **behave** in a particular way and thus react to the factors external to him.

Secondly, it is necessary to grant an individual the role of the creator of his own reality, a conscious and creative participant of culture, who actively gives sense and meaning to his existence (Frankl), and becomes a causative agent in physical, material and social conditions of his own existence. In congruence with this approach, man becomes the actor and is capable of taking **actions**, which contrary to **behaviour** are intentional (taken consciously) and directed at the achievement of goals vital to the individual. This approach is a result of basic discoveries in positive and generative psychology (Gilligan 1977), and congruent with previously discussed fundamental axiological foundations of coaching.

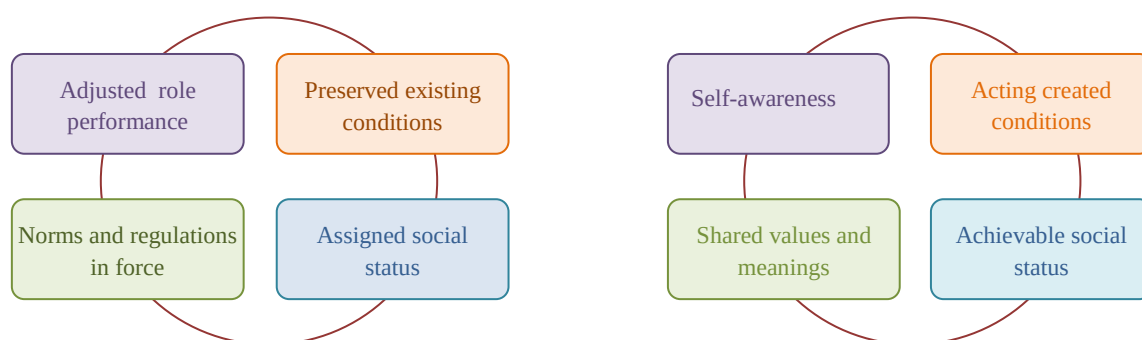


Diagram 4 Deterministic model of man as a conditioned being vs. Voluntaristic model of man as a being capable of not only reacting but also acting – own analysis.

The idea behind this approach can be illustrated by diagram 4 describing the cycle of mutual relation between reaction and actions. The changes in external conditions trigger particular reaction and require changes in both thinking and actions. The process of thinking occurs through the development of self-awareness, ascribing meanings and understanding the world, establishing systems of values and the resulting axionormative regulations. Actions here amount to generating new strategies that aim at the satisfaction of the next levels of needs. This feedback generates the creation of new conditions and the cycle can repeat itself.

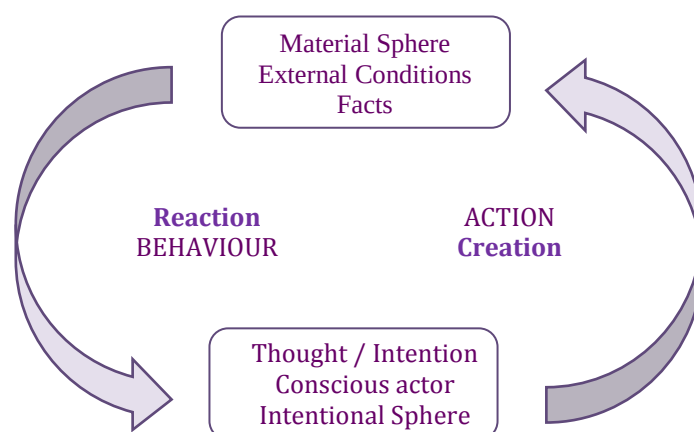


Diagram 5 Reactions and actions between the intentional and material spheres – own analysis (Czarkowska 2012, p.68).

Conscious individuals intentionally create desired changes in their environment. It is the core and essence of coaching intervention to make the conscious person assume a more pro-active (creative and adaptational) approach towards their lives, organization they work for, and the community they live in.

What remains a consequence of these considerations is the approach towards the management of organisations not exclusively from the perspective material conditions but also from the viewpoint of conscious leaders of organisations being the creators of new reality. This approach shall be consistent with indicated changes in the perception organization management (Koźmiński 1996; Hacı 2007; Drucker 2009).

Conclusions

The global change in consciousness takes place simultaneously in two ways along with Jim Rohn saying that people are driven towards development by inspiration or despair. Positive social, political and economic changes might be triggered by world crises, international financial crashes, economic and commercial wars, or ethical disrepute in politics. They can be purposefully created, say through media or education and particularly through the education and coaching of leaders.

In this scope coaching plays a significant role since it is inherently based on self-reflection and the development of self-awareness that help develop the skills such as:

- 1) coherence – internal integrity and external consistency
- 2) ethicality of taken decisions
- 3) awareness of the consequences of choices made
- 4) courage in realization of ones mission and values, and mission of organisation.

Ever-increasing level of worldwide implementation of coaching in organizations is the indicator of the above change.

Going back to the seven elementary axiological foundations described in this article, the coach, through his attitude resulting from acceptance, awareness, veracity, accuracy, partnership, trust and respect towards the client, awakens the client's internal readiness for the freedom of choice, self-awareness, integrity, effectiveness, responsibility, self-realization and, ultimately, Self-transcendence.

It is interwoven with globally visible changes in the approach towards human resources in organizations. It is also consistent with more and more common recognition of a new role of an individual in management as a conscious co-originator of organizational reality.

Coaching, being a tool for expanding self-awareness, emerges as a natural stage of the development of methods to realize vital social and business goals which support balanced development of the world and responsibility for the quality of life of future generations.

Further directions of research

This article remains a small contribution to the development of knowledge concerning ethics in coaching. Fields of research such as comparable analysis of the existing codes of ethics of professional coaching organizations, validity of supporting the development of ethically controversial managers and organizations, ethics of coaching in the light of cultural differences and such like require further research.

The above also applies to axiological issues in management and fundamental philosophical premises. Since coaching remains an interdisciplinary field, its scientific principles are still to be formulated. Further exploration of coaching in the light of the development of social awareness is equally interesting. The last issue is particularly absorbing since the phenomenon of coaching appeared suddenly, initially as a kind of fashion, to develop into number 2 most desirable profession in the world (ICF) – as an answer to social needs such as the need for development, self-improvement and success.

The phenomenon of coaching still requires reliable case studies for adequate description. Insofar as the financial effectiveness of coaching has been confirmed, many people still ask themselves the question 'How is it possible that a simple conversation brings such significant effects?' and 'What really happens behind the closed doors?' This article is a humble attempt at answering these questions.

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SEAWOLF: ETHICS-BASED AND INNOVATIVE APPROACHES TO ENTREPRENEURIAL STAKEHOLDER MANAGEMENT

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Summary: Entrepreneurial ethics includes managing stakeholders in a respectful and fair manner (Harris, Sapienza and Bowie, 2009). Fulfilling this moral obligation, especially with regard to employees and unions, in a proactive manner can move these stakeholders into the desirable quadrant of the stakeholder management matrix – the supportive quadrant. The case study of Seawolf illustrates this by showing how a Nigerian entrepreneur, by being proactive and maintaining ethical considerations, succeeded in making and keeping employees and unions supportive of the organization. Thus, the paper lends empirical credence to the theory that employees – and unions when operating in a unionized industry – are important stakeholders in an organization and shows how paying a competitive wage and dealing with employees and unions fairly helped a couple of Nigerian entrepreneurs who established the first indigenous drilling company in the Nigerian oil and gas industry to run it successfully.

Keywords: employees, ethics, entrepreneur, fair pay, relationships, unions, oil and gas, Nigeria, stakeholder management

Introduction

The stakeholder approach to managing organizations gives foundation to the discussion of strategies to manage their internal and external stakeholders – employees, customers and suppliers. Organizational stakeholders are now expanded to include the government, workers' unions, the media, and communities (Arikewuyo, 2008; George, 2003). Occupying a special place among stakeholders are those most internal to the organization, its employees. Closely related to the employees and also playing a critical role in their fortunes whenever they are functional are unions.

“Employees reciprocate favourably to actions of leaders who that rely on employee-oriented leadership styles” (Jaramillo, Grisaffe, Chonko and Roberts, 2009, at p. 351). Such styles include transformational leadership and servant leadership. When leaders are considerate, their employees are more satisfied (Jaramillo and Mulki, 2008). It also leads to a reduction in physical and psychological stress (MacKenzie, Podsakoff and Rich, 2001). Thus, employee-oriented leadership generally elicits higher job performance from employees and leads to a lower turnover rate.

Apart from these financial benefits of being employee-oriented, there is also the more profound reason for caring for employees and thus having a leadership style and an organizational environment that is considerate towards them. This is the ethical approach to managing an organization and is well reflected in humanistic management theories and in theories of ethical leadership. An organization that treats employees with the respect and care that they deserve as human beings is well on the way to being an ethical organization. Within the field of ethics, this stakeholder approach is categorised as entrepreneurial ethics (Harris, Sapienza and Bowie, 2009).

However, in a developing country, at times certain factors seem to militate against the possibility of having an employee-oriented approach in organizations. For example, start-up entrepreneurs sometimes do not feel that they can afford to make people their priority. Yet, Sadler Smith, Hampson, Chaston and Badger (2003) have found that it is precisely more typical of real entrepreneurs (Baumol, 1968) that they make people a priority and adopt innovative ways to manage these important stakeholders. Further, start-ups in the oil and gas industry are entering a highly unionised industry in which they are often advised to take a hard line with employees from inception in order to be able to squash any issues as they arise. Besides, this, the oil and gas industry is one in which the apparatus for production is very expensive and most of the assets are acquired with multi-digit sums, and therefore they may easily come to be accorded much more importance than the people who operate them.

In this paper, we focus on employees and unions and proactive and ethical ways of managing their stakeholder status in the organizations optimally. We argue that in so far as it represents an ethical approach to management, it is precisely in highly unionised industries and in entrepreneurial undertakings that

employee-oriented leadership is particularly critical. This idea is illustrated with a Nigerian case study which also shows how it is done in the company that is the subject of the study. The results of the case study are one more indication that caring for employees by being proactive and ethical in engaging them and the unions they belong to in fact leads to greater entrepreneurial success.

This case study-based research lends empirical credence to the theory that employees – and unions when operating in a unionized industry – are important stakeholders in an organization. It depicts how paying a competitive wage and dealing with employees and unions fairly helped a couple of Nigerian entrepreneurs who established the first indigenous drilling company in the Nigerian oil and gas industry to run it successfully. The data is from a deep interview with Remi Okunlola, one of the two founding directors of Seawolf Nigeria Ltd., and from online news sites reporting on the company. The narration shows that it can be very profitable for a start-up to organize itself from inception in such a way that employees and unions are seen as critical partners in making the business work. It also provides some insight into the challenges of entering a highly unionized industry in an emerging economy.

Literature Review

Stakeholder theory brought to the fore of the research community the idea of managing all those whose interests are linked with an organization's (Freeman, 1984) and engages in moral discourse (Freeman, 1994) about how the organization relates with them, whether they are internal to the organization, such as shareholders and employees, or external to it, such as customers (Carroll, 1991; George, 2003), suppliers, creditors (Carroll, 1991), government and regulators (George, 2003) and communities (Carroll, 1991; George, 2003); unions (Jega, 1996) and even NGOs and the media (George, 2003). These stakeholders have something to win or lose depending on the direction in which the organization moves, and they influence the organization in their turn. Harris, Sapienza and Bowie (2009) place stakeholder theory firmly within the scope of entrepreneurial ethics and thus indicate that an assessment of how ethical an entrepreneur is would involve considerations of how such an entrepreneur treats its stakeholders.

Over time, management scholars have studied the ways of managing these stakeholders in an optimal manner for the organization. Specifically, Savage, Nix, Whitehead and Blair (1991) suggested that all stakeholders fit into four quadrants of a matrix – mixed blessings, supportive, non-supportive and marginal – and that the strategies to manage them are also four types respectively – collaborate, involve, defend, and monitor. Varvasovszky and Brugha (2000) point out that once the generic strategies are not in place, the organization is either missing opportunities, at risk, or wasting resources. In such a case, the organization would need to take steps to urgently activate or reactivate the corresponding generic strategy.

According to Savage et al (1991), employees are usually in the supportive quadrant, where there is low potential to threaten the organization and high potential to cooperate with the organization, while unions are usually in the non-supportive quadrant, with high potential to threaten the organization and a low potential to cooperate.

Responsible leaders have been categorized into two by Waldman and Galvin (2008) – those who have a limited economic perspective and those who have an extensive stakeholder view (Carroll, 1991). The latter see employees as partners with them in creating value (Heskett et al, 1994; Mele, 2001; Reichheld, 1996; Renesch and Harman, 1991) and therefore may more easily be oriented towards making sure that the value is not unfairly distributed. In the view of Carroll (2004), it is imperative for organizations to manage their stakeholders, both locally and globally, with an ethical framework that goes beyond economic and legal responsibility to include ethical and philanthropical responsibility.

Sadler Smith et al (2003) explain that entrepreneurs, whether or not they also undertake the role of managing their organizations, are typically more people-oriented than managers who belong to the non-entrepreneurial domain. Thus, one would expect to find among them a greater interest in managing stakeholders in an ethical way and they are more likely to be proactive, participative and innovative in doing this. Managers on the other hand are more risk averse and less open to engage employees and outsiders (unions) in dialogue. They therefore tend to be reactive in the way they manage these stakeholders. Sadler's view is contradicted by those who find that the entrepreneur is more likely to act unethically due to pressures from his own action-oriented mentality and the pressures from organizational and environmental factors (Harris, Sapienza and Bowie, 2009). This naturally would depend on the moral fibre of the entrepreneur in question and the pressures of the unique environment in which he or she operates.

These considerations pose the question of how to move from ethical entrepreneurship theory to practice especially in cases where conditions seem unfavourable to achieving collaboration with stakeholders - highly unionized industries, highly skilled people- intensive but non contact-intensive workplaces, etc. The case of Seawolf serves to illustrate the way an employer achieved this despite these constraints. It is particularly interesting since according to Sadler Smith et al (2003) the management style behind the strategies in Seawolf are in the entrepreneurial domain and humanistic ethics-based, through being innovative and acknowledging people as a "scarce and precious resource" rather than seeing them as "abundant and easily replaceable" (at p. 51).

Particularly in the oil and gas industry, there is a strong likelihood of finding workers who are actually in the mixed blessing quadrant – having both high potential to threaten the organization and high potential to cooperate with it. In Nigeria, this industry is highly unionized and therefore, the entrepreneur company needs pay particular attention to these stakeholders (Litwin and Stringer, 1966; Pritchard & Karasick, 1973). Rather than simply settle for the strategy of defending, it would be useful to study how to migrate them to the supportive quadrant or at least to the mixed blessing quadrant. This has been tried and failed in other industries, for example the educational sector, since workers unions are traditionally against the employers of labour and see themselves on opposite sides of the fence. They represent the voice of the workers and are usually cautious to maintain a reality and an appearance of being at loggerheads with the employers all the time, so that they do not lose the confidence of the people they profess to represent or give any impression of collusion.

Savage et al (1991) do discuss the need to transform typical stakeholder relationships, and stress the need to move from "a less favourable to a more favourable" quadrant. They suggest work-life programmes combined gain-sharing as one way to enhance the cooperation potential of unions, and as an improvement on the defence strategy generic to the non-supportive quadrant. They also encourage the transformation of mixed blessings stakeholders to supportive stakeholders. This indicates that we cannot strictly speaking call the generic strategies an optimal fit, as do Varvasovszky and Brugha (2000) except in a static sense, since optimal should mean that a change in those positions would be suboptimal. In fact, it is to the advantage of organizations that these relationships be dynamic, and the dynamics should be proactively engineered by the organization insofar as it is in their power so that the desired movement to more favourable quadrants takes place. It is the 'how' of moving from the generic and "optimal" fits to the supportive quadrant which optimizes the advantage to the organization that claims our attention in this paper.

Due to the importance of stakeholder management, many more strategies are needed in order to accomplish this movement to positions supportive of the organization. Particularly for entrepreneurs who find themselves in a difficult environment – government regulated, highly unionized, skill-dependent industry – stakeholder management must be approached with caution. Jega (1996) proposes some strategies for getting unions to collaborate with an organization (in this case a university) which include creating avenues for dialogue, avoiding arbitrariness and abuse of power, adhering to due process, and democratising the system. These are doubtless very useful in dealing with the government institutions he refers to since they already have procedures laid down that bind both the unions and the organizations concerned, i.e. the universities. Things are a bit different in the world of business where the environment is less structured and the risks being faced and who bears them are different. Yet, in both the public and private sphere, the underlying ethos for stakeholder management should be that of fairness and respect in dealing with others, and the more proactive the organization is in doing this, the better and the more effective its actions will be.

In this paper, we suggest two strategies for managing stakeholders – for transiting them from the non-supportive to the supportive quadrant (a diagonal movement) and for transiting them from the mixed blessing quadrant to the supportive quadrant (a horizontal movement). We shall refrain from commenting on the generic strategy of monitoring those in the marginal quadrant, since once monitoring indicates that they are becoming either non-supportive or mixed blessings, we can apply the same strategies recommended, in order to move them to the supportive quadrant. These strategies can be seen clearly in play in the case study of Seawolf. As expected, being adopted by a leader practising a real entrepreneurial style, they are ethics-based, innovative, and proactive.

Framework Summary and Hypotheses

The stakeholder theory advocates that there are important stakeholders in an organization besides the shareholders (Freeman, 1984) and that these need to be managed appropriately. Management should therefore be concerned about their wellbeing and their good. Stakeholder management theories classify these stakeholders according to their potential to threaten or cooperate with the organization and postulate generic strategies to manage them (Savage et al., 1991; Varvasovszky and Brugha, 2000) Employees are among such stakeholders and deserve full attention because of their high potential both ways. Another important set

of stakeholders who are linked to employees are workers unions. Few or none of them may work within the organization; hence the union is considered an external stakeholder while the organization's employees are internal to it. These two sets of stakeholders are the focus of this paper.

Besides the profitability and risk management perspectives, in a virtuous organization that is interested in an ethical climate, they can expect to have their employees act ethically if the employees themselves are dealt with ethically and fairly by the organization. The converse could lead employees to retaliate by in turn treating the company and or its customers inappropriately and thus destroying value rather than creating value for the organization since employees can be quite sensitive to issues of perceived injustice or inequity (Heskett et al, 1994; Mele, 2001; Reichheld, 1996; Renesch and Harman, 1991).

As indicated above, for a highly unionized industry, it is expected that unions would fall into the non-supportive quadrant. Hypothesis 1 is that an employee-oriented organization that is ethics-based will have a proactive strategy with regard to union relations that will increase the potential of unions to cooperate with the organization and minimize their potential to threaten the organization. In this way, possible negative impacts can be proactively counteracted by initiatives imbued with respect for the persons involved, which effectively diffuse tensions even before they arise.

Hypothesis 1: An employee-oriented entrepreneurial organization proactively and equitably manages union relations to move them from the non-supportive quadrant to the supportive quadrant.

Another thorny issue is often the inability of entrepreneurs to match the pay scale of bigger players in the field and therefore attract or retain the talent that they badly need to carry out their work. Our hypothesis is that an employee-oriented organization will see the importance of offering attractive and fair remuneration whether solely in financial terms or in a combination of ways. This will move the employees, who are often highly skilled and therefore could have high potential to threaten the organization as well as a high potential to cooperate with the organization to a position of low potential to threaten.

Hypothesis 2: An employee-oriented entrepreneurial organization rewards fairly (either in cash or with other benefits) and thus proactively moves employees into the supportive quadrant and keeps them out of the mixed blessings quadrant

Finally, in a highly mechanized industry, it is easy to lose sight of the dignity and respect due to human beings in a focus on the machinery as the perceived key success factors of production. At the same time, the oil and gas industry is people intensive and the people are far from headquarters. Distance is therefore a challenge to building meaningful relationships with the people who create value for the organization who are often out on rigs, working offshore, etc. It is further hypothesized that an employee-oriented organization will remain fully aware of the critical role its workers play in achieving its organizational goal, and so will try to connect meaningfully with them in order to keep their potential to collaborate fully with the organization at the highest level possible.

Hypothesis 3: An employee-oriented entrepreneurial organization maintains awareness of the human persons in its production process and proactively uses the available means to establish and maintain respectful and considerate relationships with them that keep them in the supportive quadrant and out of the mixed blessings quadrant.

Methodology

In order to explore these hypotheses derived from reviewing relevant literature, a case study was carried out in an industry with the characteristics described. The case study afforded an opportunity to look at the ideas in a way that allowed a deeper understanding of the phenomena under observation and their characteristics and facilitated their description (Eisenhardt, 1989; Yin, 2003). From an empirical analysis of primary data collected in the field through the case study, the hypotheses that responsible leaders who proactively practice ethics towards their stakeholders – specifically, towards employees and unions – are rewarded by a mutual commitment that is a competitive advantage to them was supported. The results revealed that stakeholder management and transformation into supportive status can be achieved through ethical and proactive engagement and that this remains an important variable for a successful organization.

Seawolf

The first indigenous drilling company in Nigeria started in 1999. From inception, the co-founders strove to treat all stakeholders fairly – investors, creditors, clients, employees and society (Carroll, 1991). They soon realized that treating employees well was essential to their business model. This supports theories that employees react negatively to organizational injustice and respond positively to care and respect (Heskett et al, 1994; Mele, 2001; Reichheld, 1996; Renesch and Harman, 1991). It also shows how an ethical organizational

climate (Litwin and Stringer, 1966; Pritchard & Karasick, 1973) makes business sense in a unionized industry like that of oil and gas in a developing country.

In this case study-based paper, these concepts are illustrated by the experiences of two young Nigerian entrepreneurs. The sources of information were an interview with one of the co-founders and online news sites reporting Seawolf's success.

In 2001, Remi Okunlola, provided some extra legal services to Morgan Stanley involving access to the Nigerian market. The firm was so impressed that they offered him a business deal, saying the time was ripe for a drilling company run by Nigerians. A Morgan Stanley staff, Nigerian, Adolo Uwamu, would work with him. Three months later, the two presented the Seawolf proposal to prospective providers of funding. Neither knew very much about oil and gas, but Adolo worked on the financial issues while Remi worked on the legal and environmental.

The prospective investors met two young men without drilling expertise or experience but with energy, drive and detailed plans that guaranteed the proposed operations and operational integrity. They committed to invest if they could raise some proportion of the financing from Nigeria. In Nigeria, two Bank MDs stipulated terms that were not quite aboveboard; Seawolf declined. Eventually a third Bank undertook to provide the required funding. Thus they purchased their first rig and four years later were ready to begin drilling operations.

Remi explained that "machines are never a problem; they merely need repair and maintenance procedures. However, each worker has unique concerns, interests and goals. A quarrel at home can lead to absenteeism or distraction. Seawolf cannot afford this. Thus, its most critical factor for success is care for every staff".

The business is "highly leveraged", therefore cash flow must align with repayment obligations, insurance payments (men, assets, helicopters, vessels), and repair and maintenance requirements. If a rig breaks down, it means "losing and spending money simultaneously". Therefore people work all year monitoring chemicals, oiling metals, etc. Maintenance could cost up to \$7,000 per week. Considering the alternative - the risk of losing a hundred and fifty thousand dollars (\$150,000) per day of downtime, this makes sense. Remi compared the watchful care needed by a rig to caring for a pregnant woman. Even a minor lack of employee commitment could hurt badly. A part worth \$2,000 could keep the rig down because of the lead time to manufacture the part. Once, Seawolf experienced 21 days downtime, losing about four million dollars (\$4,000,000), because a valve was not checked. "The valve was worth \$2,700!"

About fifty people work in the Lagos headquarters of Seawolf as "the company's brain box". They organize crew changes and logistics, tickets and flight arrangements, of about thirty-five expatriate staff and Nigerians moving around the country. This is no mean task; offshore business follows time-on time-off models. Senior staff are on the rigs for four weeks and then off for four, while junior staff are two weeks on, two off. Organizing it all can assume nightmarish proportions since no rig can function with one man short. "Each person is indispensable".

Of the employees on the rigs, "about seventy percent are hired through a contractor while thirty percent are on the Seawolf payroll". This model works because when the rig moves, the community in the new location wants their people employed. Hence, the company has to let people go each time. Nevertheless, pay, training and other benefits are the same for all. Seawolf sees training non-permanent staff as corporate social responsibility.

The company relates well with the Nigerian Union of Petroleum and Natural Gas Workers (NUPENG). Remi taught them how to challenge Seawolf strategy, thus they function as partner stakeholders. He habitually explains the company's financial position to them, breaking it down into simple language. The biggest issue for drilling staff is money. Seawolf works not to delay salaries. Remi persuaded other companies to allow him "share their payroll information" and used this to show the union that Seawolf salaries were comparable to companies at times very many years older and or fifty times its size.

Remi had envisaged the worst scenario: a union could "force Seawolf to match the pay of Trans-Ocean staff which is the highest in the industry internationally". He felt the company would still be profitable, so he pre-empted them by matching that payroll. Hence, the only time pay issues could arise would be if Trans-Ocean raised salaries. Then, the union would only need notify Seawolf and prove it. Union officials were sent on training programmes and invited to regular meetings to air grievances.

Remi realizes "people need to feel cared for and want to be able to speak to their bosses at the very highest level". He cannot always respond to the calls and text messages from staff, but he occasionally picks a call or calls back, and the person is happy. Recently he "accepted a request to connect on Facebook". The man said he was at the Cameroon rig when Remi had visited three years earlier and that Remi had spoken to him.

(Remi met a hundred men in Cameroon and could not recall singling out any.) This man said he felt pleased and honoured connected to his company's founding director on Facebook. Remi also maintains an email address open to staff and responds to every email.

Discussion

Given a highly unionised industries which would tend to have people issues; given the workforce issues typical of start-ups, especially in a highly mechanized industry where the employees are highly skilled and are key to the organization's success and yet are far away from their principal, given all these parameters, we have a high potential to threaten the organization on the part of both unions and employees, and a high potential to collaborate on the part of employees. The challenge is to move both of these groups of stakeholders to the supportive quadrant. In the case of Seawolf, all three hypotheses stated above find support.

The first idea in managing stakeholders optimally is to be proactive. Seawolf did this by pre-empting the unions and so changing the platform of negotiations by moving to the same side of the table. In the case of the workers, they did it by taking advantage of new media to network people across an otherwise intuitively non people-oriented work environment.

The second, and stronger, idea coming across from this case is the ethical sensitivity driving the actions that have been labelled proactive above. Behind the two is the fundamental idea of respecting other human beings and treating them appropriately to their nature as human beings worthy of dignity and honour. In addition, their strategies are innovative; they have adopted strategies that were not already in use in their industry or at least not in the same way, taking them up and developing as the need arose.

Hypothesis 1: An employee-oriented entrepreneurial organization proactively and equitably manages union relations to move them from the non-supportive quadrant to the supportive quadrant.

The way Seawolf does this is instructive – Remi proactively involves the union in the business through a high level of transparency in its dealings with them. The union is kept informed and updated with regard to the financial standing of the company. This makes them feel respected and treated as partners in the enterprise. The company is open in its relations with them and trains them to challenge it. It also provides a regular forum for them to air their grievances, without waiting for them to be the ones asking for audience. This welcoming attitude to criticism has the effect of calming tensions and making the otherwise hostile union take on a role of devil's advocate that has an ultimate aim of achieving a joint goal with the organization – that of the organization's improvement. Hence they are moved to a position in which their potential to cooperate with the organization is high and they are less likely to threaten the organization.

Proactively showing them the equitable grounds for the salaries paid at Seawolf and matching their realistic expectations also wins their support for the organization.

Hypothesis 2: An employee-oriented entrepreneurial organization rewards fairly (either in cash or with other benefits) and thus proactively moves employees into the supportive quadrant and keeps them out of the mixed blessings quadrant.

One of the challenges entrepreneurs face in developing countries is fair wages. Many feel they cannot afford competitive salaries and try to pay the lowest possible. Some even go below the national minimum wage. In a unionized industry, these issues can damage profitability through de-motivation, union interference, strikes, etc. The Seawolf experience shows how the opposite approach creates competitive advantage. Seawolf from the beginning decided to pay a competitive wage and a wage that was fair to their employees. They did not want to use people but to enter into a partnership with them to create value. Their proactive step pre-empted any dissatisfaction that employees could have experienced that would have made them drop their potential to cooperate with the organization. In addition, ensuring that the salaries are paid on time also fulfils an important need of the employees. As it is, the result is that they remain highly likely to cooperate with and little likely to threaten the organization, since the most important issues for them have already been addressed. They stay within the supportive quadrant.

Hypothesis 3: An employee-oriented entrepreneurial organization maintains awareness of the human persons in its production process and proactively uses the available means to establish and maintain respectful and considerate relationships with them that keep them in the supportive quadrant and out of the mixed blessings quadrant.

An entrepreneur in a small outfit who doubles as a manager must lead, inspire, manage and innovate at the same time (Baumol, 1968). This demands that he must be close to his people at the same time as spend the time he needs to vision for the company in order to lead them. Yet, boss-subordinate relationships in

entrepreneurial undertakings are often fraught with tensions due to challenges with balancing over-familiarity in a small business with official distance. It is not easy to get the right mix of formality and informality. Seawolf's situation is particularly fragile because the people are scattered over high geographical distances and therefore the problem is more with establishing caring relationships than with keeping a respectful distance.

The Seawolf case study shows how this is done to maximise advantages to the company of building strong relationships. Remi Okunlola cannot be everywhere often enough, so he does his best to respect and honour each individual when he visits the different locations where he has people working for him and then continues it through new media – the phone (voice calls and short messaging services); email and a social network platform (Facebook). Together with formal site visits where he physically is able to show them due respect and concern, these technologically enabled tools enable him to be close to his men and make them feel his care and concern for them. This further entrenches them firmly in the supportive quadrant.

Conclusion

The Seawolf experience is additional confirmation that employees are important stakeholders in an entrepreneurial organization, and that if treated ethically, they will take care of its business goals. It also highlights a way to engage with unions who are traditionally non-supportive stakeholders and build a relationship with them that is favourable to the organization. It showcases two among the many ways to manage these stakeholders and transform them into supportive stakeholders who inhabit the best of the four quadrants possible in stakeholder management. The main strategies used are a proactive engagement with both classes of stakeholders based on an underlying ethical approach that leads to respecting them and giving them due consideration. The Seawolf story is therefore a particularly useful example for businesses setting up in Nigeria or other developing countries.

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ABOUT SPIRITUALITY, ETHICS, SCIENCE...

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1. Introduction

Great number of scientists posed a question of man's desire to live forever. The problem of relationship between psychology, ethics, religion and science is clearly reflected by this question, since religion clearly answers them, while modern science is pursuing them by large steps. Ethics inherently cannot provide an unequivocal answer, since utilitarianism has to decide whether investments into science, in order to realize this pursuit, provides happiness for the largest number of people, and furthermore, whether the achieved immortality has the same consequences (feasibility). It is highly difficult to formulate the categorical imperative of "Live forever" from the deontological point of view, while Aristotle school fails to consider this issue at all, due to the fact that it contemplates virtue and fails to define eternal life as human virtue. Whether we like it or not, we need to turn to psychology as well (desirability). Psychology does not negate human mortality. Moreover, psychology speaks about emotions as stirred with every individual by the presumption of death. Therefore, TMT theory (Terror Management Theory) is applied as the theoretic context of this explanation. Religious viewpoint is inevitable in this pursuit, thus, the Orthodox viewpoint has been presented as the least elaborated by literature. Possible answers to this question were derived and we are presenting them, leaving the readers to decide which suits them the best.

2. Feasibility of the human pursuit of immortality (utilitarian answer)

Before attempting to answer this question, we need to distinguish the feasibility and desirability of this human pursuit. Whether this pursuit is essentially ethical or not, may be answered only through utilitarian analysis. In order to determine the feasibility of this human pursuit, the first step is the utilitarian estimation to justify huge

investments into the research aiming to prolong human life forever. The conclusion which may be drawn from the first stage of utilitarian calculation is that, being inherently uncertain, the enormous investments are entirely unjustified since they fail to provide happiness for large number of people and they might be spent quite differently. The second level of utilitarian analysis is to answer the question whether eternal life brings happiness to the large number of people, justifying thereby the current unfortunate conditions, since investments may be distributed in a different manner. Namely, with the success of modern science in its pursuit, the following questions would be posed: how to distribute the result in a most correct manner and how would life look like on the planet with immortality granted to all living inhabitants, both in the present and in the future? The next question is the following: which is the optimum number of people³⁵⁹ who will live on the Earth happily and thus, this kind of research can bring happiness and prosperity to all of them? The next question is how to optimize the number of immortal people? It would be possibly by holding up reproduction³⁶⁰ and removing the surplus people by various incurable diseases and direct removal; natural disasters would possibly do their share as well. The next thing would be reaching consensus about whether all people want to be immortal (what to do with those who do not want it). Naturally, there is always the possibility of voluntary ending of the immortal individuals' own life.³⁶¹ All in all, some form of a totalitarian social system would be possible to create, which would probably answer all these questions in utilitarian spirit. With the success of modern science in its pursuit to achieve immortality, it is extremely difficult to give any prediction regarding the mankind's condition.

On the other hand, there is an analysis of desirability of such condition. Before saying anything on this topic, we need to see what stands behind this question. According to our humble opinion, it is primarily a fear of death. In order to explain this phenomenon in the best possible way, we need to turn to TMT. TMT is a theory originating from the late 1980's and such human condition would cancel it.

3. Is it Ethical to Want to Live Forever? Psychology.

Terror management theory (TMT) is a theory within psychology that focuses on, according to the theory, the implicit emotional reactions of people that occur when confronted with the psychological terror of knowing we will eventually die. Empirical support for TMT has originated from more than 175 published experiments which have been conducted cross-culturally both nationally and internationally (Solomon, 2004).

This theory was developed by Professor Sheldon Solomon, Professor Jeff Greenberg and Professor Tom Pyszczynski. Inspired with the theory of Ernest Becker, they attempted to explain the motivators of human behavior in circumstances of constant perception of life threat. Also, they attempted to avoid any form of mystical transcendence (heavens, reincarnation, etc.) in their theory. It is based on the assumption that consciousness of the own mortality may be considered as a constant source of pain. According to the authors, there is built-in life-saving motive in the man, so an unsolvable paradox is created by constant pain as the result of finite life and the effects of this motive. The TMT is based on two hypotheses: mortality salience hypothesis, saying that individuals are protecting themselves against this paradox by self-esteem and cultural background, and the anxiety-buffer hypothesis, saying that self-esteem and cultural background are buffers which serve to insulate humans from death. Experiments supporting the two hypotheses above have been conducted in the US, Canada, Israel, Japan and the Netherlands. (Williams, Schimel and Gillespie, 2006). Terror management theory is a master motivational theory, attempting to link human drives together under the rubric of the fear of death. According to Solomon, Greenberg, and Pyszczynski (1991), *all anxiety is derived from self-preservation instincts* (p. 102). TMT further argues that fear of death is the central force in evolution, motivating genetic self-preservation instincts in species and promoting natural selection (Pyszczynski, Greenberg, Solomon, 1997). Emotion is both motivational (Lazarus, 1991) and evolutionary (Darwin, 1872). In spite of these obvious similarities, the amount of effort directed at examining affect and emotion in the process of terror management and elicited by mortality salience has been limited (Goldenberg, Pyszczynski, Greenberg, Solomon, Kluck, & Cornwell, 2001). The following will examine the role that emotion plays in the terror management and the discrete emotions elicited by mortality salient primes.

³⁵⁹Davis, J.K. (2004). "The Prolongevists Speak Up" In *The American Journal of Bioethics* 4(4):W6-W8). Here, the author speaks of a sort of Malthusian care for the relation between the population and the existing resources.

³⁶⁰Hesketh, T. and Wei Xing, Z. (2005). "The Effect of China's One-Child Family Policy after 25 Years", *New England Journal of Medicine*, 353 (11):1171-1176). The authors here advocate the thesis that in this situation policy must intervene.

³⁶¹According to Sherwin Nuland, author of a now infamous article in *Technology Review* on the SENS program, de Grey approaches this question from a rights perspective. Nuland suggests de Grey's belief that "the most basic right that any human being has is to live as long as he wants to...the most basic right is the right to stay alive" Nuland disputes this and states that, as far as conventional ethics conceptualises 'rights', the right to stay alive "is not a right at all" Insofar as many of de Grey's claims are based upon a fundamental 'right' that many ethicists believe is not a 'right' at all, this problem may be similar to those found in other areas of bioethics where debates are ongoing because incompatible consequentialist and deontological positions, for example, are unable to find a common frame of reference.

Fear is a basic emotion, related primarily to the dilemma of "fight or flight". From Glenn McGee's question it is clear that science is perceived as a pugnacious response to the fear of death. He seems somehow convinced in its victory and poses the question of ethical aspect of this struggle. According to the theory, it is a correct answer and the question of individuals trying to insulate themselves from fear of death through science and self-esteem. Hence, from the standpoint of TMT theory, this is an entirely normal question which fails to get an exact answer, but insulates from the fear of death. According to this theory, the motive of life-saving is inherent to humans, and the question of ethical approach to this pursuit is impossible to pose. The only thing to say is that this question results from the above mentioned human motive and that it is inherent by itself and the introduction of ethical dimension represents the use of ethics to justify the question to which the answer is already known: yes, I want to live and yes, I know I will eventually die. The intolerability of such conflict-burden situation has been resolved by the faith in inevitable advancement of science, its victory over death, and consideration of consequences of such struggle, both during the struggle and the consequences of victory.

4. Religion and science

Before giving the second possible answer to this question, we need to consider the relation between science and religion. Science and religion can be in conflict. Advocates of this viewpoint believe that many historical examples are speaking in favor of this (Galileo Galilee, the standpoint Pope Benedict regarding the counter productivity of use of condom in AIDS prevention in Africa). Jerry Coyne believes that religion and philosophy are simply incompatible, while Neil Degrasse Tyson believes that scientists as Galileo and Newton would accomplish much more by failing to adopt certain theological arguments. The second possible relation between science and religion is their independence. This viewpoint is based on the belief that science and religion are not in conflict. Instead, they need to go their own ways independently. The third standpoint is based on the belief according to which religion and science need to be in constant dialogue, based on scientific facts and their relation towards religious beliefs. According to the fourth standpoint, scientific and religious beliefs need to be integrated. It is interesting to note that a large number of researches were conducted in the US aiming to determine scientists' attitude towards religion, i.e. whether they believe in God or not.

5. Is it Ethical to Want to Live Forever? Another possible answer

By asking this question scientists follow the authentic Orthodox Christianity. They have been asking a direct, clear and deeply, morally rooted question on the sense, psychology and ethics of technological race, the goal of which is in improvement of the quality of human life, its elongation and seeking eternal life. In the circumstances of a broken mirror, when a man ceased to be the reflection of God's image, when the natural community between man and God is disrupted and when science fails to join the pieces, despite its tremendous efforts and amazing achievements, giving us only fragmentary answers together, this question seems rather reasonable. Likewise, this question contains the essential issue of the sense of human existence, as well as the common human ethics disconnected from its fundamental purpose: the eternal community of man and God is becoming merely a sort of comfort since it lacks the answer on the essential question: what is the purpose of being ethical if, one way or another, we all have to die, some sooner, some later. By its nature, science is human-body oriented, trying by all means to find the key of human life elongation and the keys of eternal biological life. Hence the race for eternal life (we all know, either on conscious or unconscious level, that we are destined to fail, since the only thing man must do is to die) seems to be deeply absurd and we seek to rationalize our existence in this world. Ethics as a whole and psychology are only a sort of excuse of living (progress, welfare, science). God permitted the existence of science and man has been given the freedom to pursue science. However, any science which is developed to its ultimate frontiers and whose deepest purpose is not the revelation of the Maker's grandeur and his thought which is unconceivable to man is destined to turn against man and become self-sufficient, i.e. absurd. God has made man out of pure love in order to dwell with him in eternity. As uncreated, God is eternal, while a man, as a creature has his beginning, but he is created to achieve eternal community with its maker. Since God gave man free will, not coercing him to eternal community in any way, man is permitted to live his life as he wants. Adam's abruption of community with God made every God's creature mortal. Death and perish became part of man's life. However, to answer the question in the light of Orthodox Christianity we must emphasize the foundation upon which Christianity is based: God sent his son Jesus Christ with both divine and human nature. His son laid his life in order to reestablish the community of all mankind with its maker by means of resurrection, both in flesh and soul. In this way mankind was shown and proven that there is no death. By his magnificent resurrection, Jesus Christ has once again unified all mankind and the maker, both within himself as well as by his resurrection. One cannot speak of Christianity without faith in resurrection which is a historical fact. In this way death is eradicated, the issue of life's purpose ceased to exist since the purpose of human existence has reappeared in all its beauty, and this is the community with the Maker. Hence, Orthodox Christianity is not about any humble serving of God by man, it is not about God as an astringent judge

monitoring every human error; it is not about their mutual legal relationship and cruel punishment. Orthodoxy does not call for some eternal life. It simply states that all that is created will achieve eternity only in community with the Maker and that the creature himself cannot provide eternity neither through any science nor by merely abide by ethical laws. Orthodox Christianity is about mutual community based on love (force that keeps the atoms together, love of God which makes all his creatures in community with him imperishable). All at once, all science becomes essentially reasonable, a comfort to mankind and pledge of faith, discovering all God's wisdom as of the creator to man (genetics as a pledge of statement that man will resurrect both in flesh and soul, a permission to man to equally participate in creation...). The only limit is in the fact that if man disrupts his natural relation with God, he is self-destined to death and perishes and that whenever he attempts to place himself above his creator, he automatically becomes inevitably mortal. Any technological advance has its deep sense, ethics has its rightful place in life, and the question why to be ethical has its unambiguous answer. Then we realize that Christianity and ethics contained within it include all ethical directions, from deontology through utilitarianism; from moral imperative which transits into the imperative of community with God, thereby providing happiness to all mankind. Surely, it is not an ethics with juridical content, but ethics based on mutual love between the Maker and man.

6. Conclusion

In one way or another, the death as a phenomenon which continues to exist along with the fear of death as well. On the other hand, while I am writing this paper, science is struggling hardly to defeat death, the disease of all diseases. We are aware that even the TMT theory cannot fully explain the nature of the question and that even the integration of science and religion cannot provide the scientific community with a satisfying answer. Also, we are aware of the fact that without the minimum of dialogue between religion and science, even the situation described in the introductory part of this work may come true. Therefore, dear reader, before you decide which of these three answers suits you the best, we will quote a part of the article written by Albert Einstein in New York Times, in 1930:

*Accordingly, a religious person is devout in the sense that he has no doubt of the significance and loftiness of those super personal objects and goals which neither require nor are capable of rational foundation. They exist with the same necessity and matter-of-factness as he himself. In this sense religion is the age-old endeavor of mankind to become clearly and completely conscious of these values and goals and constantly to strengthen and extend their effect. If one conceives of religion and science according to these definitions then a conflict between them appears impossible. For science can only ascertain what is, but not what should be, and outside of its domain value judgments of all kinds remain necessary. Religion, on the other hand, deals only with evaluations of human thought and action: it cannot justifiably speak of facts and relationships between facts. According to this interpretation the well-known conflicts between religion and science in the past must all be ascribed to a misapprehension of the situation which has been described.*³⁶²

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NON-AMERICAN “AMERICAN DREAM”. “LODZERMENSCH” MYTH AS A VEHICLE OF WORK ETHICS

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1. The background of the paper. Workplace cultural capital – a bridge between business ethics and literary myth

The aim of the presented paper is to show, based on case study of Central European cultural archetype of “Lodzermensch”, how analysis of provincial pro-entrepreneurial myths can enrich the problematic of work ethics and simplify its dissemination through cultural capital.

I adopted the definition of the myth by Michel de Certeau (1900/ 2008: 135), which defines it as a “fragmentary discourse connected with varied dealings of some society, which express them in symbolic way”.

I compare this way of understanding the myth, with already classical research of Michelle Lamont (1992) considering workplace cultural capital. This author, using Bourdieu's conception of the definition cultural capital during the analysis of business phenomenon, showed that both French and American executives tacitly expect that their employees would behave in the certain ways and profess special values, which construct the morality of work. These two dimensions behavioral and axiological create the workplace cultural capital. For those people who do not possess such capital (although officially they are not mentioned at any

stage of the recruitment process) it is very difficult or maybe impossible to be promoted or even survive at the workplace in the System of Western capitalism.

2. Work Ethics in the Context of Workplace Cultural Capital

The behavioral aspect of workplace cultural capital is represented by such principles as being punctual at work, being dressed appropriately for interviews, or courteous manners in relation to clients and superiors.

On the other hand, work ethics (as an axiological dimension) within the presented concept, in reality, comes down to the beliefs of a particular employee that allow him to answer the existential question "Why do I work?". According to William Lockhart (2002), whose publication became the main intellectual inspiration for this article, in the American version of the axiological dimension of workplace cultural capital, there are two alternative aspects. The components of employees' success are both ascetic and in the form of expressive moralism.

The first one is a contemporary, secularized form of the traditionally understood Protestant work ethos and results from a belief developing since the beginning of Protestant Reformation. This being that work, just like a prayer, brings the human being closer to God. Today in many cases, God's place is taken by persons' own growth potential. Ascetic moralism can be brought down to the thesis: "I work because my work is the way of my personal development". A derivative of this approach is a moral directive "Avoid sloth and don't be focused on material enjoyment, but instead - save and invest in future profits." "Material pleasure and leisure should be avoided. Instead of this the better option is reinvestment of assets and thrift for future profit"

Expressive moralism also has religious roots. Lockhart (2002) alongside other authors, places its origin in the conception formulated by American Protestant preachers' teachings from the turn of the nineteenth and twentieth centuries, deriving inspiration from European Romanticism as well. They praised, that natural for human soul (given by God) is the need for play and pleasure. From this perspective, economic activity is aimed at securing the basic necessities of life. It is considered not only desirable but inevitable too. On the other hand economic activity which is devoted to the pursuit of wealth or emanating from a desire to outdo one's peers is regarded as undesirable. The goal of making money is no longer simply a multiplication of profits but of welfare as well. In a modern version, also for people who do not share religious beliefs, expressive moralism means "I work to have more fun and pleasure". I leave the discussion aside of whether the problem of the genesis of both types of moralism should be related only with Protestant culture, as it is not part of the paper. The author's point of interest is more focused on the parallel between the conception of the expressive moralism and the "otium" - the idea borrowed from ancient times, by European Renaissance creators and thinkers. This is widely discussed regardless of interlocutors' religious beliefs. It was about performing a useful activity resulting from an attitude of personal independence. The concept of "otium" was adopted in the Polish language by Wespazjan Kochowski, who used the poetic translation of the term "non-idle idleness". People during Renaissance times discussed widely the problem whether activity like this is considered work. Today the "otium" category comes back for example by "Slow Down" movement ideology (Laskowska – Otwinowska 2010), while in the management area, the author proposes to regard it as a sign of its present "flow" phenomenon together with its contribution to motivating, coaching, innovation and other similar issues (Csikszentmihalyi 2003).

Moreover both of the moralisms have recently been placed closely to the psychological research on work attitudes. Ammy Wrzesniewski proved that among representatives of practically every profession³⁶³ it is possible to distinguish people who treat their work activity mainly as an occupation from those who see it as a way to pursue their careers and those who are guided by their "calling" (Seligman 2003). Content wise, the term "career" corresponds with ascetic moralism, or "calling" - with expressive³⁶⁴. And the "occupation" attitude is a clear psychological operation, of a different than described, type of work ethic, which comes down to the belief "I work because I have to". As it shows, it's shared by the employees, but it is not (!!!) a component of the workplace cultural capital. With this kind of attitude an individual finds it difficult to assimilate or even to keep up with the Western market.

Lockhart (2002) warns about excessive idealism, pointing out that even in the USA numerous middle (and upper) class people can assume, that all adults have the workplace cultural capital. This is an illusion. The cited author, postulates that teaching the skills connected to workplace cultural capital can be initiated through

³⁶³The research on Prison Guards, successively carried out in Poland, under my guidance (using experimental translation of Wrzesniewski's questionnaire) shows that also in this occupational group mentioned diversity of attitudes towards work does exist.

³⁶⁴The weakness of the technique proposed by Wrzesniewski is that clearly it does not distinguish those with the "calling" from workaholics.

training focused on the practical aspects. Nonetheless, Lokhart (2002) concludes, that work ethics is a form of described capital.

Remembering the restrictions of Lokhart (2002), it's not difficult to notice the importance of both ascetic and expressive moralism as cultural foundations of development in capitalism. With the exclusion of subtleties, which I leave for the disputes of economic historians, it can be suggested without a high-risk, that the first type of work ethic supported especially the European version of the eighteen and nineteenth century capitalist system, and the other one, its contemporary American form, somewhere during the turn of the nineteen and twentieth century.

I propose to accept both of the moralisms as axiological content of the „American Dream” myth. What I am trying to prove is that it was not only dreamed but effectively accomplished far from the USA, independent from American influences and implemented before receipt of global recognition. The foundation of the mentioned timid thesis, is at the moment a contributory reinterpretation of the „Lodzermensch”³⁶⁵ myth, which was born on the province of globalization, on Polish territory, at the turn of the nineteenth and twentieth centuries.

I reinterpret the content of the myth *in the spirit of workplace cultural capital*, reaching to belles-lettres and memoirs, using the thesis of an American economist, a researcher of the history of Economics, but also a Professor of Rhetoric - Deirdre McCloskey (eg 2001), that nothing like the work of writers helps to understand and “calibrate” economic reality. Moreover it is true in the reference to the ethical aspect of this reality.

3. “Lodzermensch” – Provincial Myth of Work Ethics

Years ago Feliks Koneczny (1921: 579) wrote: “The native Polish capitalism has not been born yet”. The Polish historian adopted a very broad, culturally common, and at the same time strictly financial, understanding of capitalism. He meant the situation, where money was “not only the end of the enterprise as a profit and activity, but so it would be conversely the beginning, as a tool for gaining further increasing profit (Koneczny 1921: 578).

Cited theories of Koneczny historically appeared and continue to appear in the work of most Polish economic historians regardless of their ideology or methodology. For example recently Jacek Kochanowicz (see Kochanowicz and Marody 2010), a participant of European Comparative Studies on Economic History, recalled the research of Witold Kula (1955) and his coworkers from the fifties of the twentieth century, carried out under the pressure of Stalinist censorship. According to Kochanowicz, the result of these studies, which despite being created during the time, did not support dogmatic Marxism, are still relevant today and show that even in the eighteenth century, on the Polish territory “the traces of any capitalism where difficult to find” (Kochanowicz and Marody 2010: 39). Further, the cited historian writes about a social group of inhabitants of pre-Partition Poland, which quickly assimilated the values and practices of capitalism³⁶⁶. Naturally, we are referring to Jews. Kochanowicz (see Kochanowicz and Marody 2010) clearly excludes them from the group of pioneers of capitalism in Poland, emphasizing rather cultural differences of this community. This is a shame. Koneczny (1921: 579) recognized this problem much earlier and more consequently:

„The native Polish capitalism hasn't been created, so the Jews became our capitalists”.

It is worth reiterating that later (especially in the eighteenth and nineteenth century) a similar role was played on the Polish territory by another national group – Germans. The fact that German settlers were important promoters of the development of modern economy, especially in the times of August III, still hasn't taken root in common historical awareness, even among readers of historical works. This again is one of the basic premises of the attempts undertaken over the years to reinterpret the myth, or rather the anti-myth, of Saxon times³⁶⁷ (Bartkiewicz 1998; w zakresie rozwoju myśli ekonomicznej Skoczyński 2010 za Skrzypkim 2000). Following the specific quintessence of the cultural description of the German significance in modernization of the Polish territories, which Stanisław Wąsowski (1962/2010: 314) assigned to Ksawery Drucki Lubecki, the Minister of the Treasury in the Kingdom of Poland³⁶⁸, on the pages of his famous book “Polish life in the

³⁶⁵ The term „Lodzermensch” is genetically connected to people, who developed business careers in Lodz (Łódź), an industrial city on the today's territory of Central Poland, created in the nineteenth century on the wave of modernization processes. For long years, until the outbreak of World War II, Lodz has been a multicultural city with a large population of Poles, Jews and Germans.

³⁶⁶ At the beginning of this fragment Kochanowicz (see Kochanowicz and Marody 2010) states that Jews were a “potentially capitalistic” social group on the Polish territory. But his further characteristic of this group clearly allows omitting the adverb “potentially”.

³⁶⁷ In the Polish historiography the reign of the Saxon dynasty (late XVII and XVIII centuries), which preceded three Polish partitions (1772, 1793 and 1795), leading to the fall of the country, are generally rated very negatively.

³⁶⁸ Kingdom of Poland – deficient surrogate of the Polish state, after the partitions, which was formed during the Congress of Vienna and existed for 15 years (1815 – 1830).

nineteenth century"³⁶⁹, is an interesting example of the borderline between belle-lettre and historical journalism. This is therefore a publication particularly predestined for the creation of myths:

"One hundred and fifty thousand laborers came from Germany, and despite the objections raised that this could be dangerous for the future, I believe that the import of a professional craftsman will contribute to Polish industrial prosperity, and newcomers will slowly assimilate."³⁷⁰

Lubecki's parliamentary speech concerned the establishment of industrial Lodz, and it was one of the first elements of this type of rhetoric, which in time will create the "Lodzermensch" myth, describing specific types of businessmen from Lodz, mainly of German or Jewish descent³⁷¹. As mentioned, this myth has been developed and disseminated by belle-lettres (especially Polish and Jewish) and memoirs (mainly written by German authors or authors of German descent). Journalism played a big part in the preservation of the myth. The Jewish "Lodzermensch" face clearly "shines through" the pages of this paper, probably because of the distinctive tones of Yiddish literature, which was its artistic carrier. An important task for the future is to appreciate the German importance in the creation of this myth and Polish reinterpretation as well, which so far was mainly burdened with negative connotations³⁷².

Doubts as to whether the "Lodzermensch" myth can be attributed to Polish cultural tradition are dispelled by findings of researchers of the history of literature. On one hand, it is worth quoting Piotr Wandycz (1992/1995: 23), who by presenting the history of Central and Eastern Europe to a Western reader, and by looking for specific traits of the region, found reasons to make the following cognitive and very radical statement:

"Another rather unique feature of Central East Europe as far as the scale is concerned, was the presence and interaction with the local people of the Germans and Jews" (Wandycz 1992: 7).

On the other hand, while modern Poland, which was saturated with Sarmatian ideology, had not developed native, post-entrepreneurial patterns. However, during the birth of capitalism, it was precisely this cultural eclecticism, tolerance, and openness to foreign influences, which became a strong magnet for businessmen from different countries, reemphasizing again, Jews and Germans in particular (for features of traditional Polish culture mentioned here see eg Maliszewski 2010 and Mincer, 2009). The afore mentioned concept of multiculturalism, formulated and applied with success in Australia by Jerzy Zubrzycki, assuming, inter alia, that the division of labor is a stronger social bond than a common origin, is a modern use of the experiences of the Polish-Lithuanian Commonwealth (Pakulski 2011).

The insights of Laura Quercioli Mincer (2009: 437), allows one to "dot the i's and cross the t's" on the issue of Polishness of the "Lodzermensch" myth - the author of the essay on Yiddish literature, which was included as an integral part of the "History of Polish Literature" written by Italian experts on the subject:

"The necessary premise for the presence of this chapter in the book on the history of Polish literature is the assumption of the open character of Polish culture, as the expression of a dynamic society, able to accept the multiplicity of beliefs and faiths. From this perspective, the Polish literature in Hebrew and Yiddish is a part of the Polish writing: because of the kinship of topics, characters, landscapes, and referrals to the same historical events. Finally, because of the cultural matrix of the authors, generally, both Jewish and Polish or Jewish in its characteristic polish variant (according to Polish translation by M. Wozniak) ".

Nothing stands in the way of considering the "Lodzermensch" myth as an expression of the experience of mainly Jewish and German entrepreneurs, but "in a typical Polish" variant of these experiences. And the clash, often extremely involved, should be treated not only as an expression of ethnic problems, but also as a testimony of the struggle of Polish culture to face the challenges of capitalism.

Multiculturalism of the briefly described myth³⁷³ does not preclude that to its popularity contributed a Polish writer. The writer mentioned is Władysław Reymont and his novel "The Promised Land". The most common interpretation of the said novel sees the book as a dark image of a Lodz businessman. This approach seemed also suggested by Reymont himself in a letter to John Lenartowicz from 1896:

³⁶⁹ This publication was prepared by Wasilewski mostly during the interwar period but was updated after the war only to finally come out much later, several years after his death. In fact, the quote is a fairly loose interpretation of the actual speech of Lubecki. Wasilewski, for example, significantly overstates the number of German settlers.

³⁷⁰ The paper concerns the existence of „Lodzermensch” myth in Polish culture, therefore all quotations from belle-lettres are interpreted according to Polish original citations or translations to Polish.

³⁷¹ I omit that Wasilewski attributed to Lubecki, suggestion on the assimilation of foreigners in Lodz, which requires separate attention. Clearly, in the quoted context it was just presentism.

³⁷² It was Andrzej Wierzbicki from the Institute of History, in Polish Academy of Sciences, who brought to my attention the "cultural disproportions" of this essay.

³⁷³ More on "Lodzermensch" see first monographic issue of the monthly "Tygiel", 4-5, 1998, devoted to this matter. The discussed cultural matrix is analyzed, by some historians but usually in its negative connotation.

"The growth of the city, fortunes, doing business at the American pace, the psychology of crowds coming to prey, their mingling and diffusion, and shaping in one type of so-called Lodzer Mensch, the impact on the whole country, of this aspirator, the polyp which is Lodz. (quoted in *Lodzermensch* ...1998: 32).

Krzysztof Wozniak (*Lodzermensch* ...1998) proposes to distinguish two versions of the "Lodzermensch" myth. The literary, usually negative, which describes the character as a degraded person, who betrayed his own roots, and serves only two values: success and money. The second version is a collective memory of the Lodz workers, who attribute to "Lodzeremensch" quite different characteristics, above all - hard work, resourcefulness, as well as social sensitivity, expressed for example by taking care of workers' districts, pharmacies, schools, nurseries and similar institutions.

However, the literature, and especially Reymont's form of the myth which allows a diverse reading, was also not only filled with negative judgment. For example, Monika Adamczyk-Grabowska (see *Lodzermensch*...1998: 89) understands the message of "The Promised Land" as follows:

"diverging from tradition (...) leads to unhappiness, or even to destruction, but on the other hand, stopping it artificially or preventing change is impossible."³⁷⁴

The earlier quoted Reymont's letter corresponds well with this interpretation: "The growth of the city, fortunes, doing business at the **American pace** (emphasis T.O.)". So maybe it is worthy to treat "Lodzermensch" myth as our local, peripheral equivalent of the "American Dream"? Besides, such a suggestion already has some indirect empirical support. Persistently promoted by Szewach Wiess, the need for reconstruction of international careers of Jewish immigrants from the Polish territories (especially enthusiastically formulated recently by the same author in "Rzeczpospolita": "The Jews from Poland conquered the world!"³⁷⁵) has found its partial implementation in the work of Andrzej Krakowski (2011), which is devoted to the significance of the members of this community in particular, in Hollywood developments, and also from the management side, including innovation. The first of these researchers even attempted to distinguish the group of character traits giving the Polish-Jewish immigrants competitive advantage over the other groups, in building the "dream factory". Krakowski (2011: 13) mentions a better education in comparison to other nations who see America just as an opportunity for improved living conditions as follows; attributed survival skills and ability to adapt to new conditions, searching for the opportunities unnoticed by the competition are more important than family ties (eg Surnames); humanism and humanity, manifested through philanthropy when fortune has already been acquired; the ability to take risks, associated with joyless prospects of returning to the place of birth ("no one was waiting, at most the service in the tsarist army and the subsequent repressions"); empathy derived from experiencing various atrocities and giving them, kind of naturally, the status of creators, and also the fact that "(...) in spite of everything, they always felt patriotic and proudly reminded the world where they came from. It's a shame that there was no reciprocity". Krakowski (2011) proposed an operational description of the competence of "Lodzermensch" (verified by the international competition), reflecting a certain type of entrepreneur, who obviously did not have to be associated with Lodz.

However, this city attracted people, especially those with the mentioned abilities, which perhaps helped its growth, or at least at some point created an alternative to emigration. So I suggest going back to the source meaning of the myth.

Jerzy Grochman (see *Lodzermensch*... 1998), a descendant of factory owners, looks at "The Promised Land" from the angle of "American Dream", although without using that term. He draws attention to the fact that Reymont's "Lodzermensch", despite everything, is also an efficient "businessman"³⁷⁶. As to the myth itself, in his opinion, it was created through the generalization of the experience of Lodz businessmen³⁷⁷, usually not people of Polish origin, characterized by a certain ability to initiate business and diligence, described as local patriots, and in relation to the country – loyal at the most. Grochman (Spodenkiewicz 1998: 37) completes this description with a realistic statement that "some of them happened to be swindlers".

One cited author enriches Reymont's image of "Lodzermensch" by adding information on cultural (patronage) and philanthropic activities of this group. In his memories, of his own Lodz family with German roots, he brings up an example of Misses Treker, who was a type of "evangelical honesty, reliability in everything, through and through" (Spodenkiewicz 2006: 74³⁷⁸). He also expresses the belief that, in general, among his relatives -

³⁷⁴ Adamczyk-Grabowska (see *Lodzermensch* ...1998) attributes a similar meaning to the novel "The Brothers Ashekenaszi"

³⁷⁵ Israel was born in Poland. The interview with prof. Szewach Wiess by Piotr Zychowicz, "PlusMinus", supplement to "Rzeczpospolita", 24-25.09. 2011, P16.

³⁷⁶ Literally Grochman (see *Lodzermensch*...1998) talks about two faces of „Lodzermensch” in Reymont's work, where one is a „capble businessman”.

³⁷⁷ Grochman (see *Lodzermensch*...1998) proposes to classify foremen and officials as „Lodzermensches”. I omit this issue requiring separate attention.

³⁷⁸ I kindly thank Mikołaj Katus for bringing to my attention the memories of Grochman (see Spodenkiewicz 2006) and getting me a copy.

Protestants – the ethos of Gospel was very much alive. At the same time, Grochman rejects Weber's thesis about the Protestant origins of capitalism, pointing out that this way of doing business was born in Catholic Florence, and its second center was Catholic Belgium (Spodenkiewicz 2006).

A well-known Polish industrialist, on the pages of his memoirs left an interesting testimony on the German "branch" of "Lodzermensch" from their glory days, the beginning of the World War I, - Andrzej Wierzbicki (2001: 187, cited memory concerns 1915):

"The first thing we saw was the utterly Polish face of Lodz. If a part of industrialists in Lodz, who came from Germany before the war still felt sentimental about their fatherland, the military occupation policy had completely eradicated them. It was from the very beginning, consistently and relentlessly striving to destroy the Polish textile industry, a future competitor of the German industry. They understood that the victory of Germany meant destruction for them, and sympathized unreservedly with Polish society. As experienced organizers and administrators, they developed extensive activity in the local Citizens' Committee."

Radically different, journalistically generalized the "Lodzremensch" type was described twenty-two years later by Joseph Mackiewicz (2002: 77, quoted from reportage originally printed in "Słowa", 1937, 53):

"Lodzermensch, intentionally written by me in Polish, is a special type, if not a race. Lodz, which emerged so recently, originally consisted of several German families. Local residents – the Poles wandered there after the Germans. Later, the Russians began to invade, the people, who understand business. Then, of course, the Jews arrived. From this mixture, came into being a type of man predestined to live for money. You could say: internationalist, cosmopolitan, if he manages to go abroad, pacifist in business, supporter of Rydz-Śmigły³⁷⁹ in the cafe, and unionist at work - this is Lodzermensch."

The quoted words represent a fairly large set of explicitly negative opinions about "Lodzermensch", coming from many authors, in different periods, whose opinions I hereby omit³⁸⁰. According to the proposed theory, from the beginning of this paper, an interpretation of these statements can be seen as an expression of Polish fear of the challenges of capitalism.

If the evaluating layer of Mackiewicz's text is not taken into account, it is clear that it also preserves certain competencies of the representatives of the myth, such as international orientation, the ability to adapt to a "career" abroad (cf. eg the previously mentioned successes of Polish Jews in Hollywood), and - which is a novelty not recognized by previously cited authors - pacifism in the business.

Fortunately, Mackiewicz's column is not the last literary image of "Lodzermensch". In 1935 the translation of the novel, written nearly twenty years earlier, by an Austrian writer Joseph Roth - "Hotel Savoy"³⁸¹, was published in Poland. The author, who repeatedly visited and liked our country presented the multicolored profiles of the Polish Jews living in Lodz at the turn of the century. Even taking a quick glance at some of them, allows seeing different faces of "Lodzermensch".

Bohmfield, the owner of the hotel embodies a certain version of the fulfilled myth. He no longer lives in Lodz, just visits it from time to time, like the awaited Messiah.

"- Don't you know Mr. Bloomfield?" – wonders, one of the characters of "Hotel Savoy" - Bloomfield is a child of this city; he is a billionaire in America. The whole town calls: "Bloomfield is coming!" I spoke to his father, as I talk with you now, I guarantee you with my health that it is true (Roth 1924/2002: 29, according to Polish translation by I. Berman).

Febus Böhlaugu is "doing business" on the spot, de facto managing the Jewish capital of Lodz and during the absence Bloomfield wielding the finance. He is indeed a man of success, which he does not admit. Stingy even towards relatives, constantly complains about the lack of cash. His exaggerated complaints, however, are also a testimony of the extraordinary sensitivity of the "Lodzremensch's" soul to the pulse of the economic situation in both macro-and micro dimensions.

"Business does not run well in these times" - says Böhlaugu, worth emphasizing here is that he is talking about the era of prosperity in Lodz before World War I - "When I was little I was getting a bagel with poppy seeds for half a kopeck, bread now costs ten kopecks, children – knock on wood - grow up and need the money, Alexander would like to receive a daily allowance" (Roth 1924/2002: 12, according to Polish translation by I. Berman).

³⁷⁹ Edward Rydz-Śmigły (1886-1941), Marshal of Poland since 1935, hallowed by a political cult before the World War II.

³⁸⁰ A part of them cited by some participants of the „Lodzermensch – history and myth” discussion, which was organized and published under the same title by the editors of „Tygiel Kultury” (1998, 4-5: 28 – 38).

³⁸¹ I kindly thank Daria Trela, Ph.D. student at University of Warsaw, Faculty of Polish Studies, for her help with the study on „Hotel Savoy” for the purposes of this paper. However the level of my interpretation should not burden her.

And finally, there is Abel Glanz – a petty saver, who connects artistic and financial sense. He is a Prompter in a small theater, dreaming of becoming a director, and until then - trades currency. He is a frequent guest of Febus Böhlaugu. He talks about his "way of life" very realistically, while summarizing one of the important, if not the most important features of "Lodzermensch's" mentality:

"It is not easy to trade currency (...) You have to risk your life - this is the Jewish destiny (..) This is an enchanted matter" (Roth 1924/2002: 37, according to Polish translation by I. Berman).

By and by, it is obvious that the quoted passage formally uncovers the soul of "Lodzermensch" - or perhaps especially - his poorer relatives. It is about the ability to voice slogans of universal dimension, which have the quality of wisdom, and naturally concluding descriptions of everyday struggles in the reality of the free market. Not only in small towns, as Slominski wrote, but also in the richer Lodz, where a shoemaker was often a poet, a watchmaker (or currency trader) a philosopher³⁸².

In addition, to the mentioned exemplary individual characters of the novel, "Hotel Savoy" preserved also the atmosphere of the street in late nineteenth and early twentieth century Lodz. It was filled with people of the mentioned types, differed by financial status, and achieved successes, but united by a common way of thinking and actions in the free-market reality. Let's quote a part of the main character's thoughts that best captures the atmosphere of those times and realities:

"I kept roaming around, I saw black groups of fleet Jews in kaftans, I heard loud whispers, greetings, energetic expression and long speeches - pens, percentages, hops, steel, coal, lemons, all of this was fluttering, thrown out of from the lips in the air, aimed at the ears" (Roth 1924/2002: 10, according to Polish translation by I. Berman).

It's not surprising, that "Hotel Savoy" is now a "literary artifact" of Lodz's Festival of Many Cultures. In this context, it is hard to resist the dream that the cited novel will once have a similar role at a conference or in daily academic education dedicated to the identity of Polish business.

After years, particularly the "German face" (though not only German) of "Lodzermensch" was revived on the pages of Charles Dedecius' (2008) memoirs, "European from Lodz", as he called himself. As a quoted translator and essayist, he comes back to the beginning of nineteenth century and prosperity of Lodz, after the Government of the Kingdom of Poland included the capital of the region to the group of industrial cities. Due to the excellent natural conditions favoring the production of textiles, the described area quickly became a place of settlement for many entrepreneurs from different regions of Germany and today's Czech Republic. As an example Dedecius (2008: 18) mentions Meyer, Scheibler, Biederman, Eistert, Schweikert, Heinzl, Konderaman, Horak, Kohn, and Poznanski, "who, over the time, built a whole lot of small and large workshops and factories, contributing to the unprecedented prosperity of the city". German writer, who himself comes from a family of a city government official, and was watching "typical Lodzermensches" from a close (but still some) distance, outlines their balanced portrait. At the same time, showing the accurate sense of what, culturally speaking, is entrepreneurship, and even more generally - widely understood business. Dedecius on one hand, does not hide his admiration for the dynamism and momentous actions of Lodz industrialists, he understands their desire of getting rich, which also favored the development of the city; on the other hand, he is aware of the unavoidable pathologies coexisting with the described processes. This resulted in the creation of probably one of the most beautiful, and yet realistic, synthetic depictions of "Lodzermensch" myth.

"Some started from a loom and fifty years later, they were masters of the industrial empire, employing thousands of workers. They lived in palaces like princes, built housing estates, maintained schools, churches, theaters, hospitals, founded artistic and musical associations, made their way to fortunes worth billions, which was of course with the benefit for the city. The golden era of Lodz has begun, a former village and later the second largest city in Poland, after Warsaw. Lodz appears to be telling this story fondly. But of course, wherever there are so many big factories and palaces, there must exist misery and lawlessness" (Dedecius 2008: 18, according to Polish translation by S. Lisiecka)".

It is hard to escape the impression, undoubtedly requiring an expert analysis, that the Dedecius' sentence about a career of the village, which has become so attractive to foreign entrepreneurial immigrants that it has quickly grown to the status of a local metropolis, can be treated as a specific metaphor for the general participation of Poland in the processes of modernization.

Dedecius, who came from a German-Czech family, during his Lodz childhood had friends, who were representatives of those two nations, but also among the Jews and the Poles. It is the intercultural trait of "Lodzeremensch" (a feature which seemed to be shared by characterized "type" and the rest of the described

³⁸² See poem by A. Slominski *Jewish Towns Elegy*.

citizens of the city), which according to the diaries of the cited author, was the primary determinant of Lodz during the interwar period and earlier years.

Isaac Bashevis Singer characterizes Jewish entrepreneurs of the late nineteenth and early twentieth century in a similar manner. However his characters rather work in Warsaw or in small towns (the brother of Nobel laureate took a liking for Lodz), but the certain features of economic activists representing the Polish Jews seem to be so "locally universal" that I allow myself to include them in the literary terms, broadly, in this case even archetypal captured legend of "Lodzermensch".

Maks Mordche, a wealthy Jewish businessman from South America in character from the novel "Scum", which is set in the early twentieth century, after the death of his son, and because of other personal problems, seeks solace in returning to Poland. To the question of assistant rabbi from Warsaw "Would your business be good here?" – He answers without hesitation: "My business is good everywhere." (Singer 1991/1992: 73, according to Polish translation by L. Nicpan).

Somewhat earlier, in the years of relative economic prosperity of the Congress of Poland, takes place a different novel of a cited Nobel Prize winner. "The Estate", which begins with the hope expressed by Daniel Kaminer, who is a dying supplier of the Russian garrisons and expects his grandson Sasha, will take on his business.

"Daniel Kaminer has long realized that Sasha knows the life and the people and has a nimble tongue. It is possible that he shows talent for business. The grandson took after the Kaminer family." (Singer 1969/1997: 9, according to Polish translation by I. Wyrzykowska).

Moreover these hopes are fulfilled, soon after the death of the doyen of the family. "It turned out, that the boy has a truly Jewish business sense. He learned everything so quickly which has astounded people" (Singer 1997: 10, according to Polish translation by I. Wyrzykowska).

On the pages of the same novel Singer also captured another feature of the myth of the Jewish entrepreneur, that is - the tension between the efficient adoption of the market rules. Also, the attachment to Jewish tradition, which in "The Estate" is marked as a characteristic for Hasidic abnegation of material matters.

This tension, sparkling with diverse colors of Judaist religious variants, is also preserved in the literary mythology of small Jewish towns (shtetls) against the trend present on the pages of the novel, which puts the provincial towns of unsullied tradition in opposition to monstrous urban environments that only rush for profit.

A more precise statement of how some of the elements of the "Lodzermensch" myth which was raised in a fairly large, industrial city, can also be applied to small businesses in small towns, requires a separate analysis in the future³⁸³. However, basing only on a preliminary hypothesis, I notice, that even a quick glance at the characters inhabiting these two literary territories shows that the mentality of the entrepreneur or small-town merchant does not have to be substantially different from the classical psyche of "Lodzermensch" with the obvious difference in the standard of living. Moshe - Avrum, the owner of a small shoemaking business and father of the Plock protagonist of Symch Symchowicz's novel "Stepchild on the Vistula" which is full of obvious autobiographical references, painfully experienced the advent of bad times, difficulties of supporting the family, paying apprentices, and enforcing debts. The grief overcomes the shoemaker, who becomes aggressive towards his wife. When the tension disappears Moshe - Avrum has an idea, - after a specific, mentally performed, "analysis" of the local market – he decides to open a restaurant. This initiative brings the expected profit, but makes it very difficult for the whole family to celebrate Sabbath. The discomfort becomes one of the factors causing his daughter to immigrate to Palestine. But not only the living conditions motivate Moshe – Avrum's entrepreneurial activity. When winter comes, slowing down the development of the restaurant, the father of the protagonist of "Stepchild on the Vistula" goes back to work as a shoemaker. Of course he did it in order not to waste money earned during the summer, but "besides, he did not like to sit on his hands (...). The main purpose of the whole bustle was to kill the winter inactivity, and earn a few extra zloty" (Symchowicz 1994/2005: 78 - 79, according to Polish translation by M. Domanski). A similar "decompression of risk", a bit earlier, in another town (Ukrainian Voronki) was undertaken by the father of another character, of a different autobiographical novel, "The Great Fair" by Sholem Alejhem, Reb Nachum Wewik, who "was considered the richest man in the town (...). He was a property owner, supplied beets to the sugar factory, leased the local post office, traded grain, transported loads by berlinkas (boats) on Dnieper, cut trees, and traded oxen, but he drew his main income from the store with a workshop" (Alejhem 1989: 30, according to Polish translation by M. Friedman). As Bal Machszowes pointed out, the portrait of Menachem Mendel, "Luftmensch" sketched by Alejhem embodies an even more archetypal Jew – multi-entrepreneur

³⁸³ The awareness of this issue and its problematic I owe to Marcin Wolniewicz from the Institute of History, in Polish Academy of Sciences.

"stockbroker yesterday, matchmaker today, forest merchant tomorrow, insurance agent the day after tomorrow (...). He lives a feverish dream" (quoted in Belis-Loegisem 1989: 20). However, because of fidelity to the cited literary narrative, it must be admitted that Mendel turns out to be an entrepreneur who is far from achieving a sustainable business success.

Returning to the canon of the myth, this is the human figure of a businessman inhabiting a relatively large industrial city on the Polish territory in the nineteenth century. It is valuable to stress that also in this version, the unconstrained adoption of market rules by Jews did not "sentence" them to self-evident success. Here probably lies the main difference between the "Lodzermensch" myth, and the "American dream". If the reader refers to the literature describing the situation after World War I, when the Polish independence caused the closure of Russian markets for "Lodzermensch" products, he/she can see that the drama of those who failed thickens and becomes social. Undoubtedly one of the most moving symbols of this occurrence is the image closely linked to the deep crisis of the city, the death of an entrepreneur, described by Israel Joshua Singer on the pages of the novel: "The Brothers Ashkenazi":

"Lodz broke down (...) The King of Lodz Max Ashkenazi, tried along with the city to come back to life but the strong convulsions were ones of a very sick man, as if shimmering, flickering candle's before going out. Nothing could be put back together from the broken pieces of the Ashkenazy's kingdom. It cracked and broke together with the city, just as it was born with him."

The dynamic inclusion of Jews, along with those living on the Polish territory, in the process of modernization has resulted in, what it is worth recalling, the radical "escape from the ghetto."

"Regardless of all the other consequences, the modernization process also brings Jews closer to integration with the rhythm of universal history. It becomes clear that they have never been excluded, but now, their relationship with the Jewish world has strengthened greatly" (Prokop-Janiec 1998: 13), as emphasized in the introduction to the new Polish edition of "The Brothers Ashkenazi".

The dynamic "escape from the ghetto" which carried larger experience baggage of capitalist entrepreneurship than the one of other inhabitants of the Polish territories (except, of course, Germans) in the context of the interplay of other conditions, and recollections of which greatly exceed the subject matters of this paper, brought well-known, dramatically difficult problems to the relationship of Jews and their non-Jewish surroundings. I choose to only signal this issue, citing the voice of Gregorz Krzywiec within the discussion on the book of "Chauvinism in Polish. The case of Roman Dmowski", recently published in "Midrasz"³⁸⁴, stressed, that the economical conflict between the nascent in the late nineteenth century Poles, and already settled Jews, was one of the main factors of the popularity of ND³⁸⁵. It also seems, that the full analysis of bad relations between Poles and Jews before the Holocaust drama is impossible without producing the materials in Yiddish, at least those belonging to the Jewish Historical Institute, which were not yet the subject of scientific analysis recently mentioned in press by the Director of the Institute – Paweł Śpiwak³⁸⁶.

However, economic Polish-Jewish relations did not have to be all bad. This paper remains within the issues of the myth, in order to highlight the mythical "potentials of minority" that creates a model of conflict relations between representatives of different cultures in the widely understood business. Let the example of Mr. Malczyk, who supports a poor Jewish child called "Gilgul", a Polish customer of the protagonist's father in a Symch Symchowicz novel, "Stepchild on the Vistula", to be an example of the mentioned content:

"Malczyk was a building contractor, and after a long summer day's work he liked to sit for hours in Moshe – Avrum's restaurant, over a pint while chatting with anyone who turned up. He was well conversed with the Old Testament recognized and respected Jews - people of the Covenant, from which Jesus came, and liked to speak of them. He sympathized with "Gilgul", and several times took him to the barber for a haircut and often bought him food" (Symchowicz 1994/2005: 65, according to Polish translation by M. Domanski).

It might be worthy to reinterpret the "Lodzermesch" myth under the appeal, delivered on a different occasion by Christian Krause:

³⁸⁴ „Midrasz” – cultural Jewish magazine in Poland, currently published.

³⁸⁵ The quoted opinion was published in „Głos z Sali”. That kind of discussions are in itself mythogenic. Here, I do NOT raise the issue of historical justification of this opinion. ND mentioned in this context is understood as the National Democracy, Polish right-wing political movement active from the latter nineteenth century.

³⁸⁶ The term Jew stops being a pejorative association. Conversation between Mazurek and Paweł Śpiwak „PlusMinus”, supplement to „Rzeczpospolita”, 26.11.2011. From: <http://www.rp.pl/artykul/365403,760279.html> [08. 01. 2012].

"History can not be turned back. However, the consequences which we are ready to draw from it for our present and for the future of our children, are a new challenge for us."³⁸⁷

In this perspective, the essence of considerations regarding "Lodzermensch" may relate to the following reflection by Dedecius (2008: 354 - 355), suggesting that the myth mentioned should be read as a tale, grown on the Polish territory, of an effective businessman more or less aware of the tension between the "human factor" and the struggle for profit, who without a doubt knew how to meet the challenges of globalization³⁸⁸.

"I owe being brought up in coexistence and cooperation with people of different nationalities, different religions, different origins and different views, to my Lodz school education. To Lodz, the city of my youth, I owe having the right attitude towards work, to daily duties and responsibilities. (Even now, I cannot stand bad work and idleness – in me). Furthermore, there is also the invaluable experience of camaraderie, the joy of life, and "non-idle idleness"³⁸⁹ (according to Polish translation by S. Lisiecka).

4. Not Just History. Not Only Literature. Conclusions for Contemporary Business Ethics.

Of course, questions arise about the "benefits" that interest in the "Lodzermensch" myth can give in the context of contemporary business ethics. The issue of globalization underlines one of the potential benefits within reach of nineteenth-century pro-entrepreneurial myths. The works of leading economic history researchers such as Kevin H. O'Rourke, Nial Ferguson or less known Barry Eichengreen, have established that in some aspects, the maximum level of globalization, understood according to modern criteria, took place in the late nineteenth and early twentieth century. It was halted by the outbreak of World War I. The role of imperialism in the "first shot" of globalization remains an issue of dispute (Booth and Rowlinson 2006). It is worthy to emphasize again that "Lodzermensch" as a specific model of businessman has been formed and experienced its "golden age" during the first wave of globalization, which is considered the strongest to date. Ethical issues carried by the literary narrative of the myth may prove to be important also today, as an example we are reminded of the tension between the requirements of the pursuit of profit and respecting religious values, or the related imbalance between the cosmopolitan nature of the practices of modern capitalism and the need to root in local traditions. After all, it is not only in Huttington's opinion that now one of the main problems of intercultural management is a problem with a strong ethical charge.

Therefore, it is valuable to perform comparative studies of cultural archetypes, similar to "Lodzermensch", but from different countries, regions and civilizations. The activities and views of Antoni Gaudi are examples of such objects of study. They combine fidelity to local identity, along with the universal values of Catholicism and fraternity with culture of a market. The Taiwan version of guerilla capitalism, according to Danny Lama and Cal Clark (1994) grew from the soil of cultural values of Taoist activity of the economic "tigers of Anatolia", who enliven the Turkish province, drawing from the diverse traditions of Islamic culture. Maybe the African civilization, and especially its family and neighborhood collectivism, vitality and sensitivity to the rhythm created, probably in the oral tradition, specific, unknown to the West, pro-entrepreneurial myths, which do not lack the ethical charge. These hypotheses will be presented slightly more expansively at the Congress by my younger colleagues Monika Strocka, Piotr Gołaszewski and Lars Derlich in the paper: "Provincial Antecedents of the "Good Work Project" and Good Practices for Contemporary Business Resulting from These Antecedents."

The adoption of this research, especially in the latter exemplary cases, would undoubtedly help theoreticians and practitioners of business face the "postcolonial thinking" syndrome. This phenomenon, which is particularly visible in Africa, also applies to other "provinces" of modern capitalism, such as "new" Member States of the EU, including Poland. "Postcolonial thinking" is a category that a Polish-American Slavic studies professor from Rice University in Texas suggested to apply not only in literature but also as an analysis of the political situation in Poland. In this context "postcolonial thinking" has to do with the adjustment of activities of one nation to the actions of bigger and more powerful countries (hegemony). This type of an approach, in the underlying example, refers to situations where smaller countries do not bring forward their ideas/suggestions and do not articulate their own interests. It is a clear example of a leader and follower relationship. The follower always waits for the leader's approval. The rupture of such a way of thinking by politicians that represent given countries is a very important step towards normalcy that has to do with the democratic concept of 'fair game'.

³⁸⁷Part of the sermon delivered by Christainsen September 8, 2002 in Świdnica. He was then president of the World Lutheran Federation, quoted by Adam Bujak's album (2007). *World heritage. Poland on the UNESCO list*. Cracow: Biały Kruk, p 249.

³⁸⁸It is worth recalling that "Lodzermensch" as a type of businessman, was formed and experienced its "golden age" during the first wave of globalization, which is considered by far the strongest.

³⁸⁹Unexpected for me, Dedecius' (2008) indirect suggestion that category of "otium" should be included in the "Lodzermensch" myth is interesting enough that it requires a separate discussion, exceeding the size of this paper, which has a very draft nature. I plan to take up this discussion in the future.

It is not difficult to find unethical practices in intercultural business resulting from post-colonial thinking. As an example, we can take the case completed a few years back concerning lobbying against the President of Lafarge, who was sued by the Poles, and members of the company board. As confirmed by the verdict of the court (and the French lawyers), the mentioned President used phrases like "big shit" to describe four of the Poles, while also speaking sarcastically of the "Polish logic of thinking" or "the Polish intelligence". He asked the Financial Director to calculate the cost of maintaining his own private home, sarcastically stating that the Director could also mow the front lawn.

It turns out that under the foundation of the aforementioned symptoms lie the "post-colonial thinking" stereotypes, formed by a lack of historical knowledge of, among others, modern businessmen from Western countries. The following statements and examples given by two British historians, illustrate the situation very well:

"Before twelve million Africans were kidnapped to be slaves in the New World, the main victims were the Slavs, who gave their name to slavery³⁹⁰. Hunted by Romans, Christians, Muslims, Vikings and Tatars, they were exported all over the world. Slave came to mean foreigners (...) More recently, when Slaves found themselves ruled by tyrants and saw no hope of escaping, some gloomily concluded that there must be something in the character of Slavs which dooms them to being enslaved. This is false reasoning, pretending that what happened had to happen" (Zeldin 1995: 7 – 8).

"The image of Eastern Europe as some sort of a strange creature was formed, because nothing was known about it and as if there was anywhere to learn from. I remember times when I was studying at Cambridge, then teaching at Oxford. Back then, something like the historical study of Poland, Czech and Hungary did not exist at all. The history of Eastern Europe appeared only as part of so-called Soviet Studies and was important only as far as it concerned the history of the Soviet Union (...) and to change this, you need a lot of time and effort. The image of the Polish plumber, who steals the work of the locals (...) is part of that tradition. Today there is more to it. Additionally we have the Western fear of globalization, of an uncertain tomorrow, porous borders, relocation, and competing with new economies. Opening to the East is in the Western view, a part of this series of events³⁹¹."

The compilation of the above statements does not necessarily require comment and it also applies to business problems outside of Eastern Europe.

The literary origins of the myth of "Lodzermensch" also point to the usefulness of literature as a learning tool of cultural capital, including its inherent ethical content.

In Conclusion, I hope that my fragmentary study of axiological layers of the non-American "American dream" will be helpful in the development of intercultural education and training on workplace cultural capital.

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³⁹⁰The thesis, quoted by Zeldin, is now seen by historians and philologists as scientifically unjustified. However it reflects well the average colloquial thinking of a "Western man".

³⁹¹Tony Judt, after Newsweek Internet archive. "Europe". Available at: <http://www.newsweek.pl/> [2007]

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FROM PROCEDURAL ETHICS TO ETHICAL LEADERSHIP:

WHAT CORPORATE WORLD MIGHT LEARN

FROM CONTEMPORANEOUS ARMED FORCES

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SUMMARY

This paper investigates the experiences that contemporaneous armed forces of democratic countries have accumulated regarding ethical leadership. While corporate Social Responsibility (CSR) and Regulatory Compliance (RC) only partially cover ethical issues in multinational companies (MNCs), one of the most salient features that stand out from the comparison between the corporate and military environments is that if they share a common concern for compliance, the two other dimensions of ethical leadership and followership are left aside in corporate world. From initial training to job and career assessment, ethics have always been considered as a major issue in armed forces. As a result, they encourage transformational rather than transactional styles of leadership.

KEYWORDS LIST

Armed Forces, Business Ethics, Compliance, Corporate Social Responsibility, Ethical Leadership, Followership, Leadership, Transactional Leadership, Transformational Leadership.

Introduction

A major ethical concern for business organizations is the interaction between profit-maximizing behaviors and non-economic concerns (Orlitzky, Siegel, & Waldman, 2011; Orlitzky, 2011; D'Amato, Henderson, & Florence, 2009; Health Care Compliance Association, the Society of Corporate Compliance and Ethics, 2009). This issue, not new to academics and practitioners, is considered as having normative and prescriptive dimensions. If the scope of what is considered as business and corporate ethics is subject to cultural and political beliefs and perceptions (Duska, 2007), large multinational companies (MNCs), independently of their national or geographical origin, have invested significantly in the last two decades to improve their ethical profiles with the introduction of a variety of ethical codes, charts and certification programmes. This approach, qualified as procedural, addresses three main areas of interest for business and corporate ethics : 1) relationships with stakeholders (employees, suppliers, customers and communities) 2) relationships with other companies, organizations and norms providers (regulatory agencies, accounting, tax and legal bodies) and 3) individual decision making and behaviors of managers and employees.

Corporate Social Responsibility and Regulatory Compliance as Ethical Practices of MNCs

Two separate movements have structured the approach of the corporate world towards ethics in the last two decades: Corporate Social Responsibility (CSR) and Regulatory Compliance (RC). Historically, Corporate Social Responsibility is the first comprehensive attempt to address key dimensions of business ethics as well as a way to better relate business and corporate perspectives with environmental and social perspectives (Freeman, 2010). This CSR movement has led to the implementation of sophisticated procedural systems in the last two decades as observed in annual reports and reference documents and in the number of certification programmes, ethical codes and charts that companies have adopted (Mauléon & Saulquin, 2008; Durif & al., 2009). However, analysts have questioned the actual scene behind the numbers in terms of real changes in business practices (Ciulla, 2011) and a paradoxical view has emerged, as a significant number of recommendations insist on the fact that it is difficult to certify such elements as “*social responsible or ethical behaviors*”³⁹², be it at the organizational or individual levels. The most recent ISO standard on “Social Responsibility” (ISO 26000 : 2010)³⁹³ has been published as a guidance only and not as a management system leading to a certification as it is the case for the usual ISO standards and especially ISO 14000 series on environmental management³⁹⁴, released in 2004. This latest ISO standard on “Social Responsibility” clearly states that it “*is not intended or appropriate for certification purposes or regulatory use*” (ISO 26000: 2010). Business community has been receptive to this “non-certification approach” of social responsibility issues, such as the former head of corporate standardization and regulation at Siemens, stating that “*to certify a socially responsible behavior of an organization is something theoretical, an artificial construct.*” (Gürtler, 2011). This recent “non-certification approach” indicates a growing awareness on the limits of a conception of business ethics as being addressable through procedures and managerial systems at it has been the case for the last two decades, opening the debates towards a more comprehensive approach of business ethics in the corporate environment.

Concerns for regulatory compliance appeared on the early 2000 following series of corporate scandals regarding accounting malpractices that went public and brought a couple of major MNCs into bankruptcy³⁹⁵. This sheds a light on the potential of some MNCs to engage into unethical financial, tax and legal operations, with the involvement of auditing companies in charge of account certification. As a consequence and to answer governmental and shareholders pressures, a number of MNCs have nominated experts in charge of monitoring legal compliance. Chief Compliance Officer (CCO) positions have been appointed, in charge of implementing policies and procedures to monitor compliance with applicable laws and regulations, and in a more extended definition, to track internal frauds and inappropriate behaviors. However, CCOs deal mainly

³⁹² A review of recent CSR related programmes and guidelines indicates that the word “*fair*” is preferred to the word “*ethical*”, reducing implicitly the goals and scope of those procedures.

³⁹³ ISO 26 000 : 2010 guidance on Social Responsibility covering organizational governance, human rights, labor practices, environmental practices, fair operating practices, consumer issues and community involvement and development

³⁹⁴ ISO 14 000 standard allows for certification in the field of environmental best practices with a set of guidelines and metrics to be put on place for eliciting certification.

³⁹⁵ Enron bankruptcy in 2001 being the most emblematic of these fraudulent bankruptcies.

with financial and legal dimensions of business and accounting. Compliance charts and monitoring processes have limited involvement and impacts upon individual and organizational behaviors in their relationships to ethics (Ethics Resource Center, 2007)³⁹⁶ and in most cases, are not perceived by managers and employees as resources to help solve ethical issues and dilemma they might face.

This review of corporate practices indicates that ethical issues are partially covered in MNCs through a combination of formal ISO types of procedures - which certification is increasingly rejected by the business executives - and, lately, by the nomination of compliance officers whose scopes of responsibility are clearly restricted to the observance of formal legal regulation.

This paper investigates the experiences that armed forces of democratic countries have accumulated regarding ethics as, beyond compliance and procedural approaches, they actively promote ethical leadership attitudes at the different levels of their organization.

Genesis of modern military ethics

Aristotle, who laid the foundations of occidental ethics, built his theory as a pyramidal scheme of human activities and knowledge, at the top of which stood political science. He claimed that the different fields of human activities were subordinated to the art of living together (*Nichomachean Ethics*, 1-2) and that an acute sense of belonging to a political community was at the core of ethics. Thomas Aquinas brought a major contribution to war ethics with his attempt to define the conditions under which a war could be declared "just" (*Summa Theologica*, 2.2.40.1). While philosophers, historians and lawyers have tried for centuries to define the conditions of just war, warriors' behavior on the battlefield and after the battle have been nevertheless influenced by customs, traditions, war contingencies and supposedly aristocratic heroic values. It is the International Humanitarian Law (IHL) which definitely brought formal ethics concerns in the armed forces, with the Geneva's conventions and their additional protocol. Post WWII political context combined with the end of the Cold war, the professionalization of armed forces and the increasing number of international armed coalitions contributed to the growing importance of ethical issues in military organizations (Deakin, 2008) of modern democratic countries (Irondelle, 2008). During the late 90's, ethical issues culminated with the concept of "strategic corporal" which became popular in Anglo-American forces (Krulak, 1999). Under the influence of the downsizing of military units, but also substantial technological changes, young and low ranking military personnel came to hold positions with responsibilities they never had before. Their actions have also become increasingly mediated as scandals due to unethical behaviors of individual soldiers in military operations proved to have dramatic consequences over public opinions, turning short term military tactical successes into long term strategic disasters (Zimbardo, 2007). With the concept of "strategic corporal", ethical issues have become a matter of concern for everyone employed in armed forces, and not only officers (Johnson, 2011). This is reflected in the growing importance of the Rules Of Engagement (ROE) as a means of political control of military action through codified sets of rules regulating the use of force. ROE are defined by headquarters with the approval of legal advisers and political decision makers (San Remo ROE handbook, 2009). Officers are in charge of monitoring ROE at all levels of the organization: compliance with ROE being a cornerstone of modern military ethics.

Towards a comprehensive definition of Ethics in Armed Forces

Ethics in contemporaneous armed forces are not restricted to ROE compliancy issues and intense discussions have been held in the last decade about the relevancy and scope of "Ethics" in armed forces (Robinson, 2008). Military Ethics has a longstanding relationship with leadership (Barnes, 2010) for reasons not only related to morale and ethics but to performance and success³⁹⁷ in military operations. This relationship between ethical leadership and performance is well known by social-psychologists (Brown, 2005) who have described how ethical leadership in top management predicted ethical and cooperative behavior of front-line employees and middle and lower level supervisors.

Beside compliance and performance, a third dimension is attached to ethics in armed forces: it is the importance attached to the sense of collective belonging that is required from every member being part of a military organization. British Armed Forces are actively using the concept of "ethos" to describe the "tone and spirit" which guides a community and aggregates the behaviors of its individual members³⁹⁸. This concept of ethos is a mix of moral standards based on traditional military values (some of them being specific to the

³⁹⁶ For example, in the banking sector, CCOs are in charge of monitoring origin and transfer of funds from customers, rolling out guidelines and questionnaires throughout the organization to fight money laundering. This procedure relies on lists of officially forbidden "customers" that are provided by governmental sources.

³⁹⁷ "Ethical leadership is the bedrock for success in the military. Courage and competence win battles, but character wins wars. The military can never lose sight of that". In Barnes (2010)

³⁹⁸ British armed forces. See Ministry of Defence (Navy) (2011); Ministry of Defence (Royal Air Force) (2008); Ministry of Defence (Army) (2008).

Navy, the Air Force or the Army), good morals but also good morale. Creation and reinforcement of a “common and shared” ethos is an important part of military training and a prerequisite for any successful armed force operation as this is a determinant of an assumed and relevant followership.

However, the overall context of military organizations and operations is of particular significance to this issue, due to the critical situations that soldiers are facing in crisis and war situations. Respect for leaders is a prerequisite and a strong predictor of military success. In another perspective, Armed Forces Human Resources experts are also insisting on “Command Climate” as one of the key factor that affects Armed forces attrition rates. This critical importance of Ethical Leadership in military environment has led most of the contemporaneous Armed Forces to implement training and management processes that encourage and reward ethical leadership behaviors.

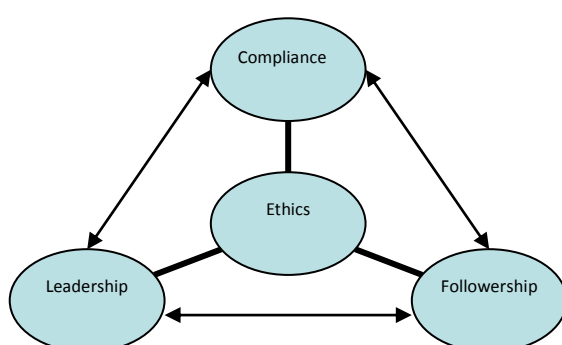


Figure 1: Relationship to ethics in contemporaneous armed forces

This comprehensive and global relationship to ethics in armed forces (Fig. 1) is a distinctive feature that has no equivalent in corporate world. If there is a shared and common concern for compliance in corporate and military environments, the two other dimensions of ethical leadership and followership are left aside in corporate world. Leadership is considered a critical issue in corporations, but it is seldom related to ethics as the dominant form of leadership style has turned transactional in the last decades. Followership is an unspoken concept in most corporate environments and the sense of community belonging seems to have vanished in large corporations as a survey carried out in 2008 on the perception by the 40 largest French companies³⁹⁹ regarding stakeholders relative importance indicated the following ranking: employees, suppliers, customers, shareholders and community (Mauleon, 2008). The same survey carried out in armed forces would give the following ranking: nation, army, unit, and soldier⁴⁰⁰. Sense of belonging to a community (either at the unit level or at a larger political level) is a pre-requisite in military organizations, being a pre-condition of ethical leadership and assumed and relevant followership.

This comprehensive approach to ethics in contemporaneous Armed Forces is supported by a variety of organizational processes such as training, individual assessment and career management which significantly

³⁹⁹ Paris Stock Exchange CAC 40 listed companies.

⁴⁰⁰ As presented in most military academies in the early phases of instructions.

differ from what managers in corporate world are exposed to during their academic training and work experience.

Training to ethics and leadership: comparing military academies and business schools

Historically, Business Schools (BS) considered ethics as a minor topic and many of them, until recently, had even not introduced any ethics at all in their curricula. Until now, ethics were seldom taught in BS as a separate module but were mostly related to the Corporate Social Responsibility (CSR) module⁴⁰¹ which has been introduced in most business school curricula, and, in some limited cases, in the module of business law, for compliance related issues. The stakeholders' philosophy is the backbone of CSR modules, getting the upper hand over the relationships between ethics and leadership and leaving unspoken the concept of followership. A typical CSR module covers a large scope of topics from environmental to social and political issues leaving a few hours to business and corporate ethics and their relationship with individual behaviors and decision making. Leadership, which has always been an important topic in BS curricula, is centered on individual behaviors with self-assertiveness reinforcement and an analysis of the impact of motivational practices on group dynamics. Leadership is seldom related to followership and is kept independent from ethics as a whole. This is consistent with the dominant paradigm of transactional leadership which is the mainstream approach to leadership in business schools.

In comparison, military academies have always considered ethics as an important topic and have devoted substantial means to this issue in the training of military officers. American and French Naval Academies include ethical dimensions in the courses on command and leadership⁴⁰² as well as military courses, stressing the importance of shared values and group dynamics abilities for managing in crisis situations. "Collective intelligence" and "respectful interactions" as highlighted in High Reliability Organizations (Roberts, 1990, 1994), (Weick, 1993) are taught and discussed. The concept of discipline – central to all military organizations – does not merge with the concept of obedience: it is discussed as an ethical and a personal moral requirement as well as the necessity to act as a follower and a team member in the group. This focus on the ethical dimensions of leadership as well as followership is meant to reinforce the sense of group belonging in most military academies.

Adding to that, a system of on the job leadership learning through responsibilities within the military academy is implemented during the three years curriculum. At the United States Naval Academy (USNA) responsibilities are given to midshipmen during their curriculum: running a company, a battalion and a brigade. First class midshipmen make daily decisions affecting the morale and performance of their midshipmen, teaching them fundamentals of the naval profession and helping them through difficulties. They are expected to lead through personal example, communication, rewards and discipline. By the time a midshipman graduates and becomes a naval officer, he or she has practiced leadership in a variety of situations and has learned the fundamentals of officer ship needed for the US navy.

Last but not least, military training includes individual leadership assessment skills as an important element. This is the purpose of the four days "on-the-field leadership simulation"⁴⁰³ which is an opportunity for future officers to exercise and test their leadership skills under stress. Cadets are in charge of preparing missions, dispatching roles within teams, managing assets (ensuring the safety of equipment, personnel and craft) and achieving mission goals in a complex crisis situation. The part of the assessment relative to leadership and ethical criteria such as "courage", "team work" and "sense of responsibility", besides the fact that compliance with laws is requested, tells for 30 % of the overall assessment. The assessment grid, common with the British Naval academy, is divided in two parts. The first one focuses on cadets leadership skills and the second one on their followership skills when they act as subordinates. Elements of this grid are presented in tables 1 and 2.

Leadership Qualities Assessment	
Courage and personal values	Sense of responsibilities as a leader
Moral and physical courage	Attention to subordinates' needs (Tiredness, self-control, team safety, material needs)

⁴⁰¹ A module is about 30 hours in most business schools.

⁴⁰² At the French Naval Academy, first year cadets follow an 18 hours course, while second year cadets follow a 19 hours module.

⁴⁰³ The simulation, called "swordfish", is organized by the Military and Command Training Wing of the French naval Academy. The 2011 exercise was organized for 78 cadets from different European countries and the United States.

Ability to take unpopular decisions	Ability to develop a team spirit
Self-confidence	Efficiency of team management and command : ability to identify weaknesses and strengths of the team members
Resistance to stress	
Ability to face challenges	
Positive behaviour during mission	

Table 1: Leadership Assessment Grid

Followership Qualities Assessment	
Courage and personal values	Team Member Work
Obedience to legal orders of his leader	Ability to place personal needs after collective ones
Physical courage	Ability to uses his personality to motivate and inspire team members
Discipline	Faithfulness to the leader ; faithfulness to the team
Tolerance	Respect, cooperation and sense-making; "believes in what he does"
Respect and ability to understand the others	Perception by the other team members

Table 2: Followership Assessment Grid

This four days exercise could be compared with the simulations Business School students run for a period of three or four days in groups of 4 or 5 students. Our experience is that the assessment criteria in those business simulations focus almost exclusively on financial and market performance metrics and do not give any consideration to leadership and followership qualities.

Career assessment practices in armed forces and corporate world

Job and career assessment practices in armed forces do pay a significant attention to leadership and ethical values. A balance is held between quantitative objectives and milestones linked to the responsibilities and qualitative elements referring to values, leadership and sense of belonging. In the French Navy, both dimensions are referred to and considered equally important for career promotion during the entire officers' career. This is in sharp contrast with most MNCs where the balance is clearly towards quantitative objectives linked to business or operational responsibilities with some qualitative elements for a minor part⁴⁰⁴. However, a tendency towards more quantitative criteria has been observed in contemporaneous armed forces, under the influence of New Public Management schemes which have been permeating public organizations in many countries in the last decade, hence pressuring towards quantitative objectives and minoring qualitative leadership skills. Indeed, there has been a recent and noticeable semantic shift from an assessment of "quality of services rendered" to an assessment of "individual performance", even if criteria and assessment practices have not changed in depth so far. "Team spirit", "sense of cohesion", "exemplarity", "and "ability to develop team members skills" remain important criteria in annual assessment and career development.

On transformational leadership, ethics and organizational performance

⁴⁰⁴ As an example, the assessment grid of senior managers of a major european MNC is split as follows : 70 % on quantitative criteria related to goals and missions negotiated and agreed with hierarchy, 20 % on contribution to on-going transformation programs and change management facilitation, 10 % on overall leadership and organizational citizenship.

This review of the differences between armed forces and corporate world leadership approaches in terms of training and career assessment indicate how different the relationships to ethics are in those two worlds. We have identified two different approaches to ethics and leadership. While corporate world has promoted transactional leadership styles based on management by objectives and incentives, reducing ethical issues to compliance and CSR inspired certification procedures, contemporaneous armed forces have adopted transformational leadership with its strong links to ethics and belonging. This leadership style stems from “charismatic”, “visionary” or “inspirational” leadership paradigm (Weber, 1946; Lewin, 1959), and became popular in the late 1980's (Bass, 1985). It has been refined with the identification of two types of transformational leaders, either « personalized » or « socialized » ones (Howell, 1988). While “personalized” transformational leaders look for their own interests, referring to values for their own benefit, “socialized” transformational leaders tend to serve collective needs and develop respectful interactions with their subordinates (Hardy and al, 2010). “Socialized” transformational leadership is supposed to better aggregate individual values into collective ones (Shamir, House and Arthur, 1993), and as a consequence, improve cooperation and mobilization among subordinates (Lowe, Kroeck et Sivasubramaniam, 1996), bringing higher levels of organizational performance.

The advantage of this leadership style is that it aggregates ethical issues with organizational performance requirements, something corporate world is looking for like the quest for the Holy Grail. Investing in transformational leadership could reveal a better investment for corporate ethics than rolling out the latest fashionable “Social Responsibility” guideline.

Conclusion

Through this review and comparison of ethical and leadership practices in contemporaneous armed forces and corporate world, our purpose was to explore and document how such values as respect for the others, sense of group belonging and trust, capacity to act as a follower as well as a leader, could promote ethical behaviors as well as sustainable performance of an organization. We have investigated how transformational leadership styles are promoted and supported by contemporaneous military organizations through training and career assessment practices. Transformational leadership could be seen as a challenging perspective for business schools and corporate world, reversing the growing analytical and transactional styles that have dominated the last three decades. In a period when the corporate world is looking for leadership styles that better cope with sustainable performance and ethical behaviors, the experience of the armed forces with transformational and ethical leadership styles might be found a valuable source of inspiration.

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WORK MEANINGFULNESS AS A KEY ENHANCER OF ETHICAL VALUES IN BUSINESS

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Summary

Despite abundant research on work meaningfulness, the link between work meaningfulness and general ethical attitude at work has not been discussed so far. In this article, we propose a theoretical framework to explain how work meaningfulness contributes to enhanced ethical behavior. We argue that by providing a way for individuals to relate work to one's personal core values and identity, work meaningfulness leads to affective commitment – the involvement of one's cognitive, emotional, and physical resources. This, in turn, leads to engagement and so facilitates the integration of one's personal values in the daily work routines, and so reduces the risk of unethical behavior. On the contrary, anomie, that is, the absence of meaning and consequently of personal involvement, will lead to lower rational commitment rather than affective commitment, and consequently to disengagement and a-morality. We conclude with implications for the management of ethical attitudes.

Keywords: work meaningfulness, sensemaking, commitment, (dis-)engagement, anomie, ethics at work, a-morality

Introduction

Many indicators point toward the difficulty employees have to find (positive) meaning in their work (see e.g. May, Gilson, & Harter, 2004). Like other employees, managers also struggle to integrate their work into the broader picture of their life and miss a link between the meaning of their work and their personal values

(Pruzan, 2001). However, a long history of research suggests that work meaningfulness is an important factor for well-being in life (Hackman & Oldham, 1980; May et al., 2004). Furthermore, it can be expected to increase ethical awareness at work (Alvesson & Willmott, 1996; Visser, 2004).

Work meaningfulness can be defined as the quality of work through which one can express personal life purpose, ideals, and values (Chalofsky, 2003; Coetzer & Rothmann, 2007; Rosso, Dekas, & Wrzesniewski, 2010; Spreitzer, 1995). By linking work to core personal attributes such as values, life purpose, and ideals, work meaningfulness transforms the worker's attitude and behavior at work (Ibarra & Barbulescu, 2010; Spreitzer, 1995) and allows for personal values and affect to permeate work.

The link between work meaningfulness and ethical attitude at work has however been only scarcely theorized. Despite the development of some recent literature (see Chalofsky & Krishna, 2009; May et al., 2004; Rosso et al., 2010), the relations between meaning and concepts such as sensemaking, commitment, and anomie remain blurry. Furthermore, theoretical explanations regarding the implications of work meaningfulness and its related concepts for ethical behavior at work are incomplete (see e.g., Sonenshein, 2007).

The aim of this paper is to sharpen the concept of meaning and its relationship to the related concepts of sensemaking, (dis-)engagement and commitment, and anomie, with a specific interest in the implications for ethics at work. We argue that (un-)ethical behavior at work does not only depend on personal character and the specific context of the (un-)ethical decision and action (Trevino, 1986), but also from a broader ethical mindset that is developed at work – that is, a general attitude toward purpose and values related to the work accomplished in a specific organization or, as put by Carroll (1987: 15), a "sense of moral obligation". This attitude will influence the way the person considers potential ethical issues and will reason in ethically critical situations, and depends on how one relates to the organization's purpose and values (see Palazzo, Krings, & Hoffrage, 2011). Feeling more holistically engaged toward the organization, that is, developing both cognitive and affective commitment toward the organization, might facilitate the involvement of personal values and virtues at work, including in ethics-related situations (see Coetzer & Rothmann, 2007). This development of work engagement or the absence thereof (called 'disengagement', see May et al., 2004), depends in turn on the presence of work meaningfulness or on the contrary the absence of "common meaning" between the organization and the individual (called anomie, Tsahuridu, 2006: 163). Finally, the presence or absence of common meaning depends on the way individuals succeed or fail at making sense of their work and the organization they work for – that is, relate work purpose and values to their personal worldviews, ideals, and values (see Ibarra & Barbulescu, 2010; Sonenshein, 2010; Weick, 1995).

By relating ethics at work to a broader model of interaction between personal values and organizational purpose, this article represents an important contribution to understanding how to enhance ethics at work. Among others, it points toward the importance of the general conception employees have of their organization. This broader perspective, which includes the way organizational members generally relate to values at work, might provide important insights in understanding (un-)ethical behavior that cannot be directly explained by individual character or situation-specific characteristics (see Palazzo et al., 2011) and in explaining why traditional ethical measures such as codes of conduct and ethical training might not be as effective as desired (e.g., Boyce, 2008; Webley & Werner, 2008). More generally, it highlights the importance of aligning economic activity with the values and worldviews prevailing in a given society and its members to increase work meaningfulness and, consequently, work commitment and ethical mindset at work.

The first part of the article will discuss the concept of work meaningfulness and its relations to two closely related concepts, namely personal identity and sensemaking (Weick, 1988). In the second part, we will discuss how the type of commitment and the resulting engagement moderates the relations between the meaning one finds, or does not find, and the person's development of an ethical mindset at work. We conclude this article with a discussion of practical implications and further research.

Work Meaningfulness, Personal Identity, and Sensemaking Processes

Work Meaningfulness

In their review of work meaningfulness literature, Rosso, Dekas, and Wrzesniewski (2010: 93) note that the literature ranges across many disciplines and "remains splintered into a diverse array of theoretical perspectives and methodological approaches." The authors further regret the overly narrow approaches of most past studies which focused on single rather than more integrative dimensions and perspectives.

In this article, we propose a broad definition of work meaningfulness. Following Spreitzer (1995: 1443), we define meaning as the "value of a work goal or purpose, judged in relation to an individual's own ideals or standards." Meaningful work is therefore work in which we can "express the meaning and purpose of our lives

through the activities (work) that comprise most of our waking hours" (Chalofsky, 2003: 73; see also Coetzer & Rothmann, 2007). It provides the opportunity to freely be oneself (May et al., 2004) rather than reduce one's personality to a pre-defined role, and therefore provides for a sense of coherence and wholeness (Korotkov, 1998). It is "experienced as particularly significant and holding more positive meaning for individuals" (Rosso et al., 2010: 95).

By focusing on the alignment of the "work goal or purpose" with personal ideals, the definition above elucidates the distinction between meaningfulness of the organizational purpose and task meaningfulness. Whereas most authors notice the importance of task meaningfulness (Beadle & Knight, 2012; see Rosso et al., 2010 for a review), workers might find some specific tasks not highly meaningful (e.g., 'paperwork'), yet they may enjoy being part of the organization (Shamir, 1991; Wrzesniewski & Dutton, 2001) and sharing some common goals (Ghoshal, Bartlett, & Moran, 1999). They may further understand that those tasks are necessary for reaching the organization's objective – an objective they consider as meaningful. For instance a hospital janitor's task does not directly save lives but still contributes to the well-functioning of a hospital and to the taking care of patients, indirectly contributing to better healing conditions (Wrzesniewski & Dutton, 2001; see Thompson & Bunderson, 2003).

This definition of work meaningfulness implies that (1) individuals have some explicitly or implicitly personal life goals and values and long for coherence and wholeness in life, and (2) a process takes place which relates work goal and purpose to these personal life goals and values. In the next sections, we first propose an overview of the concept of personal identity and then refer to sensemaking to discuss the comparison process.

Meaningfulness and Identity

By focusing on the relation between work and identity, the concept of meaningfulness refers not so much to the fact of *doing* something as to the possibility of relating this doing to one's *being* (see Lips-Wiersma & Morris, 2009). It is out of the scope of this paper to review the numerous theories regarding the construction, development, adaptation, and enactment of identity (see for instance Ashforth & Mael, 1989; Hitlin, 2003; Hogg & Terry, 2001). Instead, we propose a generic and rather consensual definition of identity as a specific combination of cognitive world conceptions and feelings that make a person unique. Following Maslow (1998 [1968]), we further propose that the possibility to 'fully be' oneself depends on the opportunity to develop a unique, complete, and coherent personality throughout all life situations. This personality further builds on Maslow's B-values such as wholeness, perfection, beauty, justice, and goodness.

An integrative conception of identity goes against theories suggesting that individuals can be reduced to mere addition of context-specific roles. Context-specific roles are constructed through an interaction process between an individual and his/her environment, and limited to specific situations (Hitlin, 2003; Haslam, van Knippenberg, Platow, & Ellemers, 2003; Hogg & Terry, 2001). These roles are made of those values, mindsets, and ways of thinking and acting that are considered as appropriate in a specific context such as work (Ashforth & Johnson, 2001). Most individuals develop various context-bound roles which are then to be integrated into a broader understanding of one's core personal identity. Erickson even suggests (1995) that in today's postmodern world, individuals rather develop a context-dependent understanding of authenticity, that is, they consider authenticity as congruence not between behavior and some integrative and context-independent personal identity, but between behavior and the specific role identity they display in a given context. "The postmodern challenge to authenticity becomes one of context. It is no longer a question of being 'true to self' for all time, but rather of being true to self-in-context or true to self-in-relationship" (Erickson, 1995: 139). Through meaning attribution, these context-specific and sometimes even contradictory identities can then be integrated into a coherent self. In her view, meaning plays therefore an important role in reframing context-specific identities into a coherent self – implicitly suggesting that maintaining a core personal identity remains essential for well-being (1995: 133).

Many authors doubt that reframing contradictory context-specific identities into a coherent self is sufficient for personal well-being (Chalofsky & Krishna, 2009). In fact, many authors point to people's "striving for meaning, coherence, and significance" (Gecas, 2000: 101) in their activities, that is, for relating their activities to their core identity, values and worldviews (Bardi & Schwartz, 2003; Hitlin, 2003). They rather propose that individuals strive for an authenticity which is not limited to context-specific identities, but results from a coherent integration of context-specific roles into a broader picture (Hitlin, 2003; see also Kristiansen & Zanna, 1988). This conception relies on the concept that Maslow's B-values represent central elements of a coherent identity which cannot be simply split into discrete context-related identity roles (see also Ibarra & Barbulescu, 2010).

The need for a single coherent identity is further supported by spirituality at the workplace scholars (see e.g., Mitroff & Denton, 1999). According to Benefiel (2005: 9), spirituality is to be understood in its broader sense

as the "intellectual, emotional, and relational depth of human character, as well as the continuing capability and yearning for personal development and evolution", and is not necessarily connected to a religion. It includes a personal need for coherence and meaning throughout the different components of personality (intellect, emotions, relations, soul in its widest meaning) as well as throughout all the context-specific identities, including the work context – implying a broader understanding of authenticity (Grün, 2005; May et al., 2004). Mitroff and Denton (1999: 83) for instance report that those who consider organizations as "more spiritual" are also able to bring "more of their 'complete selves' to work" and can "deploy more of their full creativity, emotions, and intelligence."

Since work meaningfulness is defined as work that can be related to one's broader personal values and aspirations (Lips-Wiersma & Morris, 2009), in this paper we rely on a broader identity concept that insists on the individual's quest for some value and life goal coherence and stability throughout most of the roles endorsed. This quest often relies on sensemaking processes.

Meaningfulness, Identity, and Sensemaking

For a coherent identity to develop across situations and roles, a sensemaking process is needed. Through sensemaking, individuals confront for instance organizational and work purposes with their personal core values, and assess the quality of the fit (Weick, 1988; see also Sonenshein, 2007). They build a story which coherently relates their work and organizational purposes to personal values and worldviews forming their core identity (see Ibarra & Barbulescu, 2010). As plausible links between the core identity and the object of which sense is made are found, meaningfulness emerges. Conversely, as no links are found or existing links challenged, meaningfulness is likely to decrease. This re-evaluation of meaningfulness through iterative sensemaking processes is regularly triggered by external (e.g., changes in organizational values or purpose through mergers, relations to co-workers, and leaders' discourses) and internal factors (e.g., mid-life crisis questioning personal life goals) (e.g., Weick, 1995). Consequently, meaningfulness is not to be considered as definitively acquired as it undergoes continuous questioning and re-adaption (see Ibarra & Barbulescu, 2010).

Common to most research is the conclusion that sensemaking is essential in building a common understanding of an object which individuals can either adhere to or refuse. The various studies suggest that sensemaking is therefore a central element in the development of the relation between an organization and the core identity of its members. Individuals confront the values of the organization with their personal core values, and assess the quality of the fit in an effort to build a story which coherently integrates the organizational core values into their personal values and worldviews, that is, into their identity (Ibarra & Barbulescu, 2010). The better individuals can make sense of their work and organizational membership in relation to their own values and worldviews, the more meaningful their work and its organizational context will appear to them.

By following a sensemaking approach of work meaningfulness, we clearly suggest that meaning is subjective (see Rosso et al., 2010), departing from approaches calling for an objective definition of work meaningfulness (see Beadle & Knight, 2012; Bowie, 1998). Furthermore, even though we acknowledge that the sensemaking process is shaped and influenced by the social and cultural context, we consider the debate about whether meaning is constructed individually or reflects "socially and culturally influenced worldviews" (Rosso et al., 2010: 94) beyond the scope of this paper. In fact, most identity theory authors acknowledge some influence of external (social) factors in the shaping of personal identity. We suggest therefore that the social stream of meaning construction can be integrated in the individual stream.

In summary, we can formulate the following proposition:

Proposition 1: Work meaningfulness results from a sensemaking process which successfully relates the purpose and values of one's work or work context to personal ideals and values.

Three remarks are necessary at this point. First, this proposition is in line with Rosso et al.'s (2010) distinction between meaning (any output resulting from a sensemaking process – whether positive or negative) and work meaningfulness as a positive meaning attributed to work.

Second, work meaningfulness or the absence thereof is not to be considered as either/or. Sensemaking processes can in fact result in partial fit between organizational and personal worldviews, and evolve over time. The meaning can for instance be very positive on some dimensions of one's work and negative or only slightly positive on others.

Finally, work meaningfulness differs from other closely related models such as work climate and person-organization fit (PO-Fit) through its integration of the sensemaking process. Work climate represents the aggregate perceptions organizational members have of the characteristics of the organization's practices and

procedures (Schneider, 1975). The climate can refer to many different dimensions such as climate for service, climate for safety, and climate for achievement, and so we can speak of a plurality of work climates within a single organization (Victor & Cullen, 1988). Even if it focuses on the perception people have of their work climate, work climate literature does not explicitly take into account the iterative process through which the perception is developed and how work climate then influences people's involvement at work. Neither does it explicitly conceptualize the question of the fit between the personal ideals, worldviews, and values on the one hand and the organizational values and purpose on the other.

The Person-Organization Fit model (PO-Fit) answers the second weakness, but proposes no solution to the first one. It measures the level of congruence between one's personal values and aspirations and the values of the organization for which the person works (Kristof, 1996; Hoffman & Woehr, 2006). Depending on the scales used, various organizational characteristics have been focused on by PO-Fit models (Verquer, Beehr, & Wagner, 2003; Hoffman & Woehr, 2006; Kristof-Brown, Zimmerman, & Johnson, 2005). These various focuses have contributed to understanding worker engagement in relation with their personal identity and the organizational characteristics (Argyris, 1957).

The PO-Fit model however focuses mainly on an 'objective' fit – that is, a measurable similarity between the organization's and the person's values (Chatman, 1989; Kristof, 1996). Even though some measures of the PO-Fit insist on the subjective perception of the fit (Edwards, 1991; Verquer et al., 2003), the model does not address the process through which the subjective evaluation is done. Neither does it include the question of the sense people make (or don't make) of this fit. Work meaningfulness differs here from PO-Fit in the sense that it is constructed within one's personality, rather than describing an interaction as in the PO-Fit model or even an external characteristic external to the individual as in the case of the work climate concept. Finally, May et al. (2004) insist that meaningfulness is not reduced to a fit of values and purposes but also depends on job enrichment and co-worker relations – insisting on a more encompassing approach of the fit between organization purpose and individual values.

For those reasons, we consider that a sensemaking and work meaningfulness model of the person-organization relationship is more adequate to understanding how value congruence between the organization and the individual influences worker motivation and ethical involvement at work.

In conclusion to this first part, we propose that work meaningfulness derives from a sensemaking process which evaluates and successfully relates organizational purpose and values to one's rather stable and coherent set of personal values and ideals (personal identity). In the next section, we pursue the discussion of the links between personal values and work by looking at how work meaningfulness allows for personal values to permeate work and so increases ethical mindset at work.

Work Meaningfulness and Ethical Mindset

Work Meaningfulness, Commitment, and Engagement

As it creates a strong and multidimensional bridge between the organization and personal identity, work meaningfulness allows for a strong commitment at work (see e.g., Coetzer & Rothmann, 2007; Khan, 1990; Schaufeli & Bakker, 2004) and consequently for the entanglement of one's core personal values with daily work (see Wadell, 2005). This type of commitment is often referred to as affective commitment. Affective commitment refers to a work commitment that relies on strong affective ties with the organization or the task (Ellemers, De Gilder, & Haslam, 2004; Meyer & Herscovitch, 2001), and leads to the investment of one's cognitive, emotional, and physical resources to contribute to the task's or organization's success (Maslach & Leiter, 1997; May et al., 2004).

The holistic implications of one's person at work contrast with the characteristics of two other types of commitment usually identified – namely rational and normative commitment (Felfe, Yan, & Six, 2008; Meyer, Allen, & Smith, 1993; Vandenberghe, Stinglhamber, Bentein, & Delhaise, 2001). Rational commitment is a commitment that results from a calculation or (implicit) adaptation of one's ethical commitment at work to fit with the perceived moral commitment of the organization.

Contrary to commitments resulting from interactions between the individual and the organization, normative commitment relies on a personal conviction that morality is to be pursued (Meyer & Herscovitch, 2001). Since normative commitment is rooted in one's personal conviction, it cannot be influenced (positively or negatively) through organizational structure or management tools (see Becker, 1992; Cohen, 2000; Meyer et al., 1993). It is further independent from any organizational objective or value, and as such does not necessarily imply an emotional tie between the individual and the organization – the individual is committed to some 'cause', not to the organization.

The three types of commitment (affective, rational, and normative) are not mutually exclusive. They can strengthen each other and their relative importance can vary over time. Yet generally, affective commitment is expected to be stronger and more stable as it relies on an established cognitive and affective fit between one's work and one's core identity (Meyer, Stanley, Herscovitch, & Topolnytsky, 2002). As it relates to the person's and to the organization's core elements, this fit is unlikely to change in the short term without a radical re-interpretation of one's self or of the organization's values. Furthermore, in contrast to rational and normative commitment, affective commitment allows for the expression of deeper and hence stronger values and convictions at the workplace (Hitlin, 2003).

We suggest that organizational members finding high meaningfulness are expected to show rather affective commitment. As they can relate their work to their broader personality and life goals, they are more likely to also invest their whole personality, including cognitive and emotional resources, into their work. In fact, Korotkov (1998: 55) not only relates meaningfulness to the fit with one's overall personality, but specifically refers to the "emotional sense" one has to find in a task for the latter to be meaningful. Posner's (2010: 538, emphasis added) study confirms the link between shared values and affective commitment by noticing that "those managers whose personal values are most highly congruent with those of their organization have the most affirmative *feelings* about their workplace."

Affective commitment in turn results in a high level of energy, involvement and efficacy at work (Korotkov, 1998; Maslach & Leiter, 1997). This high level corresponds to what Khan (1990: 694) defines as engagement. Engagement represents the "harnessing of organizational members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances". It is a "persistent and pervasive affective-cognitive state" (Coetzer & Rothmann, 2007: 18) unlikely to change over a short period of time.

Therefore proposition 2:

Proposition 2: High work meaningfulness leads to affective commitment, that is, the involvement of one's entire cognitive, emotional, and physical resources – a situation often referred to as 'engagement'.

Work Meaningfulness and Ethical Mindset

Whereas many links between the various concepts discussed up to this point (sensemaking, meaning, engagement/commitment, and personal values) have already been studied, no existing framework integrates these elements into a single coherent model which allows for empirical testing. In this section, we do not only propose such a model; we also argue that engagement as a result of work meaningfulness and affective commitment leads to higher morality at work (see Figure 2). As we will argue, this implies that ethical behavior not only depends on a situation-specific sensemaking process (see e.g., Sonenshein, 2007), but also on a broader sensemaking process relating the overall work and/or organizational goal and purpose to personal worldviews and values (see Palazzo et al., 2011).

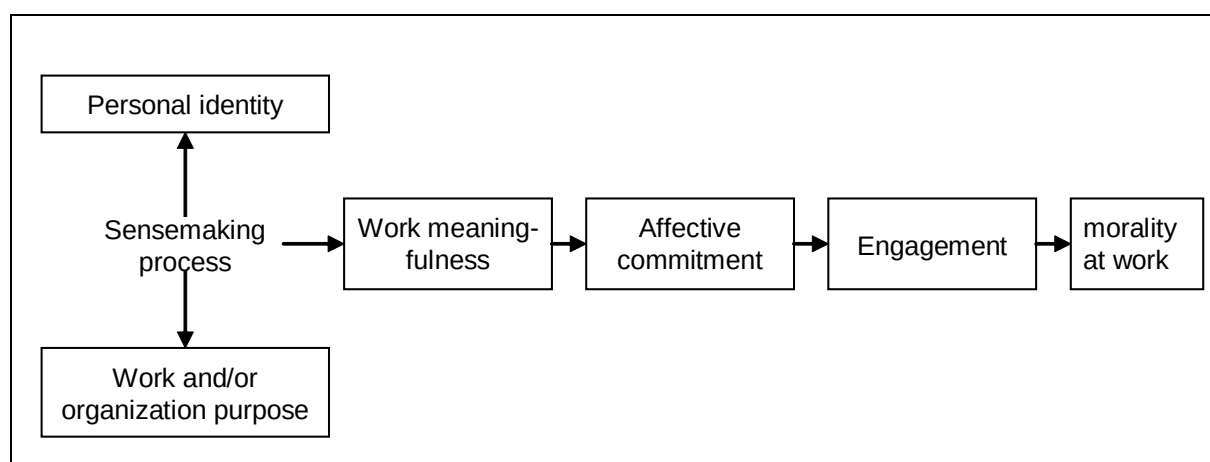


Figure 2: The relationship between work meaningfulness as a result of a sensemaking process and ethical mindset at work

Various scholars have recently discussed the links between ethical behavior and sensemaking processes. Basu and Palazzo (2008) suggest that the "*mental frames and sensemaking processes* within which CSR is embedded" might be more important to understand ethical behavior than the activities themselves. More generally, Freeman and Hasnaoui (2011: 439) notice the many interpretations of CSR concepts depending on

"the semiotics of the language, which differ due to culture, politics, economics, social, and institutional frameworks that may cross national boundaries." In the same vein, Sonenshein (2007; see also Palazzo et al., 2011) focuses on the importance of sensemaking in the individual attitude toward ethics at work.

These authors however focus mainly on the sensemaking processes regarding specific ethical issues, and overlook the study of how the broader sensemaking process – that is, the process regarding the purpose and values of work and of the organization *in general* – influences ethical mindset through work meaningfulness and consequently affective commitment and engagement.

We argue here ethical behavior in a specific situation is not only influenced by a the sensemaking process taking place in the situation itself, but also from the overall meaning organizational members find regarding the purpose and values of their organization. By successfully making sense of organizational characteristics and the fit with personal values and purpose, individuals integrate their work into the broader picture of their lives and personal objectives and values (Chalofsky & Krishna, 2009). A successful sensemaking process as regards organizational values and purpose therefore allows individuals to integrate their work as part of their core identity.

The integration of work into one's broader worldview and life objective allows in turn for deeper and hence stronger values and convictions to be expressed at the workplace (Hitlin, 2003). Instead of dichotomizing personal values and 'work values' (see e.g., Pruzan, 2001), such integration opens a 'corridor' which allows for one's personal values (as part of one's identity) to be instilled into daily work and to influence one's ethical mindset at work. Such implication of personal values goes beyond an isomorphism process through which individuals adopt specific attitudes and behaviors to integrate a social group and its norms (Aquino & Reed, 2002; Ellemers et al., 2004). The entanglement of personal and work values also goes beyond creating a space for ethical reflection at work by developing the appropriate ethical climate (Sims & Keon, 1997; Victor & Cullen, 1988). Engagement through meaningful work activates one's core personal values and worldviews at work by linking one's job with one's greater aspirations and life projects. As such, engagement relates one's work with one's more general fight for a greater or nobler cause than mere economic gain, and liberates personal energy that can emerge from such a cause (Benefiel, 2005; Visser, 2004). As work becomes part of one's identity and greater life objectives, one's core identity and related personal moral values become entangled with daily practice at work. Proposition 3 therefore states:

Proposition 3: Work engagement results in higher morality at work as it allows for personal values to permeate work and shape one's thinking while at work.

In summary, personal engagement toward the organization allows for personal values and worldviews to permeate work and consequently increases the likelihood of identifying potential ethical issues and acting based on personal worldview. This model does not only correspond to the current theory and research of the various isolated elements presented above. It also details how ethical mindset relates to the value congruence between individual and organizational values (Elango, Paul, Kundu, & Paudel, 2010; Suar & Khuntia, 2010). Furthermore, as we will show in the next section, it correlates with theory discussing the opposite process, that is, situations of failed sensemaking as regards work and personal values (called anomie) and the related concepts of rational commitment, disengagement, and a-morality.

Disengagement and Anomie as Result of Failed Sensemaking

Contrary to the work meaningfulness situation described above, a situation of anomie⁴⁰⁵ is to be expected if the sensemaking process between work and personal worldview and values fails, that is, if individuals cannot relate work purpose and values to their personal life goals and values. The resulting absence of "common meaning" between the organization and the individual can be considered as the opposite of work meaningfulness and is often referred to as anomie (Tsahuridu, 2006: 163). Individuals in this case find no positive meaning to their work, but only irrelevant or negative meaning. An extreme illustration of this decoupling of work and personal life goals is Marx's concept of work alienation (Marx, 1968; see also Beadle & Knight, 2012; Rosso et al., 2010).

When a person cannot make sense of her/his work and the organization she/he works in (as in anomie situations), no common platform exists between the organization and the person's core values to develop

⁴⁰⁵ Some authors distinguish between anomie and anomia. Yet as differences are not relevant for our argumentation, we will disregard the difference in this article. Both anomie and anomia represent a lack of common norms and are considered as having negatives effects on individual's well-being, performances, morality and ethical behavior, thus increasing hopelessness and dishonesty (Tsahuridu, 2006).

affective commitment. Rather, individuals will limit their commitment to a mere rational one. Such commitment resembles the psychological contract approach of commitment. A psychological contract is an individual and mostly implicit interpretation of the balance between the promises of the employer and the commitment of the employee (Rousseau & Tijoriwala, 1998). Commitments in the psychological contract go however beyond traditional work contract elements such as wage and hours per week and include more subtle factors such as work safety, loyalty, respect as well as ethical dimensions (Thompson & Bunderson, 2003). If the firm cannot offer anything else (e.g., work meaning which is congruent with personal expectations or a sound work climate), employees are likely to also limit their contribution to a minimalist fulfillment of the tasks (Ellemers et al., 2004; Felfe et al., 2008; Rousseau & Tijoriwala, 1998).

As it only focuses on one's cognitive involvement at work, rational engagement resulting from anomie is likely to lead to people's disengaging from their work (Atkouf, 1992; Schnorpfel et al., 2004). Contrary to a situation of engagement in which individuals contribute with all their cognitive, emotional, and physical resources to the task, disengagement is defined as "the decoupling of the self from the work role and involves people withdrawing and defending themselves during role performances" (May et al., 2004: 12). Disengaged people merely follow the expectations related to their specific role in a situation.

By reducing core identity to a role identity defined by some contract, disengagement also reduces ethics to role morality. Rather than promoting an integrative view of ethics at work which allows for a better understanding of complex issues, the difficulty for organizational members to relate their work to their personal identity leads "to a breakdown of the norms that rule the conduct of people and assure the social order." (Tsahuridu, 2006: 163). A situation of a-morality is then likely to emerge, that is, a situation in which organizational members simply consider that "different rules of the game apply in business than in other realms of life." (Carroll, 1987: 11). Ethical mindset at work is reduced to a narrow understanding which excludes references to core personal values (or any social values) if they are not directly related to the specific role played in a specific situation (such as 'work').

In summary three propositions which parallel the ones defined above can be formulated. In complement to proposition 1 stating that work meaningfulness results from successful sensemaking processes, we suggest that:

Proposition 1a: Anomie results from a sensemaking process which fails at relating the purpose and values of one's work or work context to personal ideals and values.

Proposition 2 relates work meaningfulness to engagement through affective commitment. It can be complemented with the following:

Proposition 2a: Anomie leads to rational commitment, that is, the reduction of one's involvement at work to mere role-related actions, and therefore to disengagement.

Finally, proposition 3 stating that engagement results in higher ethical mindset also implies:

Proposition 3a: Anomie results in a lower ethical mindset and a-morality as it reduces one's personal involvement at work to a specific role and consequently one's ethical reasoning capacities to role-related morality (Carroll's a-morality).

These relations are illustrated in

Figure 3.

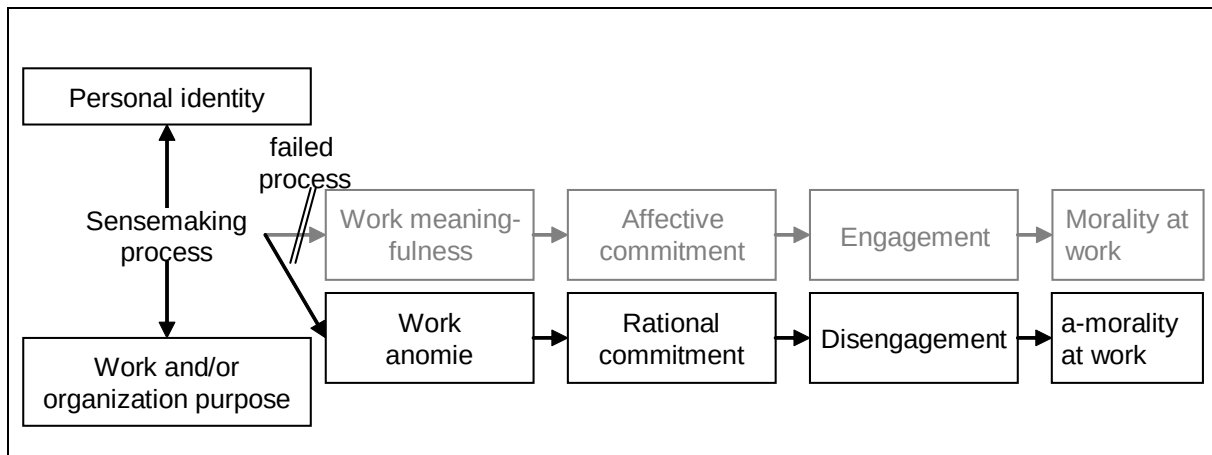


Figure 3: Anomie as result of failed sensemaking and its implications for ethics at work

Various authors have called for an ethical approach at work in which managers reduce their role to an economic one and ignore any moral issue which is not economically relevant (see e.g., Friedman, 2002 [1970]; Jensen, 2002; and critically Carroll, 1987; Mintzberg, 2004). This conception has been strengthened through the theoretical emancipation of the business system and its norms and structures from the values of the broader societal framework (see critically Gonin, 2007b). According to this view, the business world and actors within it can follow mere self-centered economic objectives without any consideration for non-economic consequences (Luhmann, 1982). The discussion regarding the aims and purpose(s) of the business world within its broader societal context is cut short and ethics relegated to a second-rank objective, to be concerned with only once the primary economic objectives can be guaranteed (e.g., Jensen, 2002). In this context, ethics is reduced, at best, to a critical discussion of the means to maximize profit without any reflection regarding the organizational purpose itself – making it difficult for individuals to relate their work to their personal life project, thereby increasing anomie. People caught in such cultures feel uneasy to integrate their personal values and critical ethical reflections into their work (Cohen, 1993), and might even feel as though they have no responsibility beyond economic performance (Beach, 1990; Williams, 1997). Pruzan's discussion (2001) relative to a corporate workshop that he gave nicely shows this lack of permeability. During his workshop, all top managers realized for the first time that their personal values clashed with those of the organization – even though, as top managers, they had the formal authority to influence organizational values. Such narrowing of the range of factors to be taken into consideration within business leads to a situation of a-morality. MacLean and Behnam's (2010) case study of widespread deceptive sales practices at a large financial services firm shows how decoupling ethical issues from the broader goals and values of the organization can lead to widespread a-morality and eventually to unethical behavior. Jackall (1988: 6) also observed that people "bracket, while at work, the moralities that they might hold outside the workplace or that they might adhere to privately [...] to follow instead the prevailing morality of their particular organizational situation" – the values that their boss wants them to follow.

Discussion

By theorizing the link between work meaningfulness as a result of successful sensemaking processes and ethical mindset at work, this paper offers important insights for research and management practices. One central contribution is that apparently ethics-unrelated dimensions such as organizational purpose might strongly affect employees' attitudes in specific ethics-related issues. Second, the model highlights the role of affect in work and in ethics at work.

The Importance of the Broader Work Meaning Context

By relating ethics at work to work meaningfulness and work meaningfulness to personal worldview, our model confirms Rosso et al.'s (2010: 92) affirmation that "questions about where and how employees find meaning in work are fundamental to how employees approach, enact, and experience their work and workplaces." It especially illustrates that the source of meaning at work will shape the way individuals think and act in ethics-related work situations. To comprehensively deal with ethics at work issues, both personal worldview and general organizational purpose are therefore to be taken into consideration.

For management (ethics) scholars, this implies developing studies which relate ethical attitude and behavior to organizational purpose and, more exactly, to the way business purpose is made sense of by employees.

Few articles in business ethics and management reviews currently address the issue of the fundamental purpose of the firm. The sensemaking approach of our model suggests however that the broader business framework and the way it is perceived by the workers play an important role in the fostering or hindering of ethics at work. Even though many factors contribute to (un-)ethical behavior at work (Palazzo et al., 2011), this model suggests that the development of a sound ethical culture within organizations goes in hand with a reflection about the overall purpose of the organization. Questions about the 'purpose of work' and of the role of business in society become central not only for business and society scholars, but also for those interested in the (un-)ethical behavior of individual actors within the system.

The model also suggests that more general psycho-social studies of workers and their worldviews, beliefs, and relations to work and employers might contribute to better understanding the employee's ethical attitude. It highlights the importance of personal values at work for ethical behavior. Helping employees find positive meaning in their work not only contributes to enhanced motivation and productivity, but might also contribute to enhanced critical thinking and ethical mindset and so to the prevention of ethical abuse. This point also corroborates Rosso's et al. (2010: 100) observation that we are currently missing broader conceptions of personal values and worldviews and that we need to also look at "spiritual values and other values beyond the bounds of the workplace." It further reflects studies relating value congruence between individuals and organizations to ethical behavior (e.g., Suar & Khuntia, 2010) – and clarifies the causal relations between these variables.

Similarly, the model suggests that management practitioners pay greater attention to the general definition of their organizations, its purpose, and its values. It especially highlights that purpose and values are not to be merely summarized in mission statements and codes of conducts, but foremost (as already shown by various studies, e.g., Levine, 2005) expressed day-in and day-out throughout business activities. Codes of conduct are not necessarily negative for ethics, but the model suggests that their efficiency can be increased by paying special attention to how they are received and interpreted by employees. This is in line with Posner's statement that "managers who reported high degrees of clarity about organizational values were more committed to the organization, felt more successful and motivated, and experienced less work stress and job anxiety than their counterparts who reported low degrees of clarity about organizational values" (Posner, 2010). Moreover, the model suggests that what ultimately counts is less the organizational values or ethical work climate in themselves, and more the way these are made sense of by employees. Greater attention is therefore to be paid by managers to the way employees receive and make sense of these factors, and how employees relate to their work in general.

The Importance of the Affect

The second implication of our model is the fact that not only rational elements contribute to enhancing ethics at work, but also affective elements. This model suggests that a work configuration in which a person can invest all aspects of her/his personality is more likely to foster an ethical mindset by helping such a person to also invest compassion, care, and 'positive anger' (as resulting from objective injustice) into work – and take position on ethical issues. This can be reached by providing positive meaning which will, in turn, lead to affective commitment.

The economics roots of management have led to management models insisting on the rational and cognitive dimension of actors (see critically Gonin, 2007a; Gonin, Palazzo, & Hoffrage, 2012; Rosso et al., 2010: 99) and neglecting the emotional resource of human beings. More research is needed as regards the affective richness of human beings, especially in relation to ethics at work. Many authors writing about justice ultimately insist on the importance of emotions in driving pro-ethical attitudes and reacting to injustices – even though their models often rely mainly on the rational side of the actors (e.g., Sen, 2009; Solomon, 1995; see also Cohen, 2010).

For management practice, this model might imply that more place, time, and weight is dedicated to personal feeling. More place to listen to others – not only to their arguments, but to their affective state – and more time to show genuine interest to others (see Hernandez, 2012; Lips-Wiersma & Morris, 2009; Werhane, 2006) might contribute to better identifying potential issues and show higher motivation to find solutions. More weight to less economically rational arguments, including affective and perhaps spiritual reasoning, might foster critical and moral thinking. On the contrary, organizations leaving no space for those dimensions bear the risk of seeing managers become "morally mute" (Bird & Waters, 1989) and disinvest from critical ethical thinking.

Conclusion

In conclusion, when people, through sensemaking, can relate their work to their personal values and ideals (that is, to the core of their identity), they can load their work with positive meaning. Consequently, they will develop an affective commitment toward their work, engage their personal values in their work, and show a

higher ethical mindset at work. On the contrary, when the sensemaking process cannot provide positive meaning, a situation of anomie arises. Anomie implies that people reduce work to a minimalist, rational, contract-based commitment. As a consequence, they disengage their personality and their values from work, allowing an a-moral situation to emerge.

Whereas the model as presented here still needs empirical verification, it already benefits from the many empirical studies which validated its various variables. Furthermore, by clarifying the relationship between many constructs currently discussed in a scattered manner, this paper already makes an important contribution to management theory and practice. In particular, it highlights the role of work meaningfulness and sensemaking not only for well-being, but foremost for preventing anomie and enhancing the enlightened ethical mindset. It points toward the need to discuss the way business in general is conceived, especially as regards its goals, purposes, and relations to the broader society and to the broader life aspirations of individuals.

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A PHILOSOPHICAL PERSPECTIVE ON MORAL LEADERSHIP IN THE POST-CRISIS WORLD

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Abstract

There are many theories on the origins of the present financial crisis. Some maintain it is a product of the logic of capitalism; some blame the neoliberal restructuring of the global economy; others think it is the result of moral weaknesses of the principal actors of Wall Street, and so forth. I argue that at the bottom of this crisis is the elevation of 'money' over 'man' or profit over humanity. There are two contending paradigms here – the paradigm of profit and the paradigm of humanity. I argue that the paradigm of profit has reached a cul de sac and the only hope left for the post-crisis world is a shift from the first paradigm to the second. The leadership needed to carry out this change will come from the millions of people all over the globe who have suffered most from the recent crisis. The ideal is shared leadership.

Keywords: Moral Leadership, Global Ethics, Post Crisis World, Business Ethics, Philosophical perspective on financial crises, Shared Leadership

Introduction

The crisis that shook the financial markets of the world recently has created a heightened sense of insecurity and loss of faith in the global financial system. It has been considered by many the worst post-WWII economic crisis. The cost on the ordinary peoples of the world was huge. With the collapse of large financial institutions, it became incumbent upon national governments to bail out their banks. Stock markets the world over plummeted and people lost their entire life savings overnight. The housing market in the US became an embarrassment as forced evictions and foreclosures became the order of the day. The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of US dollars, and a downturn in economic activity leading to the 2008–2012 global recession and contributing to the European sovereign-debt crisis (Williams, 2012; Brookings, 2010)

As the situation prolonged there were genuine fears of a global economic collapse. The financial crisis yielded the biggest banking shakeout since the savings-and-loan meltdown. Up till this moment conditions are still extremely fragile for most businesses and the prospects of full recovery are greeted in many quarters with skepticism. In spite of bailout packages there is instability in key regions. We have entered 2012 with much

uncertainty and many business leaders still think that the end is not in sight and that things are actually going to get worse.

There are many theories on the origins of the present financial crisis. Some scholars maintain that the crisis is simply a product of the logic of capitalism; some blame the neoliberal restructuring of the global economy; others think it is the result of excesses or moral weaknesses of the principal actors of Wall Street, and so forth. I argue that at the bottom of this crisis is the metaphysical elevation of 'money' over 'man' or profit over humanity. There are two contending paradigms here – the paradigm of profit and the paradigm of humanity. I argue that the paradigm of profit has reached a cul de sac and the only hope left for the post crisis world is a radical shift from the first paradigm to the second. The leadership needed to carry out this change will come from the millions of people all over the globe who have suffered most from the recent crisis. It is they who have the incentive to emphasize the equality of all and the restoration of global moral values at the heart of business.

Perspectives on the Financial Crisis

There are many theories on the origins of the present financial crisis. One theory considers it as the inevitable outcome of the logic of capitalism. In other words, capitalism is crash-prone and there is nothing anybody can do about that. Why is this so? According to Nabudere "the real underlying cause of capitalist financial crashes and the increasingly shorter and shorter industrial circles that were occurring was capitalists' failure to generate surplus value from living labour, labour which itself alone produces wealth" (Nabudere, 2009: xiii). Not everyone will agree with Nabudere's explanation but many will still agree that crashes are necessary accompaniments of capitalism. The Princeton economist Hyun Song Shin explains it in terms of capitalist irrationality. According to him, most of the time, financial markets are calm, trading is orderly, and the players can buy and sell in large quantities. Nevertheless, once there are signs of a crisis somewhere, the biggest players—banks, investment banks, hedge funds—rush to reduce their exposure. In doing so, buyers disappear, and liquidity dries up. Once liquidity falls below a certain threshold, "all the elements that formed a virtuous circle to promote stability now will conspire to undermine it." (Hyun, 2005). Cassidy sums it thus: The root problem is what might be termed "rational irrationality"—behavior that, on the individual level, is perfectly reasonable but that, when aggregated in the marketplace, produces calamity (Cassidy, 2009).

Another theory simply blames the sovereign debt crisis that has been brewing since the 1970s. "Neither the banks nor the governments can continue to do what they have been doing and at the same time control their financial systems and economies..." (Chapman, 2011). Chossudovsky (2010) blames it on a complex process of financial manipulation, including speculative trade in derivatives. Another theory connects the crisis specifically to the fall of the big banks and the loss of trust. The notion that all banks were "too big to fail" no longer held true as every bank was deemed to be risky. Credit flows to the private sector "were choked off at the same time as consumer and business confidence collapsed" (Elliot, 2011).

Scholars like Mohan and Taylor attribute the proximate cause of the current financial turbulence to the persistence of large global imbalances, which, in turn, were the outcome of long periods of excessively loose monetary policy in the major advanced economies during the early part of this decade (Mohan, 2007, Taylor, 2008). In fact, some scholars trace the financial crisis to the excesses of one country – the USA. The Brookings Institution reported in June 2009 that U.S. consumption accounted for more than a third of the growth in global consumption between 2000 and 2007. "The US economy has been spending too much and borrowing too much for years and the rest of the world depended on the U.S. consumer as a source of global demand." (Brookings, 2010).

Take the collapse of Lehman Brothers in September 2008, as an instance. It sent a wave of fear around world financial markets bringing almost to a halt the prospects of interbank borrowing. The risk premium on corporate bonds became very high, credits halted and global commerce began to collapse. Although authorities scrambled to inject liquidity into financial markets, the damage was already done.

A number of explanations have been proposed for the great boom and bust, ranging from greed to overconfidence, and downright stupidity on the part of mortgage lenders, investment bankers, and Wall Street C.E.O.s. (Cassidy, 2009). The questions we need to ask are as follows: How can we come out of this crisis and have a healthier global economy? How can we avert future reoccurrence of these unhappy events? How can we restore faith in the global economy? What we are looking at here is not just economics but leadership. And it is not just mere leadership but global moral leadership.

Of course, financial institutions, experts and world leaders are all concerned about restoring stability and integrity in the world financial markets. Many leaders have fallen because they did not seem to be well equipped to address these concerns effectively. There have been numerous conferences and summits all over the globe; finance ministers of the world have crisscrossed the globe to discuss, regional and sub-

regional bodies have also considered new strategies. The problem however is that all these are efforts to cure the symptoms of a far more greater malady. The aim of this paper is to argue that the real issues behind the financial crisis are the philosophical mindset and the framework of values on which the present world economy operates. Everybody is striving with good intentions to save an economic order whose foundations can no longer sustain the structure it is carrying. The global economy is a tree with very many branches, but its roots are long dead. What the world needs is a new kind of economic foundation based on core universal values and a leadership that embraces and lives these values.

The Philosophical and Moral Dimension

It should be noted that the events that led to the present crisis have their roots buried in a certain way of thinking and a certain philosophical mindset (Eze, 1997) of the west which emerged in the days of the enlightenment, expressed itself through Bacon and found its clearest articulation in Descartes' metaphysical distinction between mind and body. In David Hume's empiricism, the logical atomism of Russell (1972) and the positivism of the twentieth century, this dualism was further entrenched.

The discipline of Economics was also at the same time developing as a precise science and divesting itself of all moral responsibility. Little wonder then did Milton Friedman assert that the only entities that can have responsibilities are individuals not businesses (Friedman, 1984). In our world today, business is only about profit which is elevated over peoples' welfare (Rozuel, 2011), there is little emphasis on morality. In such a world, nations become predators over other nations. Education, health care, etc, are sacrificed for profit. In such a world, humanity is expendable.

What Cartesian dualism did was to create a separate space for the man of reason and another for the man of pure feelings. This philosophical framework unintentionally divided humanity into distinct ontological species. We are familiar with the rationalist and empiricist dispute and Immanuel Kant's tribunal of pure reason. It is in Hegel that we see Europe clearly standing out at the head of a global dialectic with a celestial mission to civilize the rest of the world. That mindset gave intellectual justification to slavery and colonialism, which were seen as existing in the interest of the victims. The result of the twin evil of the slave trade and colonialism was the scramble for Africa and the World Wars. Through these unfortunate events the United Nations was born, so also were the World Bank and IMF.

These institutions, without doubt, were founded to correct anomalies. Among the anomalies addressed were the absence of an umpire to guide the relations among nations, the possibility of the emergence of recalcitrant states to pose a threat to mankind and the absence of rules to guide and stabilize the world economic order, which was then dominated by Europe. These institutions played a very great role in bringing the world together as a global village, creating wealth and spreading democratic ideals. What these institutions did not however address was the equality of nations. What they did not address were unfair economic relations of the world.

In its current manifestation, the world economic order continues to separate mind from body, emphasize the 'de-materialization' of production, encourage Thatcher monetarism and the separation of economics from morality. The global financial system is based on speculative capital; running dangerously on a torrential turnover of money that is not backed by real commodities, real productivity and investments. Long term investments in production and social welfare no longer matter as resources are diverted into the money market. The dominance of the US dollar in the international financial system has ensured an unsupported and unlimited credit for the United States at the expense of the rest of the countries in the world, enabling it to control the majority of the world market and thus undermining the fundamental principles of equal competitive opportunities for all participants in the world economic order (Kirilli, 2010).

I wish to reemphasize the crucial role ethics must play in business. I argue that the present crisis is the result of the depreciation of the humanist and moral element in global business. I argue that the only hope for a post-crisis world lies in the emergence of business leaders whose appeal is in their commitment to the equality of all nations, radical global cooperation and the restoration of global moral values in business.

Two Paradigms

There are two contending paradigms here. In one paradigm the sole aim of business is to maximize profits. This paradigm comes with a mindset of rugged individualism. It positions the individual against the society, and one nation against others (Fair, 1992). It promotes competition among individuals in the society. It sees labor as the means to the end of making profits. It sees man as a means, not as an end. It fragments the world into many pieces, each of which must be captured and subdued. It values money not labor or production. This paradigm, I shall refer to as the paradigm of profit.

In the second paradigm, which I call the paradigm of human well-being, the sole aim of business should be to develop man and integrate the human community. Profit indeed is very important but it is not meant to satisfy the greed of a few individuals, but fundamentally to raise standards of living in the society. The ideal of business should be that which will value labor and see the world as a place that we can transform rather than fragment. In this paradigm real people share the gains and losses of business.

For centuries, the first paradigm has dominated economic thinking. Without doubt it has led mankind to achieve great heights and make remarkable exploits in the universe. The peoples of the world have seen the rise of capital and the wealth of nations. But this wealth has always been enjoyed by a few. Of course, the agents of this paradigm – the world bank and IMF – are working so hard to spread wealth around, but most of humanity is still living below the poverty line. And, whenever the system faces a real challenge, the entire world pays for the excesses of the few with the middle class and the poor losing everything. It is therefore necessary for mankind to discard this paradigm and choose another paradigm. How is this possible when everybody is thinking about repairing the old paradigm rather than discarding it?

The great teacher of the politics of paradigms is Thomas Kuhn. We learnt from him that a scientific community cannot practice its trade without some set of received beliefs (Kuhn, 1996: 4). It is this set of received belief that determines the method of science and its discourse. Normal science "is predicated on the assumption that the scientific community knows what the world is like" (Kuhn, 5) As a result of these assumptions science thrives and scientists take great pains and go to great lengths to defend that assumption. As a result many new ideas and novelties are suppressed because they are seen to be "subversive of its basic commitments" (Kun, 5). Any attempt to initiate new assumptions or paradigms or theories is usually strongly resisted by the established scientific community. Very often therefore, impractical and incongruent theories are sustained not because they are of any value but because they make good politics.

This is the same situation with the economic system. The guardians of the system – the World Bank and IMF, neoliberal scholars and speculators will do everything to protect the system. Managers of the economy will, of course, inject trillions of dollars into the system to help it. Nevertheless, these are mere palliatives. Total collapse may be avoided now, but everybody knows that another crisis is imminent.

The anomalies in the system today are many. Majority of the peoples of the world are participants in an economic system that places them and their children in perpetual servitude. Even in the advanced industrialized society, majority of the hardworking people are slaving for a few. They neither own nor understand the means to change their circumstances. They are however content with the hope that they or their forebears will someday accumulate enough to enjoy the benefits of capitalism. What the financial crash did was to take away even this hope.

As Kuhn maintains, whenever there is an anomaly the discourse cannot be repaired it will call for a tradition-shattering shift which Kuhn refers to as a revolution. A shift in professional commitments to shared assumptions takes place when an anomaly "subverts the existing tradition of scientific practice" (Kuhn, 6). In the event of a transition from one paradigm to another, there are changes in world view, in methods, and in goals. This has been described as "handling the same bundle of data as before, but placing them in a new system of relations with one another by giving them a different framework" or "picking up the other end of the stick" (Kuhn, 85).

Today, as a result of the harsh realities imposed by the recent economic crisis, the paradigm of humanity is challenging the old paradigm of the world economic system. Attempts to preserve and protect the old foundations along with their symbols - the World Bank and IMF - cannot be sustained. We have a duty for the sake of humanity to discard these relics of the past.

Moral Leadership and the Old Paradigm

The major reason we must discard the old paradigm is that it carries with it assumptions that do not fit into our world today. These assumptions operated in a world where people were separated from one another and there was a Hobbesian war of all against all. The kind of leadership that thrived at that time was the 'strong man' type of leadership. In spite of so many leadership theories and styles, the most celebrated model of leadership in both the business world and in politics has remained the "leader as hero". The old paradigm supports the strong man, the strong race, the superman and the super power. It supports rugged individualism, fierce competition and tolerates huge income gaps.

Whenever we think of great leaders, we remember Gandhi, Luther King, Abraham Lincoln, Lee Kwan Yew, Mandela, Mother Teresa, and so forth. The dominant idea of leadership was that "clear, strong leadership would shake the corporation free of past bureaucratic mind-sets. In the business world, tremendous value was created by clear-sighted individuals who took their institutions by the scruff of their necks and propelled them into modernisation and competitiveness." (Rawlinson, 2009: 3). General Electric had Jack Welch and BP had

John Browne. These were leaders who shook up old and dying corporations, breathed fire in them and transformed their performance. Entrepreneurs and investors like Donald Trump, Richard Branson, Steve Jobs and Bill Gates were also cast in the 'leader as hero' mold. These were the years when Margaret Thatcher bestrode the political world and George Bush took the world to Iraq. The kind of leadership we saw in these personalities suited the paradigm of that era. It was a heavy top-down directional leadership and whether in the transactional or transformational form it was still based on the 'strong man.'

But as thinking began to shift from the concept of "leader as hero," a new concept was needed which was the concept of "leadership teams". Although this wasn't an entirely new idea, it quickly became popular. To ensure good performance, the thinking was that no single leader had the variety of talents and styles needed to meet the challenges of the contemporary world. It should be noted that at this time, the business environment was growing more multi-cultural. Cultural factors were beginning to set in. Fierce cultural absolutism and one-dimensional understanding of society was capable of stagnating business. A new kind of leadership was needed with a new sense of morality.

Another factor that fuelled the "leadership team" model was demographics. "A younger generation of CEO's had moved into top executive ranks. Coming from the 1960s, they were very different. They were "less hierarchical, less schooled in the military, and more collaborative by inclination than their predecessors. The shift to this new team-based model was also supported by the quite remarkable strength of the economy during this period. Just as Francis Fukuyama had famously proclaimed the end of history after the collapse of the Soviet Union, so many, from Gordon Brown downward, proclaimed the death of the business cycle between 2001 and 2008. In economic terms, we seemed to live in a new utopia—and it was certainly a flattering environment for managerial performance." (Rawlinson, 2-3)

With the recent disastrous financial and economic crisis, we feel betrayed once again. Our confidence is certainly shaken. "Organisations until recently hailed as champions, and led by masters of the universe, are seen as hollow monsters. Banks, car companies, regulators, governments—they got it badly wrong, and we are all paying the price." (Rawlinson, 3) The leadership teams in charge, it is believed, were quietly attending to their bonuses or corporate jets and not paying attention to their roles in society. Based on the old mind set, nobody bothered about the morality of the members of these teams. Everybody was interested in the profits the companies were supposed to be making. When the market crashed, people were once again awakened to the need for solid moral foundations in business.

According to the patriarch of Moscow and Russia, "The prime cause of the crisis lies in the degradation of moral motivation in economic activity, in the loss of an ultimate goal in economy, which is to build a harmonious society with justice in which the individual can realize his or her professional and spiritual potential whatever his or her social status and political views may be. Millions of people in our world, however, drag out a miserable existence, suffering from hunger, social discrimination and the degraded environment. This suffering is caused to a great extent by the fact that, in the dominant political and economic culture, the value of both the individual and society is levelled by the greedy pursuit of material welfare, comfort and entertainment." (Kirilli, 2010).

Suggestions are rife on what should be the proper leadership styles in the post-Crisis world. Obviously, there are pressures for changes to take place. Everybody is yearning for change from Sudan to Port Au Prince, but people are not sure of what kind of changes they are asking. Many still believe that the old system can be repaired. This is a grievous error. To repair the system would be like watering a plant whose roots are dead. In the age of globalization and a multicultural business environment the moral option we have is to embrace a shared leadership. And we cannot do this and hold unto the old paradigms of rigid dualism, and the incongruent discourse of the world bank and IMF.

Moral Leadership in the Post-Crisis World

It is necessary for the nations of the world to come together and agree on the character of the new Post-Crisis world. It is however important to note that such an agreement is not going to be easy because of the dominance of the structures of the old economic order. It is inconceivable that the World Bank and IMF will spearhead any move to make morality and human well being the fulcrum of business. This cannot be possible. Not that officials of these institutions do not believe in morality; it is completely outside their standard universe of discourse. The world community therefore needs new leaders to spearhead the rebirth of our world.

Essentially, the peoples of the world who have suffered most from the economic policies of Wall Street and the Bretton Woods institutions must find a way to unite and begin a conversation on the future. Who are these people? They range from the homeowners of U.S.A. to the rice farmers of South Korea; from the middle class of Europe to cocoa farmers of Ivory Coast; from the marginalized people of New Orleans to the coffee

growers of Kenya; and so forth. One thing common to all these groups is the utter sense of hopelessness and helplessness confronting them daily.

The items that must be put on the table when they discuss will be the following:

1. The core values of the post-Crisis World;
2. The need for a moral atmosphere in business;
3. The formation of financial institutions devoted to small and medium scale enterprises;
4. The formation of the financial institutions devoted only to investing into socially responsible enterprises like health, education and agriculture;
5. The democratization of the United Nations;
6. The dissolution of IMF and the World Bank;
7. Security

Since September 2008, the leadership and management of the financial institutions of the world have been widely discredited. Everywhere people are hoping for a new world system.

What kind of world is the post crisis world? It ought to be a world where the human community and human well-being are emphasized. It ought to be a world where the sole aim of business is to preserve the human community and its environment. In this world peoples and nations relate as equal partners. It ought to be a world where progress is not measured by GDP growth but by living standards of real people. In such a world, there are real partnerships among peoples and nations. It ought to be a world of small businesses emerging from communities rather than the big impersonal business empires.

To build this world, nations must come together as equals and agree on the moral standards for business. But this cannot be possible in a world structured on a world view of dualism and monetarism. Although it is no longer news that the global financial system is insecure, many people still think that the only option left is to find ways to strengthen the system. It is my position in this paper that this is an exercise in futility – the system just cannot be repaired. It does not represent the aspirations of most of humanity.

To attain the ideals of the post-crisis world there has to be a shift from the paradigm of profit to the paradigm of human well-being. Our experts of the World Bank and IMF cannot be the catalysts of this change. The world has to come together to develop a global ethics for business. This would require a coalition of those who have suffered most from the recent business crisis. The old world, represented by the Bretton Woods institutions will certainly not wither. Instead, the ordinary peoples of the world must create a new leadership that will seek global cooperation amongst communities. Through the internet and social media, communities can begin to exchange ideas and draw terms of cooperation. Human communities across the globe should be encouraged to seek partnerships for their well-being.

Intellectuals, civil society and statesmen of all nations must begin to come together to agree on moral standards for business. There are many arguments in favor of this: We share a common humanity, we live in a global village, we have a common environmental destiny, we have developed the same tastes in coca cola and the blue jeans and none of us is self-sufficient.

Conclusion: The Future Moral Leader

From the foregoing, the entire discussion boils down to the fact that we need new kinds of leaders in our world. If we are going to live in a world that emphasizes equality, community and human well-being, we will certainly need leaders who are prepared to share their talents with others. We do not necessarily need geniuses or strong men to lead. We will however need people who are willing to complement others. We will need leaders who are open to communication, willing to learn and willing to share what they know. In this situation the distinction between leaders and followers must necessarily disappear.

The moral leader of our world today must necessarily be both a leader and a follower. The task of leadership will necessarily involve following others and being followed by others. Leadership therefore becomes everybody's business and not the business of a select few. Shared leadership necessarily involves having a holistic world view in which the leader is a part of the whole. This world view does not place the leader at a higher level than the follower because, first the same person who is a leader is also a follower; and second, one leads only in a very few areas and not in all areas. Therefore, being a leader only in a few areas, our leader must always need others and must seek areas of collaboration with others.

Pearce and Manz explain shared leadership thus:

Shared leadership occurs when all members of a team are fully engaged in the leadership of the team: Shared leadership entails a simultaneous, ongoing, mutual influence process within a team, that involves the serial emergence of official as well as unofficial leaders. In other words, shared leadership could be considered a case of fully developed empowerment in teams. (pp.133 – 134)

Craig Pearce has in recent times collaborated with other scholars to show the advantages of shared leadership (Pearce, 2005, 2009, 2010). For instance he argues that “The more complex the work that is being performed, the less likely it is that any one person can possess all of the expertise that is needed for high performance. In organizations involved with advanced technology, often requiring teams of knowledge workers that integrate their intellectual capital to accomplish the required work, shared leadership can be particularly important. The idea that a single leader can know everything that is necessary to lead all aspects of the work process is unrealistic. Individual employees need to step forward as their expertise and the demands of the work require.” (Pearce and Manz, 137)

He continues:

At the same time, the willingness and confidence to take on part of the leadership role requires some level of self-leadership from the knowledge workers involved. It is one thing to possess the knowledge and expertise to help guide a particular aspect of the work process, but quite another to have the motivation, initiative and influence skill needed to provide leadership. Thus, the more complex the work involved, the more likely it is that shared leadership, supported by the self-leadership of the individual knowledge workers, will be needed for optimal performance. (137)

The post-Crisis world therefore ought to have such leaders. Such leader-follower personalities will therefore have among their notable qualities humility, honesty, eagerness to accept responsibility, willingness to learn, willingness to collaborate, team spirit, creativity and love for humanity. An important function of these leaders is also to motivate those who are in the margins of society.

The resources of the universe are enough to go round and create a better world. Even the present wealth of nations is enough to encourage productivity and prosperity. The only obstacles to universal prosperity and preservation of our environment are the greed and selfishness inherent in the world economic order. If human kind truly collaborated with one another to drive economic development the world would have been rid of the trauma of harsh financial meltdowns. It is my hope that the victims of these crises will lead in the quest for a new world order.

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**AN INITIATIVE FOR YMER ETHICS RESEARCH TO PROVE POSITIVE IMPACT ON BUSINESS,
INCLUDING THE SOCIAL ETHICS OF POPE JOHN PAUL II**

- A DIRECTION FOR RESEARCHERS WORLDWIDE?

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Summary

An initiative for Young Managers Ethicality Researchers (YMER) is to share not to sell ethics research findings to prove the positive impact on business, including Pope's John Paul II social ethics, indicating new relations between ECONOMICS and ETHICS for the Society of the XXI Century.

The introductory phase was launched to Universities in Europe at the end of 2011, supported by delivered research finding the "Work Ethicality Standard EC1000 (exposure draft) and Pope John Paul II to managers. As present phase an YMER ethics basic research is launched to prove scientifically the positive impact on business. The first project, delivered to the National Research Center in Poland, to find a model of principles of ethical work, rationally selected according to the sensitivity of nine productivity contributing factors, is presented.

Creation of YMER centers at Universities worldwide, to share this basic research findings, including practitioners, is highly recommended

Keywords: Ethics research, PRINCIPLES of ethical work, labor productivity factors, Work Ethicality Standard EC1000, YMER, the Pew/P model, Management Education, , impact of ethics on economics, effects, social benefits

1. ETHICS REACH FINDINGS AS INPUT for the YMER INITIATIVE. WE SHARE – NOT SELL (YEARS 2000 to 2010)

One of the key directions for ethics researchers worldwide is to create models and tools for managers, employees and business ethics teachers with scientifically proved positive impact of ETHICS on ECONOMICS and BUSINESS. This is the aim of the initiative for YMER ethics research worldwide., Pope John Paul II has presented relations between ETHICS and ECONOMICS for the SOCIETY of the XXI Century in the Encyclical Centesimus annus. The relationship between Social responsibility and ECONOMICS has been addressed by the Pope Benedicts XVI in His Encyclical Caritas in veritate.

The Positive Organizational Psychology (POP) as the scientific study of positive subjective experience and traits in the work place and positive organizations, and its application to improve the effectiveness and quality of life in organizations (S.I. Donaldson and I. Ko, 2011) can be a valuable complementary contribution to the ethics research.

The initiative for YMER ethics research is presented in three stages. The first stage (years 2000-2010) presents the research finding as research and education tool - the Work Ethicality Standard ready to share and serve the ethicality researchers at any university. The second stage (2011-2012) is a development of the YMER worldwide network for ethics research. The third planned stage (2013-2015) indicates what in ethics research is to be done and shared between the YMER participants.

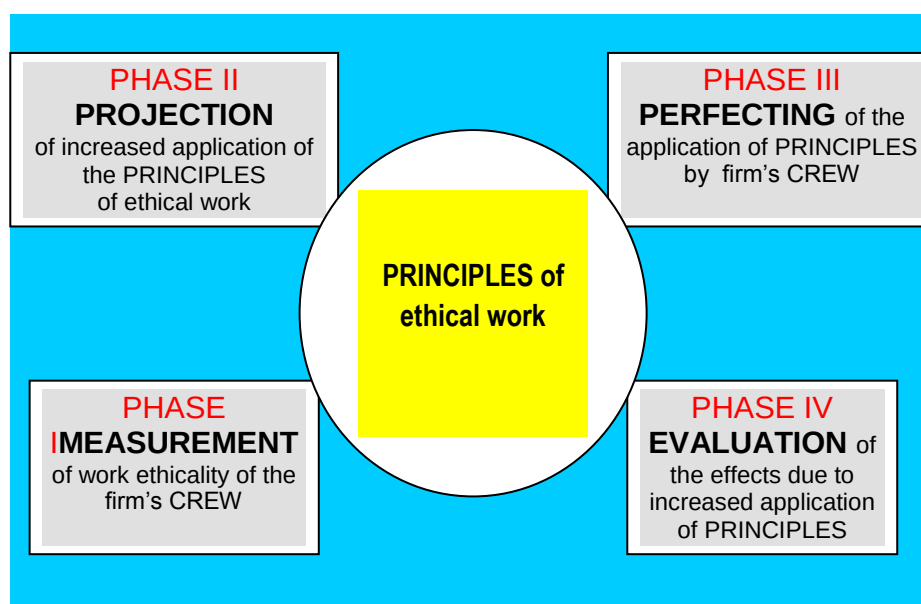
All what I have presented in this paper aims to raise interest of students - young managers to become Ethicality Researchers as YMER participants and to become co-authors of ethics research findings to prove

the impact of ethics on business. Contribution of senior researchers, especially who like to help as YMER advisers, is highly welcomed.

1.1 The Work Ethicality Standard EC1000 (exposure draft) – main research finding

This standard was developed by the Warsaw Ethicality Research Group at the Bogdan Janski Academy in the period 2002 - 2009. This standard is based on PRINCIPLES of ethical work formulated from three sources: Pope's John Paul II social Encyclical Centesimus annus, from European Union surveys on "Partnership for a new organization of work" and European Association of National Productivity Centers Memorandum: "Productivity, Innovation, Quality of Working Life and Employment". This standard is the main ethics research finding of the government sponsored R&D Project R11 004 01. It is designed and proved to work as a tool for ethicality research, be used in education of future managers at universities and business schools, and also as a practical tool to manage ethicality growth in all business type and size organizations, research institute, school hospital, court, government and non government administration units. It seems to be one of the first in Europe of this type. This standard is composed of three main parts: the model list of 177 PRINCIPLES of ethical work, the six parameters, indices and indexes, and the four phases of the Ethical Competitiveness EC1000 management process for growth of economic effects and social gains such as value added, labor productivity, wages, social benefits, common good through ethicality growth in four PHASES (MEASURING, PROJECTION, PERFECTING, EVALUATION) [Figure 1.].

Figure 1. PHASES of the EC1000 PROCESS for improvement of ethicality and productivity



Source: Work Ethicality Standard EC1000 (exposure draft,), The Bogdan Janski Academy, On line edition www.janski.edu.pl , YMER Center, Warsaw 2010, page 14

1.2. PRINCIPLES of ethical work – research findings

Research findings on the significance, as an example from 104 businesses in Poland, of the 20 PRINCIPLES of ethical work, formulated from John Paul II social teaching to managers (53 altogether among 177 in total of the EC1000), are indicating the WEIGHT (importance to business) given by the managers to each PRINCIPLE [Table 1.] Weight given by managers at each particular organization in accordance of particular organization, (including "0" what means that this PRINCIPLE is not relevant to this business), are important flexibility and adaptively feature of this EC1000 standard.

The PRINCIPLES are mentioned in the order starting from the highest weighted (16 points from among 1000 in total) by 156 managers from 104 investigated businesses in Poland. Employees of these businesses, 1930 in total, have expressed their opinion if particular PRINCIPLE is applied in his firm or not. We have introduced the parameter (e) “ethicality”, which is calculated as the ratio of opinions of employees that PRINCIPLES are applied to 177 x number of respondents. Among the 104 businesses (e)= 18%(the lowest) ; of the highest (e)=81%. It is important to mention that the three “e” are inspired by professor W. Gasparski as economicality, effectivity, ethicality. The difference between the 17 businesses with high ethicality and with low was used to calculate in research the so called “discrimination power” of the ethicality measuring criteria (PRINCIPLE). Principles below 0,5 were eliminated.

Table 1. Top 20 PRINCIPLES of ethical work with average WEIGHTS above the average 6 points (high.). Ethics research findings

		RESEARCH RESPONDENTS		
		MANAGERS	EMPLOYEES	
	The social ethics of Pope John Paul II formulated into PRINCIPLES of ethical work (* code number in the “Work Ethicality Standard EC1000”)	WEIGHT points	In 17 businesses with low ethicality (e)	In 17 businesses with high ethicality (e)
1	3.2* The Management recognizes “the combination of productive factors most adapted to satisfying needs” of the CLIENTS, to avoid unnecessary costs and investment	16	44%	84%
2	3.1 The production means serve serviceable work and are productive – there fore its (private) possessions are justified and serves the increasing of work places, development but not exploitation	15	37%	79%
3	2.1 The call of our clients for an existence(with our products and services) which is qualitatively more satisfying is of itself legitimate and to more and more better and satisfactory living conditions and larger and larger wealth is in itself justified - this is an obligation for our company’s CREW.	15	61%	82%
4	1.1 I feel that the Board of Management in the MISSION takes into consideration the principle that “man’s principal resource is man himself” what means the main wealth of the firm is the MAN himself – the firm’s CREW	14	35%	74%
5	2.6 In the company we realize, that today the problem is to “respond to a demand for quality: the quality of the goods to be produced and consumed, the quality of services to be enjoyed, the quality of the environment and of life in general”.	14	60%	86%
6	3.3 The Management of the company takes care on the implementation of innovations to keep the competitive advantage of products produced with new technologies	13	49%	89%
7	2.4 The Management in our company is accomplishing the principle to have: „ability to foresee the needs... for others”	13	46%	77%
8	5.1 I “acknowledge the legitimate role of profit as an indication that the business is functioning well”	9	67%	90%
9	1.8 In our company it is recognized that MAN is more important than thing (priority of MAN over the thing)	9	40%	76%

10	1.12 The Board of Directors entertains that the “free market is the most efficient instrument for utilizing resources and effectively responding to needs”	8	44%	70%
11	1.17. c) The right freely to establish a family, to have and to rear children.	8	71%	90%
12	4.3 Management recognizes the need for “everlasting procurement of new competences and adaptation to changes” by the company’s CREW.	8	49%	88%
13	1.2 I feel that a common tendency of the CREW toward the continuous firm’s development is the basis for the MISSION being implemented	8	45%	76%
14	1.6. f) Determining (on the effects of the firm) is “the role of a disciplined and creative human work” of the CREW of the company and, - “as an essential part of that work – initiative and entrepreneurial ability becomes increasingly evident and decisive”	8	53%	80%
15	1.6. g) Supported is “the technological progress, inventiveness spirit, the care to create and make extension of the enterprise, improvement of production methods and honest effort of people employed in production: in brief all what serves the progress”.	7	59%	82%
16	1.6. a) “The legitimacy of workers’ efforts to obtain full respect for their dignity and to gain broader areas of participation in the life of industrial enterprises so that, while cooperating with others and under the direction of others, they can in a certain sense work for themselves (through the exercise of their intelligence and freedom”.	7	54%	88%
17	1.16. c) “Profit is the regulator of the life of a business, but it is not the only one; other human and moral factors must also be considered, which, in the long term, are at least equally important for the life of a business”	7	47%	68%
18	2.5 The company is promoting buying and consumption of products without exaggeration - is not promoting the “consumerism”.	7	32%	65%
19	1.17. a) “The right to share in the work which makes wise use of the earth’s material resources and to derive from that work the means to support oneself and one’s dependents ”,	6	56%	85%
20	1.6. e) My “right to freedom as well as the duty of making responsible use of freedom” to use it in a responsible way”	6	45%	81%

Source: Research findings from the R&D Project R11 004 01, sponsored by Polish Government,

It’s remarkable, that the PRINCIPLE on profit as indicator has the highest ethicality (90%), but not the highest Weight (only 9 points)

8	5.1 I “acknowledge the legitimate role of profit as an indication that the business is functioning well”	9	67%	90%

1.3. Impact of PRINCIPLES of ethical work on competitive productivity – research findings

Research finding on the impact of the PRINCIPLES of ethical work application on competitive productivity, has to be seen as “introductory” only, because proved on a sample of 45 businesses only. It is of great

importance, because it indicates the relations between ethics and productivity. This is demonstrated by the matrix below: [Figure 2.]

8 business org. with Competitive Advantage of Productivity with low Ethicality	17 business org. with Competitive Advantage of Productivity with high Ethicality	Have CAP	Average Productivity ← of the branch
13 business org. without Competitive Advantage of Productivity with low Ethicality	7 business org. without Competitive Advantage of Productivity with high Ethicality	Do not Have CAP	

LOW Index of Ethical Competitiveness(IEC) HIGH Index of Ethical Competitiveness(IEC)
 Competitiveness(IEC) Competitiveness(IEC)

Figure 2 Impact of the Index of Ethical Competitiveness (IEC) on the Competitive Advantage of Productivity (CAP)

Source: Research findings, R&D Project R11 004 01, Jan Balamut , Jerzy Donarski, Aleksander Sobolewski, Impact of work Ethicality level and social responsibility on competitiveness in business organizations, under scientific edition of Wojciech Gasparski, Bolesław Rok in cooperation with Anna Lewicka-Strzańska and Dariusz Bąk, "Ku obywatelskiej Rzeczypospolitej gospodarczej", POLTEXT, Warsaw 2010, page 182

Universities and business schools are invited to continue this important research within the scope of the YMER network. Any consultancy, if needed will be provided by the YMER group of the Bogdan Janski Academy.

1.4 A new teaching and research system is based on the EC1000 standard

The EC1000 standard was used successfully to establish a new combined teaching and research system at the Bogdan Janski Academy since 2008 [Figure 2a]

More than 600 Master degree and License students the young, future managers at the Bogdan Janski Academy, at the Management Department in Warsaw, have successfully passed this Ethical Education of future Managers through EC project in the period of 2008 -2010. More than 150 projects for 150 organizations have been prepared by four person project teams at the business and non business organizations where the students are employed. However the YMER –Young Managers Ethicality Researchers contribution, indicated in Figure 2a, was initiated starting in 2011 and about 15 YMER participants from among our students have made their first fruitful ethical research contribution.

Ethical education of future managers through EC 1000 projects

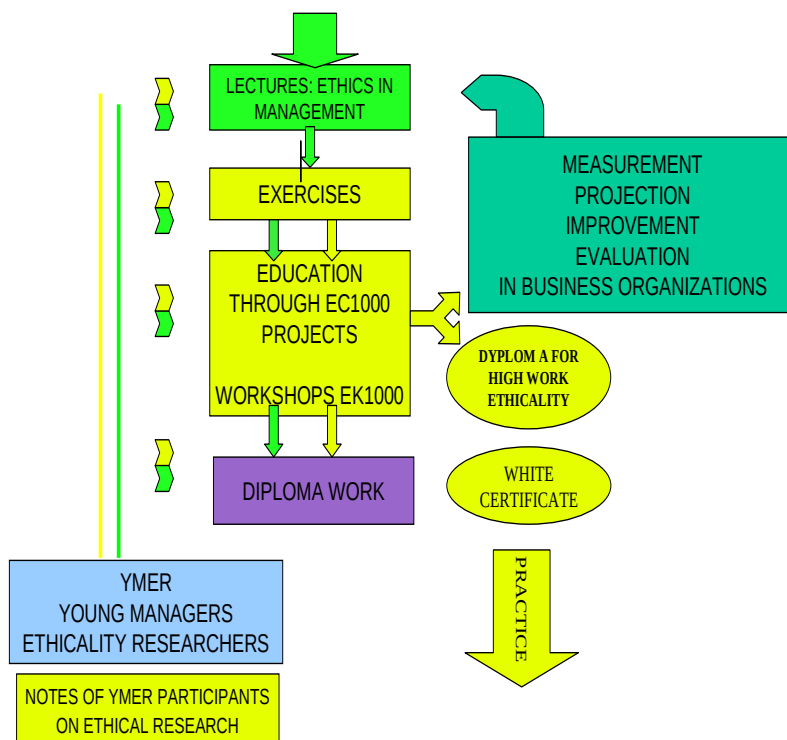


Figure 2a Ethical education of future managers through EC1000 projects at the Bogdan Janski Academy

Source: Own elaboration presented at the Conference "BUSINESS ETHICS; EDUCATION AT ACADEMIES AND IN FIRMS, Warsaw, December 2011

2. THE YMER ETHICS RESEARCH WORLDWIDE NETWORK WAS PROPOSED TO UNIVERSITIES IN EUROPE AT THE END OF 2011 (YEARS 2011 - 2012)

2.1 The initiation of the YMER ethics research network worldwide (www.janski.edu.pl , see YMER Center)

This Young Managers Ethicality Researchers (YMER) worldwide network initiation was started by the Bogdan Janski Academy in September 2011. It is still available on: www.janski.edu.pl see YMER Center, the Rector's letter addressed to the Rectors of the 24 Universities and Business Schools in Western Europe and one in USA (through contact persons, mentioned in the "Catalogue of Initiatives of the EABIS 4th Annual Colloquium 5-6 December 2005 Warsaw, Poland),

The same Rector's letter (in Polish) was also mailed to 48 Academies in Poland, providing management education to students. The letter has invited the Academies to join the YMER network and introduced the YMER project as aiming to researchers that are interested in instant and continuous mutual sharing of brief notes containing their research findings on how to grow the social and economic effects due to so called ethicality standard. Attached was on line edition, for full download, free of charge, the Work Ethicality Standard EC1000 (exposure draft)" and also our on line edition publication titled: "POPE JOHN PAUL II to managers".

The EC1000 standard, the permanent call for YMER NOTES and further information on the network are still available at the www.janski.edu.pl, when looking at the “YMER center” page (in English) or the “Centrum YMER” (in Polish).

The call for NOTES on ethicality research, updated on 15th June 2012, is as follows:

Dear Young Managers Ethicality Researchers (YMER) at Universities and Business Schools become YMER network participants

The wish of John Paul II “to study, spread, apply...”

Blessed John Paul II, Pope, has expressed the wish in His Encyclical *Centesimus annus* “to study, spread and apply the social teaching...”. During the Young People World Days (from all continents) in Czestochowa, Poland, in 1991, HE told: “Receive the Holy Spirit!. Infiltrated by the power, which comes from Him, become the builders of a new world, another world, based on truth, on justice, on solidarity, on love”.

There is still need to improve the “bridge” between the managers’ business practices and the social teaching in the education of current and future managers

If you like to fulfill his wish and if you seek to grow social and economic effects through work ethicality (“ethicality” means simply the degree of application of the “PRINCIPLES of ethical work” by managers and employees) at an organization you are in or will be in, please try to apply the innovative method and tools for managers, developed as result of our research findings, which is presented in the two documents (further two are in preparation):

1. POPE JOHN PAUL II to managers (JP II m)

http://www.janski.edu.pl/file/upload/1765df_5120.pdf

2. Work Ethicality Standard EC1000(Exposure draft) (WES)

http://www.janski.edu.pl/file/upload/886df_3876.pdf

3. Productivity & Ethicality. Research findings, on line edition (in Polish only, in English on request the summary only) will be published in June 2012

POPE JOHN PAUL II TO LECTURERS, STUDENTS, YOUNG MANAGERS ETHICALITY RESEARCHERS – YMER. MAN, ETHICS & ECONOMICS. SOME RESEARCH FINDINGS, will be published in June 2012

Creation of the YMER network aims to speed up the research process to bring benefits for society from “bridging” Economy with Ethical dimension and in this way to better meet the spiritual and material needs of people and to respect their basic rights. The immediate aim of the YMER network is to help the ethicality researchers in Europe and other part of the World to speed up the process of finding correlations between high work ethicality and a competitive productivity. Continuous mutual exchange of NOTES on the research findings for mutual creativity inspiration, to share not to sell, is an imperative assumption of YMER network. “Young managers” means the research students and research assistants. Research fellow comments are highly welcomed. Therefore we seek your NOTES produced in the following way:

1. Study ‘JP II m’ document and write NOTE on “My core PRINCIPLES (values) which I will apply to my future managerial role”

Start the study on page 39-40 and 43 of the (JP II m).

- Within few minutes you can make a brief ethical self-reflection on the one most important PRINCIPLE of ethical work for you to follow in your current or future business.

- Select few (at least 5) PRINCIPLES of ethical work, that can be seen as core values (out of the total 53 formulated on the Pope’s Social Teaching for managers) as the most important in making manager’s business practices effective, ethical and socially responsible. Go back to Pope’s genuine Encyclical text indicated at each PRINCIPLE, as (CA...). Write not more than 2 pages of your understanding of Pope’s text on ‘WHY each PRINCIPLE has to be applied by a manager’. Assess, if possible, the resultant social benefits and economic effects and add your personal opinion comments.

We will present your NOTE’S synthesis on our YMER conference with your name as the author, on the 22st October 2012. Your NOTE will be included in the conference proceedings which will be available on the internet by the end of December 2012.

2. Do research and share your findings (spread) by organizing meetings, seminars or conferences. Write a NOTE on your research

To do the research please use the second referenced document (WES). This will involve doing a research exercise among the mgt students of your group or even of the whole department. We are doing it successfully at our university. Use the "QUESTIONNAIRE for managers" on page 54-56. Summarize findings. You will discuss with them the proposal for core values and the reflection about the impact on business competitiveness and on work productivity. Share the findings and your conclusions with the group. Write a 'Note on research' and e-mail it to the YMER network members. On doing so you will be privileged to receive from the YMER center at The Bogdan Janski Academy research done in 30 organizations recently.

To spread wider – initiate an YMER group meeting in your research unit, to share and discuss the views on the deep sense of Pope's social teaching directed at managers. You can initiate an YMER seminar or even an YMER conference. The 22 October, is announced by Pope Benedict XVI as the bl. John Paul II, memory day. You may like to initiate to establish an YMER center at your University or Business School.

3. Apply in education of managers. Write NOTE on application in Management Education

As research assistant, in agreement with the lecturer, you may apply the (WES) for exercises in topics like "ETHICS IN MANAGEMENT, BUSINESS ETHICS. It is based on 177 PRINCIPLES of ethical work, formulated on Pope's social teaching, on research and documents of European Union, allocated into 26 management problems fields and these cumulated into five decision making areas; MISSION, PRODUCT/SERVICES, TECHNOLOGY, PERSONAL POLICY, FINANCE POLICY. Include the research findings of other YMER participants. Through the YMER network we may develop together the method of diagnosing "social responsibility" of organization's CREW according to ISO 26000 by using the (WES) for managing the CSR strategy.

4. Apply to research of work ethicality for management and business practices. Write a NOTE on CASES of application

As a research student, for Your MBA diploma work, you may use the (WES) to make ethicality and productivity research, in any organization,.

As a current manager you have management tools ready made with four phases of ethicality growth needed to: MEASURE ethicality and productivity, to PROJECT the growth, to schedule IMPLEMENTATION and finally to EVALUATE the growth of personal and social benefits, competitive productivity and other effects in business.

The best CASES will be published in the "Work Ethicality Guide + CASES in Europe",

2.2 How the initiative for YMER ethics research is to further develop, to prove positive impact on business.

The boxes below contain a further clarification of the YMER network and objectives.

Box 1.

The overall aim of the initiative for YMER ethics research:

To take into consideration the spiritual and material needs of human beings and respect his basic rights at work through development of innovative ethicality management methods and tools, and young managers ethicality education that will guide them to be prepared to use this knowledge for common good multiplication through positive impact of ethics on business

Box 2.

Fundamental rules of the YMER member:

First rule: To share not to sell ethicality research findings that concern impact on ECONOMICS and on BUSINESS, to inspire each other into further contributions to the network and to contribute to the pool of knowledge directly related to multiplication of common good.

Second rule; Any YMER member is a voluntary servant to the society he or she lives in.

Third rule : To get You have to give (NOTES – short information on research findings, but also opinions how to improve the ethicality management methods and tools)

Box 3.

YMER member definition.

Any doctor degree candidates and MBA and Masters student at universities and business schools in any country, who is studying management and likes to participate in research on the impact of ETHICS on ECONOMICS and on BUSINESS, taking into consideration other related sciences

Members may play roles:

YMER participant –

YMER contact person –

YMER adviser

YMER specialists in economics ,in sociology, in psychology, in statistics ,in other needed fields

3 FOR THE INITIATIVE: YMER ETHICS BASIC RESEARCH, TO BE PERFORMED AT MANY UNIVERSITIES TO PROVE SCIENTIFICALLY THE POSITIVE IMPACT OF ETHICS ON BUSINESS,

(YEARS 2013-2015)

3.1. Project 1: “The model of PRINCIPLES of ethical work, taking into consideration the social teaching of Pope John Paul II, and their impact on productivity and on social benefits in organizations in Poland and Europe”

A basic research type project is currently in the process of financing approval at the National Research Center in Krakow (Poland). If approved, all the research findings will be made available to all YMER participants, successively, constantly along the whole research process.

We like to prove two research hypotheses:

The Research Hypothesis 1. High degree of application of ethical work PRINCIPLES by managers and employees, rationally selected in bundles corresponding to the sensitivity of each of the nine productivity factors, has positive impact on productivity growth and competitive advantage;

The Research Hypothesis 2. PRINCIPLES of ethical work, formulated from the social teaching of Pope John Paul II, have a statistically significant impact on productivity and new culture of work, which takes into consideration the spiritual and material needs of human being and respects his basic rights.

The final research effect for teaching business ethics and application by managers

The objective of the YMER ETHICS RESEARCH is to confirm an impact of PRINCIPLES of ethical work application on shaping competitive labor productivity. Up to now, this has not been confirmed yet scientifically. A „Model for PRINCIPLES of ethical work” (PRINCIPLES’ bundles) for stimulation of labor productivity and competitiveness in organizations (The Zep/P model) has also to be further developed. There is the assumption that this Model will serve as a basis for creating of a computer tool, and a platform in the future to support rational selection of the PRINCIPLES in accordance to the specifics of a particular business organization. [Figure 3.]

It will also enable the management board of any particular organization to simulate potential losses of non-application of a particular PRINCIPLES of ethical work, and how to manage its application to achieve the effects of positive impact of ETHICS on BUSINESS such as: growth of value added, labor productivity, wages, social benefits, common good multiplication.

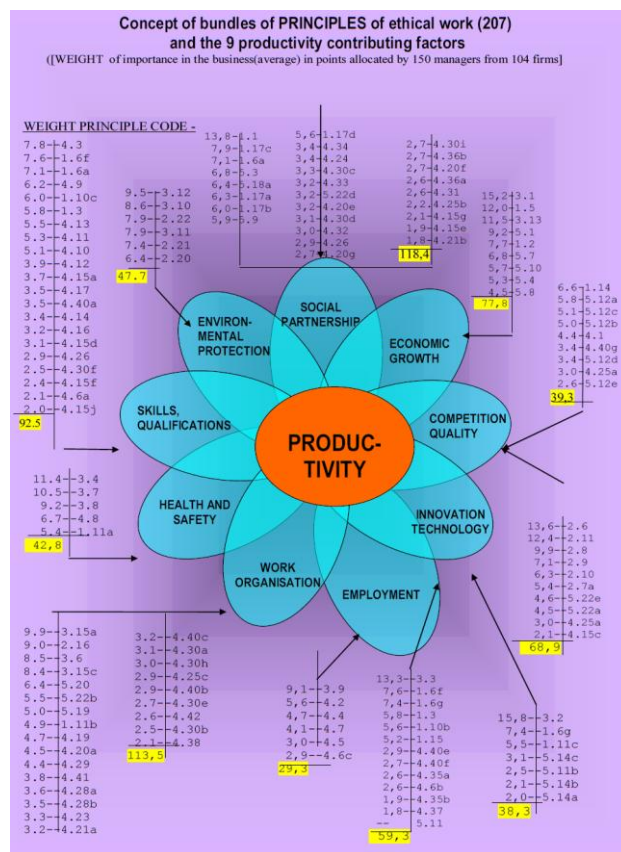


Figure 3. Concept of bundles of PRINCIPLES of ethical work and the 9 productivity contributing factors

Source: Productivity – the Finish Work Environment Fund (EANPC), Bundles – Expert’s Concept of J. Balamut, J. Donarski, WEIGHTS – Own research findings, Project R11 004 01

As You may read from figure 3.

- the “bundles; “ SOCIAL PARTNERSHIP” has the highest number of points (118,4 out of 1000 in total), what means to these PRINCIPLES, by 156 managers from 104 businesses in Poland, have expressed their feeling on importance for their business.
- the highest Weight, given by managers is to has the PRINCIPLE code Nr 1_1 “I feel that the Board of management in the MISSION takes into consideration the principle that “man’s principal resource is man himself” what means the main wealth of the firm is the MAN himself – the firm’s CREW

This “Flower” is a graphical illustration for the raising of labor productivity. The source of the flower itself is: The Finnish Work Environment Fund.

The second important effect will be a Guide, “Work Ethicality& Productivity Management”, to be used in education of future managers ,especially at Universities and Business Schools,

3.2 Project 2.: ”YMER – Transmitters of the ECP1000/CSR method. Innovative education and research in service of knowledge based society development”

This project is aimed to transmit the YMER ethics research effects –the innovative ethicality management methods and tools to businesses and other organizations, in the process of education of managers in the master degree and license programs of our academy, to be ‘mainstreamed” to other academies in Poland and abroad.

The main aim of this project is to strengthen of university’s didactic potential through elaboration of a new model of ethical education of managers by and with transmission, for strengthening of the organizations

managers through an innovative work ethicality management method ECP1000/CSR to solve such three problems in the manager's education:

First education problem: limited knowledge on positive impact of ethics and social

responsibility on business. This is the cause that ethics in business is lectured in a descriptive form but not as normative applied science;

Second education problem: lack of students prepared to act as transmitters to transmit, in

parallel to their education process, the ethicality research data from business, assist the business organization in the implementation of the ethicality research findings of the academy back to business, consult preparation of ethics impact on economic and social effects as feedback information to the academy.

Third education problem: delayed flow of the research findings from the academy to the

business.

In February 2011 this new R&D project 2 was submitted to the National Research and Development Center, to be financed from the European Social Funds, Human capital (2012-2014)

To make an effective transmission of ETHICS to BUSINESS, an innovative methods and managerial tools between University and business and non business organizations through students prepared to be Transmitters doing it in the process of so called specific, innovative process: "Education through projects ECP1000/CSR". The method will be based on new concept of two integrated matrixes: "The 5 DECISION AREAS, 9 PRODUCTIVITY CONTRIBUTING FACTORS, 7 SOCIAL RESPONSIBILITY CORE SUBJECT (based on the International Standard ISO 26000)".

Figure 4. The integrated matrixes 597

5 DECISION AREAS	9 PRODUCTIVITY CONTRIBUTING FACTORS									7 SOCIAL RESPONSIBILITY CORE SUBJECTS						
	9.1	9.2	9.3	9.4	9.5	9.6	9.7	9.8	9.9	1	2	3	4	5.	6	7
MISSION	1_9.1								1_9.9	1_7.1						1_7.7
PRODUCT	2_9.1								2_9.9	2_7.1						2_7.7
TECHNOLOGY	3_9.1								3_9.9	3_7.1						3_7.7
PERSONEL POLICY	4_9.1								4_9.9	4_7.1						4_7.7
FINANCIAL POLICY	5_9.1								5_9.9	5_7.1						5_7.7
Total:																

Source: Project: "YMER – Transmitters of the innovative ECP1000/CSR method

These two matrixes will serve managers of particular businesses to formulate their 597 - CSR strategy. Collected ethicality and responsibility data, entered into the 5x9=45 productivity cells and into 5x7=35 responsibility cells will help managers to formulate their CSR strategy.

3.3. Creation of YMER centers (virtual) at universities and business schools worldwide to inspire, conduct some ethicality research and to share the findings

- is highly recommended

To prove scientifically the impact of ETHICS on ECONOMICS and to create practical models, ethicality management methods and tools is a difficult task which requires involvement and integration of brains of the ethics and economics researchers as well as business practitioners and other stakeholders.

The YMER concept is based on the assumption of creation of YMER groups or even YMER virtual centers at as many Universities as possible, as long there are students interested in this subject and who are prepared and willing to share the research findings.

YMER center at the Bogdan Janski Academy(virtual) www.janski.edu.pl (as example)

Establishment of this virtual YMER center has not required any formal institutionalization, typical for establishment of classic “centers” at universities. It took few days. At this virtual YMER center you may find the letter of His Excellency Rector to Excellencies Rectors at other universities with the concept of the project YMER worldwide network. You may find the permanent “Call for NOTES”. You may open and download the research findings of our Academy as our “sharing not selling”, as the first input to the YMER worldwide network participants. You may find the name of the YMER contact person with e-mail address. You will find the list of YMER participants at the Bogdan Janski Academy. Always you will find: date of first YMER NOTE delivered, kind of research he/she is doing, kind of research he/she likes to do, questions, research problems he/she is interested to get information on.

4. SOCIAL ETHICS OF POPE JOHN PAUL II AND THE POSITIVE ORGANIZATIONAL PSYCHOLOGY – COMPLEMENTARY SCIENCES FOR STRATEGIC LEADERS EDUCATION?

The sciences such as ECONOMICS, ETHICS and PSYCHOLOGY provide the knowledge to guide strategic leaders. The social ethics of John Paul II is available for everybody at www.vatican.va in many languages. His social teaching is presented in three Encyclicals: Laborem exercens, Sollicitudo Rei Socialis and Centesimus annus.

For the YMER members, to make the study of the social ETHICS of Pope John Paul II easier, an on line edition publication entitled; POPE JOHN PAUL II TO MANAGERS, is available at www.janski.edu.pl, under YMER Center topic. A special publication entitled ‘POPE JOHN PAUL II to LECTURERS, STUDENTS, YOUNG MANAGERS ETHICALITY RESEARCHERS – YMER. MAN, ETHICS & ECONOMICS’ will be available for the ISBEE Congress participants.

The YMER participants at different universities will be asked to invite researchers of the Positive Organizational Psychology, to get their contribution. “It’s a shift from markets to minds, from strategic leaders who need to understand and cope with market forces to ones who also understand and cope with mental processes”⁴⁰⁶ -

Table 2. Comparison of ETHICS and Positive Organizational Psychology

ETHICS	POSITIVE ORGANIZATIONAL PSYCHOLOGY
“ETHICS is science, is a set of statements, judgments, which aim to direct the human actions, but are in such relations to these actions as a specific theory to practice. Most of all, we must be aware that a particular human action have its particular character as it is done by a unique individual, but the principles formulated and justified in ETHICS have to retain general and abstractive character. The problem arises in connection of these general principles with the specific actions if these principles have to shape it (...) (Cardinal Karol Wojtyła, ETHICAL ELEMENTARY)	The Positive Organizational Psychology (POP) as the scientific study of positive subjective experience and traits in the work place and positive organizations, and its application to improve the effectiveness and quality of life in organizations (S.I. Donaldson and I. Ko, 2011) Explained by Peterson (2006), positive psychology has three pillars. The first pillar <i>positive subjective experience</i> includes happiness, wellbeing, flow, pleasure, hope, optimism, and positive emotions. The second pillar, <i>positive traits</i>, encompasses talents, interests, creativity, wisdom, values, character’s strength, meaning, purpose, growth, and courage.

⁴⁰⁶ Giovanni Gavetti, associate professor at Harvard Business it School, The New Psychology of Strategic Leadership, Harvard Business Review, July-August 2011, p.118-125

	The third pillar, <i>positive institutions</i> , includes positive families, schools, businesses, communities, and societies

In 1991, May 1st Pope's John Paul II Encyclical *Centesimus annus* was announced. It brought closer ETHICS to ECONOMICS and went down to the level of workplace in organizations and business. Isn't that amazing that more than 300 000 volumes have been sold in US alone?

This encyclical, as the Pope says, is "directed to the future, the XXI Century (CA 62). Therefore the Pope stresses that the present world is becoming more and more aware that solution to serious national and international problems lies not only in industrial production, or legal and social organizations, but requires a strong reference to particular ethical-religious values, transformation of the mentality, behavior and structures.

It is a natural process that the "echo" of key publications develops reaction few years later.

"Ethics, as science, is focusing on the research of the phenomena of morality. From this point of view it shares common grounds (interacts) with other sciences, for which morality is also the object of interest, like psychology. In spite of ethics and psychology having common object of research, they are separated by the very different way in which each of these sciences approach the phenomenon of morality, as well as in the methods the research is applied to them. The difference of ethics as philosophical science, however, does not invalidate the fact that Ethic as a science has to(should) benefit from these particular other sciences"⁴⁰⁷

For the YMER ethicality researchers a search for a solution of what to make, and how to make that ETHICS to be science, is shifting or has shifted into "ethicality", which means application of the established by ETHICS norms of work, particularly those that are mutually valued and accepted by both employees and managers of a business or an institution operating in a given branch of industry or public service and within a particular culture.

It seems very rational to ask the Positive Organizational Psychology (POP) researchers to join ethicality research work and to propose where, when and how to use their knowledge and research findings.

I think it will not be too in advance to say that the Young Managers Ethicality Research have a massively challenging task ahead but with a potential to become the new movement which we could call - **'Positive Organizational Ethics'**.

A great challenge for YMER participants is to develop into "New culture of work" movement of managers and employees of any organizations, that "takes into consideration the spiritual and material needs of human being and respects his basic rights", as John Paul II has envisaged and expressed in His encyclical Centesimus annus, on social life of societies in the XXI Century.

ENDNOTES:

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MORALITY AS AN INDEX OF MENTAL HEALTH OF THE ORGANISATION: BUILDING A MODEL OF HEALTHY LEADERSHIP

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Summary:

This article offers to link such independently studied concepts as ethical leadership, creativity and culture, as a resource of the business and its aim. It is argued that linkage of these concepts in practice leads to normal, healthy, adaptive development of an organisation. Organisational health will be connected with healthy leadership and opposed to organisational 'psychopathy' with its narcissist leaders and their aloofness to ethics. Other aspect of organizational mental health will be observed in relation to health-integrated organizational culture, and thirdly, question of organisational responsibility towards culture in its search for creative solutions will be addressed as an important indicator of mental maturity; regulatory role of shame in the moral growth process is emphasised. The paper is a preliminary conceptual introduction to the work in progress dedicated to the different aspects of ethics and its links to the theory of creativity, psychiatry, psychophysiology, and economy, which needs to be investigated further.

Key words: morality, mental health, healthy leadership, healthy organization, shame, cultural awareness, creativity.

Introduction

In this article parallel will be drawn between the organization and healthy, mature personality. The psyche is a self-regulating adaptive system. Evolutionary, psyche of the human was developed in the process of work and social life, and is a product of the brain activity. In order to be healthy it must reflect the real world adequately. In psychotic conditions determination of brain activity by the real world becomes deviated; mental disorders disrupt almost all cognitive and emotional sphere: e.g. learning skills, employment capabilities, abilities to

sustain relationships, hygiene, etc. Human psyche abilities for moral comprehensions slow down due to inability to experience shame; primitive concerns gradually substitute highest human qualities, if such could be developed on the first place (Pavlov, 1955, 2001, Gannushkin, 1964, Gilchrist et al, 2012). As to McGuire et al. (1994), mental illnesses decrease moral virtues and tend to increase selfishness. This seems especially true for the severe psychopathologies, such as schizophrenia, and psychopathy (Nesse 2001; Shaner et al. 2004).

In order to function properly psyche needs certain conditions, which balance its work of arousal and inhibition (Pavlov, 1955). Selye (1974) studies of stress confirmed Pavlov statements of arousal of nervous system, linking that to the idea of homeostasis. It was proved that stress is needed for adaptive functioning (Aldwin, 1994, Selye, 1991), and is important to find its optimal level, individual one. Both, brain's activity under - stimulation (no problems to solve) and its over - stimulation (too many tasks, task diversity, time constraints, conflicting motives, lack of resources, etc...) in the long run lead to disruptive personality changes, and are therefore dangerous. The attention to the physiology of psyche is stressed here in order to underline that psyche is absolutely crucial and at the same time very vulnerable product of evolution. It requires careful and responsible attitude on the individual and societal levels.

Balancing different aspects of life and work/rest as well as work/play is emphasised in many schools of thought (e.g. Buddhism, and all the other religions, philosophy, starting from ancient times, medicine, psychoanalysis, classical psychophysiology), but some business environments continue to ignore this need for healthy brain work: the phrase 'no rest for the weary' (meaning there is no rest for the already over worked and tired because there is still work to be done) describes tragic reality and a certain ignorance of such organisations. The a-moral part appears in the negative impact of such business for society, as they are contributing to its psychopatisation. Recent studies of medical and management research (e.g. Amanzhol et al., 2011) concentrated on sleep and work balance, conclude that health and mental health are in danger if organism does not receive sufficient rest. It was found (Christian, Ellis, 2011) that sleep deprivation correlates with reduced self-control (particularly of emotional sphere) and increased hostility. As pointed out (ibid.), this can have serious implications in terms of safety, anti-social behaviours, deviance and customer service.

According to WHO Ottawa Charter for Health Promotion, health "is a positive concept emphasizing social and personal resources, as well as physical capacities."

(<http://www.who.int/healthpromotion/conferences/previous/ottawa/en/>). Health means not only being free from illness, injury or pain, but is "a state of complete physical, mental, and social well-being" (WHO, 2006). Mental health too, is understood as something more than the absence of mental illness: although population majority does not suffer from a diagnosable mental disorder, it is clear that some individuals are mentally healthier than others, and often mental health is meant as a synonym of psychological maturity.

Grimak (1987) concluding his studies of the human brain reserves, states that stability of the human psyche (in critical situations), depends on a person's awareness of directedness of life, its intentionality and will. Also other studies of psychological maturity include the concept of life purposefulness, awareness of moral duties (starting from Freud, 1937, Jung, 1991, and more contemporary studies of Taylor, 1977, Miller, 2007). It is in human abilities to predict the situations in a sequence and it has its moral implication: we are responsible for our actions (DeGeorge, 1999)⁴⁰⁸. Being able to respond for the consequences of the actions and choose tasks corresponding to our capacities, time constraints, context, etc. is therefore a sign of psychic maturity. Selye analysis of endocrine and nervous system activities ended up in his "Code of behaviour" which stresses the importance of enlightening for the human life - the search of the sense of life and a need for work. Emptiness of existence results in mental disaster, and together with other factors causes distress, which is toxic (Selye, 1991).

As to biological perspective, it is argued that moral traits are sexually attractive (Miller, 2007) and serve as indicators of mental fitness: they are judged as reliably revealing good mental health, brain efficiency, genetic quality, and capacity for sustaining cooperative sexual relationships as well as investing in children (e.g., Gurven et al. 2000). Social psychology study of moral virtues indicates the presence of Halo effect: information that a person is morally virtuous (e.g., honest) increases ratings of his/her mental health and physical attractiveness (Paunonen, 2006).

This article will argue that in order to make a human psyche to function in a healthy way business should not only try to balance stress, care for health, but also provide the environment for creativity, responsibility and moral growth to occur; it should also be open for collaboration with other partners of societal life. The concept of shame and its role in the moral growth will be addressed.

⁴⁰⁸ Antoine de Saint -Exupery in "The Little Prince" has formulated: "You become responsible, forever, for what you have tamed"

Psychological factors causing unhealthiness of the organization

Among the factors contributing to un-healthiness “bad or poor” leadership should be mentioned on the first place. Several studies (e.g. Morris, et al, 2008) emphasise that the leader must be recognised as a ‘change agent’ that has a vision of what the future holds for the organisation. Transformational leadership approach (Bass et al, 1999, Burns, 2003) soon after its introduction had to be revised however, as it became clear that not all the transformations lead to positive changes and followers’ self-actualisations, but big amount of such ‘transformations’ cause withdrawals and emptiness due to short-term, selfish and manipulative character of some charismatic leaders, who initially attract followers with their visions and creativity; to distinguish among them “pseudo-transformational” concept of leadership has appeared (Barling et al., 2008). Howell and Avolio (1992) analysing charismatic leadership suggest separating ethical and unethical charismatic leaders.

Indeed, business scandals of such iconic companies as Enron, Bear Stearns, Allied Irish Bank, WorldCom, AIG, Parmalat and others practically demonstrate how charm, intelligence, abilities to motivate turn to be a singular focus on the generation of personal wealth. Boddy (2011) the problem of financial crisis observes in the light of leaders-psychopaths who continue to make decisions, which shake world financial stability and longevity. Psychopaths have no empathy to others, are prepared to lie and are very disorganised in their management (Boddy 2010). Allio (2007) calls this era ‘a poor leadership epidemic’.

B. Kellerman (2004) uses the term “toxicity” and mentions seven different key points of toxic leaders: 1) Incompetence, 2) Rigidity, 3) Intemperance, 4) Callousness, 5) Corruption, 6) Insult, 7) Evil. “Corporate Narcissism” is another concept, which has psychoanalytical origins. Narcissists are able to make people fall in love with them, they manipulate in a charming manner, and followers who gradually become co-dependent are blind to notice that such leaders are driven by self-absorption, arrogance and need for admiration (Lubit 2004, Lipman-Blumen, 2005, Kets de Vries, 2009). Symington (2004) believes that pathological organisations are not able to differentiate narcissistic characters and instead of excluding them from key positions are promoting them. A success factor of ‘good-enough organisations’ is rooted in the ability to sense narcissistic personalities.

Lack of shame, low anxiety, lack of empathy, magnetic superficial charm, manipulateness are among the qualities of psychopathic leaders (Gannushkin, 1964, Lipman-Blumen, 2005, Lubit, 2004), their selfish leadership attract similar narcissist or dependent personalities (Lipman-Blumen, 2005, Allio, 2007 Kets de Vries, 2009) and ruin others around them by implementing mobbing, controlling, involving them in intrigues (Kellerman, 2004), which destroys organisation in a long run⁴⁰⁹.

Other factor is resistance to change, which is discussed broadly in managerial literature (e.g. (Schein, 2010, Strebel, 1998, Anderson et al, 2010). Fears of unknown, of losing the comfort zone, fears to be scorned, co-dependency and habits (Maurer, 1996) are factors, which are often mentioned in these regards.

Speaking of habits from physiological point of view, it is the neuron connection, distinguished by enhanced readiness to action (Grimak, 1987), an acquired pattern of behaviour that often occurs automatically (Pavlov, 2001). Automatic actions make it easier the work of the nervous system; it saves time (for other issues and learning, if the system is trained for so doing) (Grimak, 1987). Neuron connections are linked directly with ethics.

Stress is also a matter of habit; the stress tolerance level increases by training and time (Selye, 1974) and distress (negative stress) to a certain degree transforms itself into stress required for a ‘normal’ functioning (Bodrov, 2006). It seems, obsession with being stressed becomes a “useful habit” by those who constantly experience it, an “ego-protective”: it permits a person to be aloof, evil, un-caring, un-patient, tough, tired, lonely. Stressing others also becomes a habit. Is a habitual self-permission to test other people psychological limits, play psychological games, use violence (Kantor, 2006, Kets de Vries, 2009). According to cognitive dissonance theory (Festinger, 1957) is enough person allows him/herself once to cross the border that the attitude towards this action starts to change. If repeated (Nebylitzyn, 1991, Pavlov, 1955), and especially if rewarded (Watson, Bandura In: Hayes, 2000) it leads to normalisation of such act of behaviour and to the habit.

Behaviour connects the organism to the environment in its three main ways - instinctively, habitually, and consciously (Hayes, 2000). In order to break the habits of unhealthy routines of working communication and

⁴⁰⁹ It seems pathological process will continue until there will be admirers, co-dependents and money to share with those who help to build “the empire of lies.”

build the platform for collaboration and trust, conscious control and moral strengths for so doing are required, as breaking the habit is enormous work for the system (for the individual psyche and group level).

That may explain the difficulties of introducing ethics in business environment: the habitual way of thinking about the organization is financial perspective with its efficiency maximization paradigm (profit gains, minimization of expenses, etc.), which automatically judges ethics from the prospects of numbers: will company have extra costs or will it gain, if gain - how much and in how short period? Business however is just a part of the societal system with its cultural traditions, education, art, religion, history, law, ethics, health care, communication system, etc... and not the centre, for which everything is a resource or context with threads and opportunities. Further study is needed to investigate the statement, but it seems business is moral in societies and in hands of leaders who do not pathologically exaggerate its self-worth in societal life (see also Collins, 2001).

Next argument is the role society plays in business 'unhealthiness problem'. Here three main questions can be addressed: values of consumerist society, extremes of values in business and lack of education. As to Lipman-Blumen (2005), toxic leadership is the fault of everybody; she discovered there is still a tendency among contemporary society to seek authoritative characteristics among corporate and political leaders, and she connects it with emotional weaknesses of the public and lack of education on regards of what leadership is (see also Lawrence, 2006).

To be healthy often means to be in harmony, to be able to balance different life aspects, psychological skills (Taylor, 1977), it means not to be 'either – or' on any of the scales (Leonhard, 1989, Eizenck, 1976, Cattell In: Tucker, 2009.). Plato shortly called it: "Avoid excesses".⁴¹⁰ Thus, if any end of a continuum is exaggeration, unhealthiness, but organization selects the profile of assertive, confident, task-oriented, extraverted, field – independent individuals, such organization becomes slightly pathological (see also Quinn et al., 2007). If these are the values of society after a while such society becomes sick. Image of success pressures and also standardizes individuals, causing depressions, fears, anxiety from one side (see Schwab, 1986) and simplification of motive system on the other (Saad, 2007).

Consumerism helps in this direction; it inspires short-term ego-gratifications for those who can afford the luxury and creates frustrations for those who cannot.

Buying and owning commodities substitute happiness and self-worth, relationships with a product or brand substitute lacking healthy human relationships⁴¹¹. Homo consumericus (Saad, 2007) having all the choices and possibilities the market provides in reality has restricted freedom and is controlled by the market.

The role of psychology and ethics in consumerist society is a search of maximisation of psychological comfort, similar to that friendship and marriage services offered in Internet - the efforts of the person become minimal: all you need to do is to provide a 'desired' profile of the person by clicking the options, and continue to work for the corporation. After electronic digestion takes place one can be connected with other profiles: depending on the payment agreement the contact information is provided with the suggested phrases for starting the conversation, leading to desired 100 % happy life! One does not need sleepless nights, deep thoughts and doubts, one needs simplicity and more time for corporation, because time is money, which allows 'to buy' happiness/freedom: another, more modern washing machine, an exclusive rest, etc... Consumerist society cares for the circulation of money, taxes implied, and not for the ethical doubts in the individual level, which are needed for the healthy personal growth.

The highest aim in consumerist society – to achieve condition when one does not need to work, and money starts working 'by itself'. This causes an internal conflict on the individual level of the middle class: the will towards work is dictated by motive of hate of this very work. According to Jung and other psychotherapists schisms and splits form complexes and maladaptations (Jung, 1991). In order to exit the healthy situation must be provided. Education of society could be the solution in the process of recovery (Krznaric 2008, Lawrence, 2006), here the role of state and collaboration between different societal institutions and business becomes crucial (Iarskaia-Smirnova, et al 1999, The Economist Intelligence Unit, 2007).

⁴¹⁰ His classical four virtues - Wisdom - ability to judge between actions with regard to appropriate actions at a given context, Justice - proper moderation between self-interest and the rights and needs of others, Temperance - practicing self-control, abstention, and moderation and Courage - endurance and ability to confront fear and uncertainty (Platon Protagoras In: Lombardo et al, 1992) – explain the formula.

⁴¹¹ There is an argument that in locations where consumer products are difficult to acquire the struggle of social distinction creates hostility between individuals, which can be criminogenic (Hall et al., 2008).

Mental health and moral concerns of organisations

As argued by Lawrence (2006) the leaders' ineffectiveness, un-ethicality, autocratic tendencies, and hubris of leadership are rooted in the lack of humility (see also Collins, 2001). Greenleaf (1997) has proposed the servant leadership principal, according to which a leader must serve others so that they can perform at their highest potentials. Idea of servant-ship and altruism is expressed in Kanungo and Mendonca works, who state that '...organizational leaders are truly effective only when they are motivated by a concern for others, when their actions are invariably guided primarily by the criteria of the benefit to others even if it results in some cost to oneself' (Kanungo, et al, 1996:35).

Although already Nietzsche has called it a 'comic idea' to put happiness of others before the own interests (1998, orig. 1887), and these days Locke (Avolio and Locke, 2002) states the question of 'who would wish to be a leader under such circumstances?' and 'whether we would follow such a leader', the practice shows that without balancing the dimension of 'selfishness-altruism' or 'loud heroism' – humility' business becomes pathological and risks to cause dangers for society (see also Badaracco, 2002).

The internal mechanism for being balanced should be connected with self-control, as external controls dictated by compliance to law, fashion [for CSR], creation of good image, are diminishing the value of personal choice and moral maturity (Kohlberg, 1973, Nesse, 2001). Such self-control is realized by self-gratification and shame. Freudian Super ego is adjusting individual to culture through shame, guilt and feelings of pride and satisfaction. Shame however is not mentioned in the lists of values and virtues for the leadership(e.g. Kirkpatrick et al, 1991); it is not at all mentioned as an operational category for the business.

From antropological point of view (Benedict, 1934, Fessler, 2004), feelings of shame permit to sustain culture. The concept of shame in psychiatry is not so straightforward; pathological shame and complexes of guilt block personality from being open and free. On the other extreme is a lack of shame or a fake shame (Freud, 1937), which is also a sign of deviated psyche (Gannushkin, 1964). If shame is connected with a self-conscious state in which the self is imagining itself in the eyes of the others (Lewis, 1992), then the lack of shame means either inability to be self-conscious or to be self-critical (Kerbikov, et al, 1968) or directs on un-willingness to use the same ethical standards as those existing for 'others' (Marx, In: MsLellan ed. 2000, DeGeorge, 1999, Price, 2005). In all cases it does not lead to healthy communication and positive dialogue.

If business creates its strategies being not embarrassed for the complications they bring to society and culture, this is a signal of degeneration. Below some fields are mentioned, where business sometimes is aloof for expressing shame:

- Shame for not admitting limitations: Is known that some companies claim themselves professionals in the sphere, whereas they are lacking competence and skills needed. Quality of their product does not correspond to the advertised statements, they promise more than they actually can. Some companies are constantly unable to produce or deliver service or product in time, etc. This happens because of over-estimation of capacities or just due to deliberate lies, on the personal level is associated with self-esteem problems;
- Shame for polluting the environment: Not mentioning the US story in the Kyoto protocol, many businesses do not consider as their responsibility to care for the ecology and planet, they continue to produce toxic pollutions and just leave them for others to worry about. On the individual level can be compared with person living in a dirty, anti-hygienic conditions, with many things kept in disorder, which is a symptom for psychiatrist⁴¹²;
- Shame for using cultural resources and being unpatriotic, disrespectful to this culture and its inhabitants: This arrogance is compared with selling members of own family, only degenerated mind can do it;
- Shame for losing common sense: When company is guilty it continues to fight in courts and demonstrates condition similar to the lost of orientation (Ford Motor with their Pinto model, Enron scandal, etc...);
- Shame for ignoring the golden rule: on individual level it is ego-centrism, which according to Piaget (1969), must go to the end by the age of 7 – 8.

⁴¹² A recent on-line poll among young employers in Canada has demonstrated the tendency that "most would consider leaving their current job for a more environmentally friendly employer". The site argues that "it is time to expand the triple bottom-line view of "people, planet, profits" by including how organizations can renew their human systems" and succeed in optimisation of solutions satisfying all stakeholders. (<http://creatinghealthyorganizations.ca/blog/2010/06/>)

- Shame for using own cultural filters and belief system when doing business in other cultures: There is no goal to overcome ethnocentric biases, however learning other culture peculiarities instead of trying to change them is in the core of cross-cultural ethics; applying own standards of thinking is just a behaviour of arrogant and limited mind;
- Shame for being too far from the needs of the rest of the population or the world poverty: Scandal of Abramovich and Berezovsky for example, is a humiliation of ethics per se, taking into account poverty problem.

It does not mean however that business in order to be healthy should experience constant shame or remorse. What it means is that business should be self-critical and responsible towards the culture and should collaborate with other culture agents in order to have healthy communication with society, healthy development, and avoid shame pressures. Lack of shame on the level of organization finds itself in habits of permitting intrigues, mobbing, prejudiced attitude, arrogance, ignorance, creation of distrust, dishonesty, over-using natural and human resources, in other words, low organizational morale.

Ability to experience remorse of conscience or simply, shame is crucial in personal and organisational growth. Taylor et al (1988) study suggests that exaggerated perceptions of control of own mastery together with optimism are indicators of healthy mind. Roberto (2005) states that often leaders are trying to deny negative emotions caused by guilt, but they continue to take their personal decisions, and to keep all the answers, instead the environment where 'these threads' (of self-awareness) are turned into strengths can be created, by facilitating good decision-making of bright minds in the company.

The study of Sauer and Ropo (2006) of the theatrical setting prove that shame can be used as a leadership tool for enhancing professional and personal development and organizational performance. The study of leadership shame has to take place to test further its connection with responsibility, trust creation, and effectiveness.

To build an ethical culture usually means to balance business desires for profit with ethical responsibilities towards employees and customers. Good example is the study of Keller and Price (2011) on 'Organisational Health,' which argues that focusing on the health of employees is a crucial competitive advantage of the company. After the decade of studies authors (ibid.) found out that companies caring for organizational health are 2.2 times more likely than lower-quartile companies to have an above-median EBITDA margin, and they have two times more likely to have above-median growth in enterprise value to book value. Authors claim that 50 percent of any organization's long-term success is driven by its health.

There appeared a formulation of health integrated organisation: "is [such] an organization that strategically integrates employee health and well-being into its culture and business objectives through collaborative and comprehensive initiatives, policies and practices to achieve positive organizational and employee outcomes."⁴¹³ Although the focus is on creating a *culture of health*, which would minimise risk factors and encourage employees to be aware of health and make regular medical controls and not on the developing *the morally healthy culture*, which should stimulate members of the organisation to have habits of 'bringing out the best' in each other, this is an important step forward for the business. *Culture of health* stimulates employees to realise their self-worth, and experience that they and their health is an asset for the company.

Speaking of mental health, Taylor (1977) on the base of his 25 years of experience as clinical psychologist, distinguishes the following aspects: the ability to enjoy life; resilience – ability to bounce back from adversity or coping well with stress; balance – of time spent socially and alone, work and play, sleep and wakefulness, time spent indoors and outdoors; flexibility; and self- actualisation.

Among the other indicators of mental health, humour (Martin, 2006), ability to form relationships (Gannushkin, 1998, McGuire, 1994, Kets de Vries, 2009), and empathy (e.g. Decety 2007) are often mentioned in the literature. The model of Witmer, Sweeny (1992), and Myers (Myers et al, 2000) links Adlerian individualistic psychology of its five major life tasks - work, friendship, love, self and spirit – with wellness in contemporary society. Authors (ibid) argue that realisation of subtasks, such as: sense of worth, sense of control, realistic beliefs, emotional awareness, problem solving, creativity, sense of humour, coping, nutrition, exercise, self-care, stress management and cultural identity, lead to healthy functioning. Big amount of research is dedicated to the importance of balancing the work of two brain hemispheres and by involving employees in different activities (business and art, for example), which would actualise rational and irrational, logical and emotional modes of perceiving and processing the information and by so doing enhance psychic abilities and develop opportunities for learning, which is in the core of mental health (e.g. McCarthy, 1996). Some studies concentrate on mixing people with different professional skills (Kakko et al. 2009) and demonstrate successful

⁴¹³ (<http://creatinghealthyorganizations.ca/index.php>).

implementation of this approach and its impact on creativity, self-worth, humour, general well-being and enjoyment of life.

In order to have a *morally healthy culture*, the question of purpose and moral aim of business should be also addressed: what is the meaning of its life? The leader should also pose the question – is the organisation with its morale contributing towards societal health or does it cause psychopatisation and degradation of society?

The utmost importance of a vision is emphasized in managerial literature (e.g. Kottler, 1998). Statement of mission, basic beliefs and values of leaders (Shein, 2010), the mechanism of transmission of these beliefs are discussed; concept of trust as a fundamental component of any successful organization is underlined (Hart et al, 1986; McAlister, 1995, Kaptein, 2008). Creativity is understood as another strong factor for the organisational success (Amabile, 1998) and even its major survival skill (Porter, 1991, DeMiranda, et al 2009). It is argued that in order creativity to occur environment should be intellectually stimulating and emotionally warm (Whitebread, 2000, Mayer, 1999) Studies of creation of the atmosphere of challenge (Zhou, 2003, Heller, 2004) and acceptance and involvement (Mayer et al, 1995, Jones, 2006) demonstrate that these factors are important in employee job satisfaction and their self-reported well being. As was mentioned, studies on well-being observe health as an organizational asset (Keller et al, 2001). Mutual recognition of the intrinsic worth, sincerity and respect (Clampitt, 2001) is another important element, which actualises the Kantian perspective of treating other as an aim and not (merely) as a means for realisation of own goals. It is argued that transformational leadership (Bass et al, 1999, Burns, 2003) and 'responsible leadership' models correspond to the major parts of these demands towards organisational setting (Pless, 2007, Groves, La Rocca, 2011).

The literature however did not link directly three components: ethics, creativity and culture, in one united block of thinking. CSR, for example, with its responsibility towards culture and its relation with the sustainability of organisation is another focus of attention of the scholars, but being not tied with creative drives and fundamental beliefs, it is not really incorporated in the strategy; organisation does not know (as I see in Latvian reality) as to when, how and for how long should it be socially responsible. Literature on cultural studies is concerned with creativity and innovation (e.g. Trompenaars & Hamphden–Turner, 2010, Livermore, 2010, and ethical aspects of business are observed separately (e.g. Hofstede, 1983).

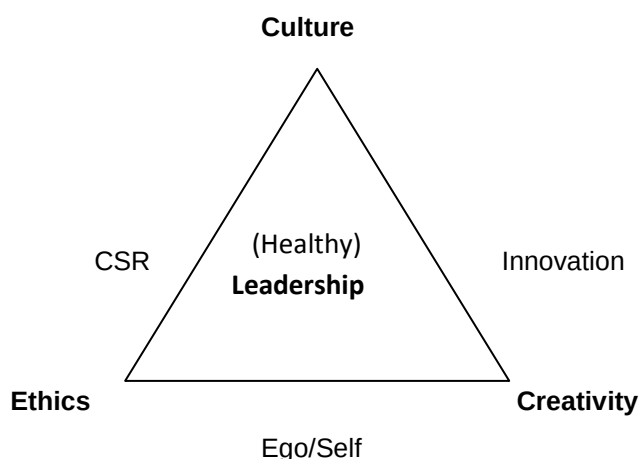
The model of leadership, which is illustrated in the next paragraph, is an attempt to say that culture, creativity and ethics are the main pillars for healthy organisational development, and altogether they form a basis for a healthy and strong psychological functioning.

Building the model of healthy leadership

The model is a work in progress; it requires further studying and verifications. It is built upon the following main beliefs: 1) business exists in a cultural context and it has to be aimed towards culture; 2) business is a creative process and creativity is its survival skill; 3) business is a manifestation of ethics of all the parties involved and is therefore all about forming ethical relationships; 4) leadership is a constant work of mastering the skills and habits for bringing out the best in people and gaining profit for the company.

In other words, leadership of healthy organisation is culture-oriented, built upon creative solutions, which are ethical (please, see the Image 1 below).

Image 1 Healthy Leadership model



“Healthy” leadership is a realisation of psychic maturity with its ability to be self-aware and self – conscious (meaning: to be able to judge own actions by using mechanisms for self-control); it is a balanced leadership in a sense that work stress permits individual and professional growth for those involved in organisation, and does not ruin people; it challenges with tasks and emotionally accepts individuals, it celebrates diversity and is not aimed on only one type of personalities, it provides environment where both brain hemispheres’ work can be actualised and thus new creative solutions necessary for healthy human functioning can be released; it is a hard and self-fulfilling process, which requires personal discoveries and does not search for easy and fast steps, ready to be implemented for any organisation; it is optimistic in its base.

How does it relate to the triangular with three corners – creativity, ethics and culture? The model argues that culture is an aim of the business and is not just its context, culture is a highest judge; it gives directedness for business, feeling of a sense of life. Willingness to contribute to culture in a positive way enlightens leadership and at the same time it requires to act in accordance to the moral rules - that’s where shame has to function.

Culture is a union of individuals with their personal problems, ideas, and goals; it is artefacts created by human activity; and it is a meeting point and time in the universe, which enables us to share similar beliefs and fears and exchange values (see e.g. Hofstede, 2001, Livermore, 2010, Macumoto 2002, Trompenaars & Hampden–Turner, 2010). Culture has to be nurtured and loved as a highest treasure. The problem is that culture is not a static ideal, but it manifests itself in everyday context, with its market competitors, ‘limited resources’ and different obligations, and this hinders a challenge: how to love it then?

The decisions of how to manage the meeting of the highest aims (cultural responsibilities) and each day “fights” for the market share and profits have to be addressed on the ego level, which finds support in creativity and ethics. According to humanistic approach there is no conflict: creativity is ethical in its essence, and probably is possible to argue that ethics is a good creativity, an overwhelming condition of flow (described by Csikszentmihalyi, 2003), highest realisation of human capacities, eudemonic stage.

Creativity studies show however that in order to achieve this stage and to be creative one must create, must work and train (Cropley, 2005, 2006); also theories of ethics suggest that wisdom does not arrive by itself. To create (including also ethical solution) means to be involved in a risk-taking process (Christensen, 2001); to take a courage (May, 2001), to permit to look, think and act differently; is non-conformistic action (Sternberg, 2003), and is even destructive (Socrates In: Carey et al, 2004, Nietzsche, 1998, orig. 1887, Shumpeter In: Christensen, 2001) in its nature. But there is an internal barrier, which states how far ethics (in this case: settled way of living, common rules, tradition) can be ‘disrupted’. When this balance on the personal level is found then perspectives open up and creative potentials receive ‘highest power supports’ for realisation of ideas.

But creativity does not mean only revolutionary and heavy decision-making, the parallel between creativity, its playfulness and spontaneous and free flow with humour, stress release, self-worth, diversity, flexibility, adaptability, emotional intelligence is often mentioned (Freud, 1937, Goleman et al, 2002, George, 2000, Bodrov, 2006 Amabile, 1998 Csikszentmihalyi, 2003, Sternberg,), all of these components being important for mental health. Other aspects of the model involve meeting of internal creative resources with culture, which results in innovativeness, a driving force for the organisation (e.g. Christensen, et al, 2008), and concrete innovations (on the first place of the business model, Zott et al, 2010). Another strategic force is CSR, which ‘organically’ connects beliefs and values of those involved in organisation with organisational purpose of existence in this world (Bhattacharya et al, 2011). Respect, mutual acceptance, knowledge, and other organisational virtues (based upon ‘cardinal’ set of temperateness, courage, justice, and wisdom) refer to *ethics* (e.g. Moberg, 1999).

Studies on organisational health (e.g. NHS Institute for Innovation and Improvement⁴¹⁴, Canadian National Quality Institute⁴¹⁵) state that healthy organisational culture means trust, openness and engagement as well as enabling all the organisational members to be enrolled in continuous learning and improvement. Further research should take place to fully answer the implications for leadership (healthy leadership?), but it seems that the proposed model does not contradict the logic of these studies.

Afterword and further research

⁴¹⁴ <http://www.institute.nhs.uk>

⁴¹⁵ through this site: <http://www.peelregion.ca/health/workplace/employers/cwh/>

Although it is impossible in one article to bring into focus the aspects of psychiatry, physiology, anthropology, economics, ethics, psychology, and management, the attempt was made to address the issue of leadership from the perspective of its moral obligation towards health and societal life.

It was argued that in order to provide a healthy environment business should learn to see itself as a part of culture, as a partner among other societal pillars, and not as the main or the only possible 'end in itself'. Organisations should be aware of 'toxic' or narcissistic leadership phenomena and try to avoid promotion of false people. Developing the habits of thinking and behaviour from physiological point of view has its moral implications and leadership therefore should be cautious on the matter of choice of thoughts and actions. The article has also addressed the issue of stress and importance of balancing activities, as well as discussed a danger of selecting only a certain profile individuals. Diversity of tasks and ways of thinking has also been addressed in a light of healthy mental functioning.

The model of healthy leadership with focus on responsibility towards culture and leaders' self-awareness was proposed. It links creativity, ethics and culture in one united block of leadership directedness. By so doing, creative, ethical and cultural concerns naturally reinforce each other providing a platform for healthy development. Although mental health and maturity is a multidimensional phenomena and it demands for a diverse set of responsibilities on the part of organizations and its leaders, in the core of a healthy leadership is process, which empowers others to realise their sense of being and the power of their moral decisions.

The study is a work in progress, and it requires further elaboration and detailed observation of the components of the model proposed. Adaptive and healthy functioning from physiological and psychological perspectives needs to be addressed profoundly in order to verify all the major elements and validity for the model. Further studies are needed for understanding the meaning and the role of culture for the business leaders: how does it differ cross-culturally? This could also shed the light on the 'capitalism shift problem' and diversity of business ethics among cultures. Studies of the role of shame in leadership in different cultural contexts should take place to test the hypothesis of its connection with leaders' cultural awareness and responsibility of business as well as its impact on morale in organisations. This article did not dwell upon the theoretical foundations of the concepts of culture, ethics and creativity, as its aim was to draw the rationale for the future research as such.

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**THE DIRECTOR OF CORPORATE SOCIAL RESPONSIBILITY:
MISSION, SKILLS AND COMPETENCIES**

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Abstract

Corporate Sustainability is a business approach that creates long-term stakeholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. The quality of a company's strategy and management and its performance in dealing with opportunities and risks deriving from economic, environmental and social developments can be quantified and used to identify and to select leading companies for investment purposes. Leading sustainability companies display high levels of competence in addressing global and industrial challenges in a variety of areas. The aim of this paper is to demonstrate the job accountabilities of a sustainable development director and the job requirements that such a director has to fulfil.

After reviewing the literature of Responsible leadership and also both the aptitudes and competences required to take the leadership in a company's 'sustainable development' policy, we demonstrate how a manager in charge of Corporate Social Responsibility (or Director of Sustainable Development) is encouraged to set up and accompany a formulated strategy.

We base our research on recent diverse studies which analyse the new position of a sustainable development director which relates how this function, in a variety of situations, is deployed in organisations. We will conclude our study setting out the complexity of the tasks and difficulties encountered in this very new managerial function.

Key Words: leadership – sustainable development – corporate social responsibility- competencies

Introduction

Corporate social responsibility (CSR) has become more important in recent years. This development has been mainly brought about not only by greater consumer concern for ecological and social issues, but also by increasing legal regulations. These factors have heightened the interest of companies and investors in the concept of sustainable development.

These trends have made it more difficult for companies to neglect the necessity to comply with standards of sustainable development. This is the reason why a growing number of corporate boards insist on developing and expanding strategic thinking and investments related to sustainability. Corporate Sustainability is a business approach that creates long-term stakeholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. The quality of a company's strategy and management and its performance in dealing with opportunities and risks deriving from economic, environmental and social developments can be quantified and used to identify and to select leading companies for investment purposes. Leading sustainability companies display high levels of competence in addressing global and industrial challenges in a variety of areas .

“The greatest challenge facing business leaders today may well be the need to develop new business models that accentuate ethical leadership, employee well-being, sustainability and social responsibility without sacrificing profitability, revenue growth and financial performance “ (STUBBS W., 2010).

The fact that CSR agendas have become board level competency can be traced back to its growing importance (Elkington et al., 2006). Therefore, it is coherent that companies have created and still create the position of sustainable development directors to take these responsibilities.

This article offers a review of the literature available in Corporate Social Responsibility management: insofar as this is centred on the dimension of leadership inherent in such responsibility, we will complete this analysis by an inventory of competences which are assumed required to exercise this function.

As more and more companies create such a position, it is of value to look at this job in more detail. In doing so, the job accountabilities of a sustainable development director will be elaborated and the job requirements analyzed in more detail.

These initial analyses of the function showing how it should be exercised, will be in the second part compared with the results of various studies and surveys indicating the profile of this new manager and the conditions for carrying out their responsibilities.

Thus as a conclusion we can underline the richness and complexity of this profession in the making.

Part 1: The a priori definition of the function of Director of Corporate Social Responsibility

Philippe de Woot's book "Should Prometheus be Bound?" argues that the dominant market ideology of the firm has contributed to the crisis of ethics we have seen in today's globalised world. As globalisation advances in the 21st century, leaders appear to be powerless to act against a dominant ideology that reveres wealth creation above all else

The overarching proposition of de Woot is that the firm or society must change its entire culture by permanent collective questioning if it wants to become responsible and transform its behaviour. De Woot makes a comment that "good leadership is required at every level" for such ethics to develop.

Dans cette première partie nous approfondirons les caractéristiques du responsable leadership afin de décrire les compétences attendues de la personne qui incarne tout particulièrement cette responsabilité: le directeur de la CSR

1. The responsible leadership

Sharon Turnbull (2010), Director of the Centre for Applied Leadership Research notes that the majority of leaders across the globe today have been conditioned in some way by western and US centric leadership theories and methodologies.

This thinking has been driven through our global business schools and business cultures often to the exclusion of non western traditions and cultures and the valuable insights these may offer.

That is why the Globally Responsible Leadership Initiative (GRLI) together with other partners believe that "it is only by drawing on a much more creative range of perspectives that we will move beyond the stale leadership styles and approaches that have generated many of today's challenges" (Sharon Turnbull, 2010).

The leadership required now and in the future can be described as globally responsible leadership. It is based on a fundamental understanding of the interconnectedness of the world and recognition of the need for economic and societal and environmental advancement.

What are some of the characteristics of a globally responsible leader?

If the prerequisite is a person with courage and vision, the GRLI notes that "a core aspect is the degree to which the individual has developed his or her level of consciousness and awareness of both the external global context and the inner dimension of themselves.

Added to this, a global responsible leader has experience of different cultures and a true understanding of the enormous wealth this diversity consists and how rewarding it is to experience it.

Additionally, the responsible leader possesses a deep concern for the future of our planet and a never-ending dedication to act in the service of the common good is fundamental".

New knowledge and learning that span across many different disciplines is required to deal with the challenges that companies and the business community currently are facing (Anders Aspling, 2010).

Guiding principles that establish a starting point for globally responsible leadership include: fairness, freedom, honesty, tolerance, transparency, responsibility and solidarity and sustainability. These ethical points need to be constantly refined and developed.

Of course, Directors of Corporate Social Responsibility must have strong leadership skills. Hackman and Walton claim that 'If a leader manages, by whatever means, to ensure that all functions critical to both task accomplishment and group maintenance are adequately taken care of, then the leader has done his or her job well.' (Hackman and Walton, 1986). This means that the task to perform on a sustainable basis is accommodated with the company's employees' expectations. This applies to the individual as well as to different departments within the company. If a director has good leadership skills, he/she will strive to develop enthusiasm for various projects, increase motivation and inspire employees to greater effort. This can be most likely achieved through including and engaging people in the projects and initiatives and through recognizing people's efforts. Apart from all that, a prerequisite for good leadership skills is – of course - knowledge (Mumford et al., 2000). This is probably the reason why most of the jobs offered for directors of sustainable development require several years of experience.

But globally responsible leadership means also transforming the business: key actions through which corporate global responsibility can be developed include overcoming key organisational, regulatory and societal barriers to change and designing change management processes.

It is the task of the director of a company or an organization to implement Corporate Social Responsibility on it and this can be achieved by:

- Defining a preliminary conceptual framework for Corporate Social Responsibility and defining why it is so important to the company.
- Creating a multi-departmental team comprising employees from all the strategic areas of the company, as well as a consumer perception study in order to have a 360° look of the company and get to know how it is perceived from inside and outside.
- Identifying and structuring previous and predicted actions which could be considered to be within the established conceptual framework of Corporate Social Responsibility.
- Devising and implementing a Corporate Social Responsibility Plan which specifically incorporates Corporate Social Responsibility itself as a fundamental value of corporate culture and identity.

The idea is to have a plan to create a common strategy along all the company to coordinate and incorporate the efforts of the different management areas of the company to guarantee the creation of new projects and ideas related to the Corporate Social Responsibility policies implemented in the organization.

Let us attempt a definition of sustainable development function in relation to the now well-known components of a policy of social responsibility.

Various studies can, on the one hand, now complete the check-list and, on the other hand, make a list of the skills and competences.

2. The job accountability and job requirements

First of all, what are the accountabilities of a sustainable development director? These questions include the assessment of the current situation in terms of the company's sustainability performance, the formulation of a sustainability strategy and the development of a plan to implement the strategy. This plan must then be put into action. Furthermore, the director must make sure that the company's sustainability performance is reported on a regular basis.

2.1. The job accountability

At the very beginning, a sustainable development director needs to gain knowledge about the company's situation of sustainability. This helps to identify and evaluate current business risks and opportunities in this area. The assessment of the current situation is essential to implement a strategy that enables the company to operate in a more sustainable manner.

Aspects that are considered in the environmental sphere are: environmental management systems, energy use & global warming, water & wastewater management, waste management, pollution control & chemicals, habitat & species protection / biodiversity / natural resources, and purchasing & sales. In the social sphere local community development, education, culture & heritage, health & safety, business ethics & diversity, and monitoring & assessment are being analyzed. In the economic sphere, purchasing and employment must be assessed.

After having conducted such a holistic analysis, a sustainable development director has gained understanding of the company's current sustainable performance. This allows him to formulate a strategy that paves the way to reach the company's goals in terms of sustainability.

The need for sustainable development and therefore for CSR has changed over time. Historically, sustainable development was looked at from a philanthropic point of view. (McElhaney, 2008). Increasingly it is the managers' deep conviction that guiding the company into the direction of sustainable development is simply the right thing to do. This change of the perception of sustainable development is also reflected in its strategic value. Was its value modest earlier, is its strategic value very important nowadays? This in turn highlights the meaning of a sound sustainable strategy. Therefore, a sustainable development director's task is to formulate such a sound strategy. In doing so, she/he must take into account several things (McElhaney, 2008).

A sustainable development director must distinguish the three most meaningful business objectives of the company and develop sustainability goals that contribute to the achievement of the distinguished business objectives. In developing these goals the director must make sure that they comply with the company's overall business objectives. Distinguishing these business objectives is not an easy task, especially if the company's overall business strategy is not clearly defined. Nevertheless, for the successful implementation of a sustainable development strategy, it is essential to tune this strategy to the company's overall business objectives.

Besides the compliance of the sustainability goals with the overall business objectives, a sustainable development director must make sure that these goals match with the company's core competencies. This practice requires focus and discipline, because very often sustainable development is executed in an ad hoc, non-integrated way. These initiatives are then not linked to what the company is actually specialized in. It would be much more efficient however if a director made sure that the company applies a strategy that is close to its core competencies. As such, the strategy is most likely to be successful

In addition, a sustainable development director must make sure that the efforts to implement sustainable development are fully integrated into the governance of the company. This integration is essential in various dimensions: employee appraisal, training and engagement. It is absolutely indispensable that a sustainable development director assures that the sustainability goals are taken into account in the company's performance appraisal system for employees. If appraisal systems – be it monetary or non-monetary – do not take achievements in regard to sustainability into account, the potential will hardly be exhausted.

Also the training of employees about issues concerning social and environmental sustainability is crucial to raise awareness and therefore contribute to the success of sustainable development policies in companies (Jabbour and Santos, 2008). Apart from that, training also increases employee engagement, which is another component that is indispensable in order to make sustainable policies become a success (Denton, 1999).

Moreover, the sustainable development director must find the intersection between business and social or environmental returns. In doing so, a sustainable development director must ask himself/herself questions concerning the business environment, such as: is employee productivity satisfactory? How well does the company perform in terms of employee attraction, motivation and retention? Is there any pressure exercised by the government in terms of the creation of jobs?

In regard of societal needs, the director must ask himself questions such as: are employees able to find another job in case of lay-offs? Is Society concerned with a lack of education and skills? Or is there any kind of social tension in the society in which the company operates? Could these tension influence employee productivity? The director must then make sure that business needs and societal needs are matched. Hence, he/she must be able to answer questions such as: Is the/absence of training a reason for the lack of talent which has negative consequences for the company? Or is the lack of jobs potentially a cause for social unrest in the society and therefore negatively influencing the company's operations? In overcoming such problems it is advisable to look for partners in the community who have developed deep expertise in the issue that is targeted and work closely together with them.

It is absolutely necessary to develop clear key performance indicators that allow measuring the impact of the sustainability efforts. These indicators should not only be internal such as reputation, brand perception, market share or sales, but also external such as achievements in society and the environment. Such key performance indicators are also necessary in order to effectively report to the board of directors. At this point it must be stated that the sustainable development director must make sure that the board of directors is committed to the sustainability efforts at all times. Only if the board also backs the need for sustainability, sustainable development will be reflected in the mission, vision, and value of the company. This in turn is indispensable for any successful strategy.

“Think globally, act locally.” A sustainable development director must make sure that this approach is incorporated into every plan to implement sustainable development. This approach requires a thinking that connects local actions with global issues. One way to connect these linkages in terms of environmental sustainability is to look at the company's ecological footprint. This concept was developed by Wackernagel and Rees in 1996. It indicates the amount of the required earth's surface to maintain the company's level of consumption of natural resources and production of waste products (Berke, 2002). Having this ecological footprint in mind constitutes a global thinking.

In contradiction to this, many plans to implement sustainability do not apply such a global thinking. A study that evaluated thirty plans toward sustainability revealed that, generally, they do not take a balanced, holistic approach. As a consequence, these plans ‘[...] fail because of parochialism and a lack of a holistic and inclusive view that embraces a civic vision for the common good.’ (Berke and Manta-Conroy, 2000).

There are several key principles that a sustainable development director needs to bear in mind when developing a plan for sustainability (Berke and Manta-Conroy, 2004):

- Grant sufficient time which allows to build firm partnerships
- Always take into account the spheres of influence of the company's actions and involve the stakeholders on which the company exercises influence
- Seek different stakeholders to bring in the needed expertise and resources
- Always consider and bear in mind vulnerable sections of society such as minority groups
- Ensure political and community support as that is essential for translating initial community interest into the specific plan. This is crucial for the successful adoption of the plan by the community

The sustainable development director is in charge to put the plan towards sustainability into action. This implementation does not only comprise the production and service operation, but all spheres in which the company operates. This includes the supply chain, employment, the products and/or services and the distribution chain.

One can distinguish between internal steps and external steps that a sustainable development director has to take (International Business Leader Forum).

Internal steps can include the codification of standard that are essential prerequisites for the participation of sustainability programmes by external actors. It must be determined to what degree knowledge, skill and/or technology will be needed to be transferred to external actors in order to make the actions and programmes work. Furthermore, the director for sustainable development has to allocate management responsibilities for each initiative. In line with that, he/she will have to continuously work together with the colleagues in order to secure support for all initiatives and to ensure the best outcome possible. This implies that colleagues and employees have the opportunity and are encouraged to actively participate in the sustainability initiatives.

Two external steps that must be considered by a sustainable development director when a sustainability plan is put into action are the following:

1. There needs to be regular meetings with partner organizations (the organizations which have been chosen as partner organizations during the development of the sustainability plan). This will allow the developing and strengthening of already existing relationships with these organizations. These relationships are essential when negotiations are conducted about the degree to which knowledge, skills and technology will be transferred.

2. To encourage other companies to implement sustainable policies and initiatives as well (International Forum of Business Leaders).

For a sustainable development director it is essential to establish a system of reporting; reporting about the progress in the company's sustainable development. This is not only a line-up of information to external stakeholders but a valuable tool to build up the company's reputation as well as an analysis of the company's performance. Therefore, if the director succeeds in successfully establishing sustainability reporting, the whole company can benefit in various ways.

Effective reporting enhances the company's overall legitimacy, which is the basis for a competitive advantage compared to other companies. This can be explained by the fact that sustainability reporting helps to effectively communicate the company's vision and to exhibit what it is actually being done. This requires a credible reporting on the company's economic, environmental and social performance which in turn helps to enhance its reputation.

Furthermore, it strengthens relationships with external partners, because information about the company's (positive) environmental and social progress is being shared.

Reporting also helps to build internal alignment of employees, since they can also be proud of what the company they work for has achieved. This is due to the fact that staff awareness about a company's activities on sustainable development increases with sustainability reporting (World Business Community for Sustainable Development).

Besides improved reputation, stakeholder relations and employee alignment, sustainability reporting can also help to improve the company's overall sustainability performance, to improve the management of risk and to strengthen internal management systems (Sustainability Reporting).

A sustainable development director must assure that certain elements are included in the sustainability report and make sure that certain standards are met. According to the Global Reporting Initiative (GRI), such a report must follow certain principles. These include inclusiveness, relevance, materiality, sustainability context, completeness, neutrality, comparability, accuracy, timeliness, transparency and audibility (Arndt et al., 2006). A report must exhibit the organizational profile; it must lie out the scope of the report and has to include performance highlights. Furthermore, a statement of the senior management and an overview of the governance and management structures within the company can increase the quality of a sustainability report. Obviously, the actual performance of the company in terms of sustainability is crucial (Sustainability Reporting).

A sustainability report should clearly articulate what the company does and where it operates. It is important that the reader gets a general understanding about the company's products or services, scale of operations which includes the number of employees and sales, the nature of the markets in which the company operates as well as the countries of operations.

The scope of the company's operations and the reporting time period that is relevant in the sustainability report should be clearly indicated. This coverage can vary and increase over the years; report coverage can range from a single operation or business line, to a single facility, to a region, to a country of operation and finally to global reporting. Moreover, it is always useful to draw comparison to previous years and to point out significant changes that have occurred since the previous report.

The performance highlights are important to provide the reader with a summary of the company's performance. It should constitute a snapshot of the company's achievements and focus on the company's key issues.

In a sustainability report it is essential to talk about the company's governance and management structures. This is necessary so that the reader can gain an understanding of how sustainability is managed within the company. The way this is managed within a company can be found in the company's codes of conduct, for example. Codes of conduct guide the company's decisions and therefore provide valuable context to the reader to understand the principles by which the company operates.

A sustainable development director must make sure that the company's performance is described in a clear, balanced and unbiased way. This is a major challenge of effective reporting and it must include information on the company's economic, environmental as well as social performance.

2.2. The job requirements

The job requirements of a sustainable development director are numerous, since his/her attribution of responsibilities is broad and complex. A job applicant definitely needs strong analytical as well as communication skills. Furthermore, he/she must have a strong customer focus and be an innovative thinker. A director must be able to assess situations and take decisions quickly and display leadership skills. Last but not least, usually a certain period of experience in the field of sustainable development is demanded.

The term analysis refers to the understanding of a problem or challenge by breaking it down into its parts. This means that a sustainable development director needs to be able to define a problem's /challenge's components. There are various ways to break things down into parts and then use those parts to understand the original problem / challenge (Hooker, 1997). So a director must be able to identify the true problem versus the symptom of the problem. After this breaking down of the problem / challenge into parts to better understand the whole, a successful sustainable development director must be able to approach the problem / challenge in a systematic and rigorous manner and develop solutions. In doing so, he/she must make use of a certain logic to develop and test a range of potential solutions to the given problem / challenge. This also includes the evaluation of various solutions' costs and benefits. Furthermore, he/she must anticipate obstacles

and potential and take into account the next steps. All that will allow a director to perform in his job and formulate a logical plan based on the proposed solution (Bellevue Community College, 1999).

A sustainable development director must have strong communication skills. His/her job is to effectively communicate job related information to colleagues and subordinates and has to lead and coordinate projects. Hence, the director must be able to make his message understood. This alone does not make a good sustainable development director. To really perform well, he/she must also be willing and capable to receive and understand the intended message that other people send to him/her. So he/she must also be able to listen to others, which is actually hugely significant to his/her effectiveness. Especially in the field of sustainable development there are so many ways of problem-solving that without listening and understanding other people, some very good ideas might get lost.

A sustainable development director must discover, meet and strive to exceed the needs of customers regarding their expectations in terms of sustainable development. This implies that the director must be able to understand what the customers want and provide it to them. In addition to that, the importance of the customers' expectations concerning sustainability must also be communicated to others, maybe even to people who are not convinced by the concept of sustainable development. This in turn requires strong communication skills.

Definitely, a sustainable development director must be an innovative thinker. He/she must be capable of applying different perspectives when looking at any kind of process in the company. These processes must not be taken for granted but must be reflected upon. Hence, a continuous rethinking of how work is done must be applied. Furthermore, a sustainable development director must be eager to find solutions of 'best practice' and to guide the company to take a pioneering position, rather than an imitator position. This might bring about huge challenges, but a director of sustainable development is surely not performing well if he/she simply chooses the path of least resistance.

Most of the job offers for a director of sustainable development require a postgraduate degree, such as an MBA or equivalent; several job requirements even include a special degree in sustainable development. Apart from that, employers usually require several years of experience; requirements found ranged from 5 to 15 years of business-related experience.

Looking at the layout of the said characteristics of the function of sustainable development, one must refer to a number of studies undertaken by managers with an interest to understand in depth what the conditions of the profession are. It is important to check whether the main elements described above are in operation and whether the findings of the interviews undertaken reveal complementary aspects.

Part 2: Elements on the conditions of exercise of the function

We will mobilize hereafter three studies undertaken in France based on various samples of sustainable development director and attention is paid to the understanding of the exercise of this profession.

1. The organisational deployment applied to sustainable development

This work corroborates on the whole the definition of the function and the skills outlined above; we will make every effort therefore to highlight the new observations.

Thus, the work done by PETIT, BELET, NACCACHE and YANAT (2006) seeks to understand the organizational impact of sustainable development on the enterprise; the organisational deployment applied to sustainable development (SD) corresponds to modes of interrelationships and reticular capabilities implemented by internal stakeholders of the company in order to integrate and master the objectives of SD and ensure the implementation of action programmes in this field.

In their study of firms in the SBF 120 (20 usable responses), we note that the deployment of SD and its implementation are grafted predominantly on pre-existing departments within the company: based on quality / safety / environment in the first place and also on the functions of communication and human resources. The structuring of SD through the creation of a dedicated ex nihilo is the fact of a minority of businesses.

One can also notes that the strategic integration of SD in the organization takes the following form: a strategic committee SD Headquarters which guides a SD Director who implements the deployment of a sustainable policy.

This SD policy induces a network organization that combines a strong central structure and relatively autonomous centres that take initiatives locally with their stakeholders. In other groups, one can also observe a diffusion of SD through the public procurement and logistics or even through eco-innovation projects, new products or services

We note that the SD director has a role to lead, to oversee and to monitor the implementation of SD projects and these project manager competences, require a proven relational capacity both internally and externally (in the sample study, over 75% of those who responded had over 10 years of professional experience).

In terms of knowledge and know-how, the need to know the company and its different jobs/professions is underscored, mastery of management instruments and tools mastery of auditing and the methodology of the comprehensive approach to risk. The study highlights the role of the facilitator of the director and thus his/her ability to persuade and his/her powers of negotiation, especially when conducting meetings both within the company as well as with partners.

The fact remains that the occupational origin of the SD directors impacts on the conditions for exercising the function. Thus, if the former expertise of the SD director focuses on the quality function / safety / environmental or engineering techniques (almost a third of cases studied), skills in finance, HR and communication are necessary.

For its part, communication is the second possibility (one fifth of the respondents), it may then represent a minimal commitment of the company in the throes of writing the SD report; but it could also mean a contrario that SD is set in a strategic function that allows a vision of 360 degrees .. and impose a truly transversal perspective within the company.

Finally, with the policy deployment of SD which includes the work of reporting, those directors interviewed attest to the difficulty of ensuring the collection and processing of data, and designing a satisfactory dashboard of SD criteria; it is also difficult to implement efficient audits and to verify the data.

2. The professionalization of the function.

A second study (Master 2 Management CSR IAE Gustave Eiffel, ADECCO Group, 2009) which purports to be a barometer of the function of sustainable development in the SBF 120 companies highlights the professionalization of the function.

Thus, 87% of respondents carry out their missions full time.

The average number of directors for sustainable development is steadily increasing.

The strategic goals are shared by a large majority of sustainable development directors.

The tasks carried out within top management are becoming more formalized.

55% of the respondents have a job description setting out and defining the tasks entrusted to them.

The management tools are still largely to be developed and are borrowed from the tools and methods of other business functions.

It is true that most managers interviewed did not receive dedicated training:

More than two thirds of the respondents have not received training related to sustainable development.

One also observes the wide variety of titles used by holders of that function that is to say 32 different titles for a sample of 57 companies! This aspect is indicative of different levels and forms of organization of the function of sustainable development according to the companies concerned.

Three quarters of sustainable development managers surveyed had developed a policy for sustainable development to

- facilitate the consistency of their actions internally;
- testify acts of engagement externally.

Moreover, a noteworthy observation is that if the incorporation of the function of sustainable development is attached to the Managing General or the President of the company, the custom most commonly observed within companies of the SBF 120, 40% of the directors of sustainable development are, however, attached to functional direction of their business.

Beyond their reporting line, the majority of sustainable development managers surveyed want a balance between:

- Proximity to decision-makers (in order to carry their own subjects);

- And the transversality of their action (in order to address all directions).

It should be noted that almost all sustainable development managers surveyed (96%) said they must establish relationships of cooperation and collaboration with other functional departments.

The directors say the preferred choice of volunteering in their "correspondents sustainable development." These correspondents should have a leadership capacity and freedom of expression to bring the approach to their craft. Thus, it is most often managers whose profiles vary depending on the business and the challenges of their business.

However, some correspondents have a job description which sets out their mission in terms of sustainable development. This is most often a liability in addition more or less officially in their current role. And overall awareness of sustainable development is not enough to form relays key sustainable development challenges of their businesses.

Moreover, almost all respondents agreed on the role of financial recognition of the contribution of sustainable development correspondents

Finally, the corresponding rotation is frequently cited by respondents that highlight the negative impact of these changes too frequently they suffer (due to lack of formalization of the above mentioned tasks?).

If one seeks to identify specific know-how, the study notes that sustainable development actors face contradictory situations: They must convince and make a shared professional identity among peers with multiple stakeholders in the business, listen, see projects, remain pragmatic. Managing contradictions requires combining many skills: pragmatism, education, patience, strength of conviction, humility, innovation, discipline, perseverance, etc.. They must be the "itching powder", the "fly in the round", the person calls, the "whistleblower".

However, personal commitment is separated from the function. When asked, 47% of respondents reported having no responsibility or commitment related to sustainable development externally. The legitimacy comes from the internal, professionalism more than a militant attitude based on external commitments.

We also observed that 80% of principals say sustainable development to be members of external networks related to sustainable development. Many respondents also stressed that the multiplicity of these networks. Laboratories and learning exchanges, these networks are involved in the development of knowledge and common practices and the structuring function of sustainable development.

Another study (CHIAPELLO, GITTAUX, 2009) was specifically interested in the journey to the concepts and forms of leadership commitment to sustainable development. The education received may explain their current profession.

Can we identify links between their biographical and perception of the function they currently occupy? Qualitative analysis, as a life story from a dozen interviews generally highlights the difficulty of positioning personnel and professional development of these actors in the business function is still perceived as fragile and requires external support and internal family environment.

A analysis based on questionnaires administered highlights three groups of officials:
- the "classics " (about half of the sample) are managers who perform this function like any other and are weakly outward

- The "educated conservatives" (about a fifth) are committed for personal reasons but keep a very conservative perception of the actors who are not part of the business world

- the "marginal intersecting"(the third) aware of sustainability issues in a personal capacity based on joint projects with NGOs to develop the business. They can be considered as "agents of the integration of the critique of capitalism in the company to make it evolve (CHIAPELLO, GITTAUX, 2009)

CONCLUSION

The aim of this paper was to demonstrate the job accountabilities of a sustainable development director and the job requirements that such a director has to fulfil. As has become apparent in the previous pages, the job of a director of sustainable development is very broad and complex. "The decision making process for developing an enterprise's Sustainable Development strategy is highly complex and reflects objectives that vary according to the organisation's Sustainable Development challenges and the strategic level at which these decisions may be taken." (V. IVANAJ , S. IVANAJ, 2010). In addition to that, it is a job with very high responsibilities, since a failure does not only have the potential to harm the economic success of a company,

but also the environment and people. Furthermore, the job requirements are very high and top performance is expected at all times.

Nevertheless, the position of a sustainable development director gives people the opportunity to perform a meaningful job and to contribute to the current development of our world in a positive way. Such a director does not only work to maximize the profit of a company, but is in the position to help to strike a new path towards sustainability.

The function of sustainable development director is fairly young, it brings together individuals with varied backgrounds and professional experiences with quite varied and very different levels of responsibility. These results highlight the need to create educational experiences in order to assist organizations in developing effective CSR strategies (V. IVANAJ, S. IVANAJ, 2010).

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BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITLY IN POLAND:

A CONTEXTUAL ANALYSIS

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Summary

This paper describes the current status and concepts of business ethics and corporate social responsibility in Poland compared to the United States and Western Europe. It uses an eight-part framework, consisting of history, political structures, religion, social norms, civil society strengths, level of economic development, geographical considerations, and health and “safety net” issues, to explain the differences and the reasons why CSR and business ethics are developing as they are in Poland.

Key Words

Corporate social responsibility, business ethics, Poland.

Introduction

Our understanding of business ethics and corporate social responsibility (CSR) has a decidedly geographical bias. Scholars and managers in the United States, Canada, and Western European nations, especially over the past forty years, have made considerable progress in searching for a definition of CSR and establishing a rationale for why it, and the related field of business ethics, are essential to a properly functioning political economy. That search for a precise definition of CSR continues apace. For the purpose of this paper, however, it is sufficient to cite Harvard University's statement that “[CSR] goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm” (Harvard University, 2008). Even more succinct is Mallen Baker's definition: “CSR is about how companies manage the business processes to produce an overall positive impact on society” (www.mallenbaker.net, 2004).

In the West there is now broad agreement in both academic and managerial communities – and in the public at large – that the role of business in society must be more than maximizing profits. Social, ethical, and environmental responsibilities have been added to the traditional economic expectations.

Is this the case, however, in other parts of the world, in other countries and other cultures? To what extent does the perception, teaching, and practice of CSR differ from the view in the West? We postulate that to study CSR in another culture we must explore its “context.” By context we mean that culture’s history, political structures, level of economic development, religions, the viability of its civil society institutions, its geographic situation, its social norms, and the strength of its “safety net” (See Exhibit 1.)

“Globalization” is the buzz word of the day; the center of gravity for the commercial world is no longer so firmly rooted in the West as it once was. China has elbowed its way into the forefront of the world’s industrial and financial systems. India and Brazil have become powerful economic forces, and entire regions such as Africa, Southeast Asia, and Eastern Europe have become increasingly important to the world’s commercial activity.

This dynamic and rather rapid geographic realignment of economic forces poses difficult questions and challenges for the study and practice of corporate social responsibility. Because the Western understanding of CSR and business ethics is so grounded in Judaic/Christian, i.e., Western, values, how do we go about studying and assessing CSR in other countries and cultures with quite different value systems and histories? What role does Hinduism, with its strong influence on Indian culture, play in the way Indians think about and practice corporate social responsibility, for example? How does China’s turbulent history over the past two centuries and its dramatically changing views of the proper relationship between business, government, and society influence China’s and Chinese managers’ views of business ethics and corporate social responsibility?

Because this year’s World Congress for the International Society for Business, Economics, and Ethics takes place in Warsaw, Poland, we propose to explore the nature and status of corporate social responsibility and business ethics in Poland: how it is understood and operationalized by the business community; how it is perceived and taught by the academic community. We will clarify how Poland’s “variety” of CSR differs from, and is similar to, the familiar Western variety. Then we will use our contextual tools to explain those differences.

BUSINESS ETHICS AND CSR IN POLAND

At the very outset it is important to note that the perception and understanding of the phrase “corporate social responsibility” has a different connotation in Poland than in the countries of Western Europe, the United States, and Canada. In those western countries, as noted above, the phrase is generally taken at face value to mean a business’s obligation to satisfy a broader set of societal objectives than simply maximizing profits. In Poland, however, there is a pejorative connotation connected with the phrase, a sense that CSR merely describes a firm’s public relations tactics to paint itself in the best possible light. Also, in Poland CSR is associated mainly with large corporations. Business ethics is a broader concept which includes not only corporations but the small and medium size enterprises (SMEs) as well. Reliability in trade was important, also local philanthropy, those companies are local citizens supporting their communities with which they feel connected). “Business ethics,” on the other hand, because of the country’s traditional emphasis on reliability in trade and philanthropy, connotes a serious exploration of the firm’s responsibilities to its multiple stakeholders and support for local communities. For that reason, in both the title and the body of this paper, we use both phrases to satisfy readers from all parts of the globe.

Traditionally in Poland, as industrial and commercial activities increased in scope, there developed a sense and a need for “reliability in trade” (Gasparski, 2004). The critical element for establishing this reliability was an appropriate legal framework, and businesses as well as the society in which they operated assumed that managers’ principal responsibility was to obey the law. A major impetus to move beyond this threshold-level of corporate responsibility came with Poland’s accession to the European Union in 2004. At that point there were certain external pressures to conform to the dominant concepts of corporate behavior prevalent in Western European countries, but there developed as well internal pressures to emulate and compete with their expanded trading partners.

Another factor in understanding the environment of business activities in the Polish society is that Poles start with a very low level of trust in one another. According to the *Social Diagnosis* (Council for Social Monitoring, 2010) only 11% of Poles trust each other, compared with a figure of 70% in Scandinavian countries. Potential

causes for this startling low figure will be explored later in the paper, but it indicates that the concepts of ethical business behavior and corporate social responsibility have a huge hurdle of skepticism to overcome.

Important Issues

Employee-related issues. In a country where labor unions have played such a defining role in recent history, it is not surprising that employee-related issues should be a primary concern of managers and of the broader society. The average wage has increased dramatically over the past twenty years from 103 PLN (approximately \$34) in 1990 to 3,225 PLN in 2010, an increase of more than 31 times. During that same period the cost of living increased by a factor of thirteen, meaning a very significant rise in the standard of living for the average Pole. The government-established minimum wage is 1500 PLN (Sedlak&Sedlak, 2011).

.Discrimination in the workplace on the basis of gender, age, race, religion, nationality, and political persuasion is banned by Poland's Labor Code which was brought into conformance with European Union anti-discrimination laws at the beginning of 2002. However, there is a rather low level of employer awareness and/or practice regarding these regulations, and there is a substantial gap in government enforcement (Kedziora, 2009).

Workplace safety and health is at present a function of Poland's Ministry of Labor and Social Policy. At the end of World War I, when Poland regained independence following the partition period (see below), the country was one of the founders of the International Labor Organization. Establishing standards for protecting workers was again interrupted by World War II and the subsequent years of communist control, but now Poland is in compliance with three sets of regulatory standards: recommendations from the International Labor Organization and the World Health Organization, the European Union, and various International Organization for Standards (ISO) requirements.

Environmental issues. There appears to be a growing awareness and concern in Poland about "greening" the economy: lower energy usage, recycling, resource conservation, etc. And there are the beginnings of efforts on the part of the business community (employer associations), non-government organizations (NGOs), and the government to sponsor and coordinate their efforts in this direction. While the level of legally-mandated environmental protection does not at this time measure up to what is found in some of the other European Union nations, citizen awareness and government environmental activity exceed what is currently experienced in the United States (Sula, 2009).

Community development issues. Businesses in Poland, even small enterprises, are generous in making financial or material donations for community social purposes. This may stem from a combination of the country's strong Roman Catholic heritage and a belief that such activities are beneficial for the firm's economic bottom line as well, doing well by doing good (Kuraszko et al, 2007). In larger companies social programs tend to have a long-term nature, and their CSR activities are more transparent. These initiatives most often fall under the supervision of public relations departments, implying that they are designed to enhance the corporate image. Less often the companies try to develop relationships with their relative stakeholder groups, but they are not always successful in explaining their motives (Kuraszko, 2007).

Consumer protection. This area is probably the least developed of the various categories of CSR issues. Consumer organizations are still developing, and there is to date no significant public pressure regarding product labeling, sustainable agriculture, fair trade, child labor violations, ethical consumerism, and information about ecological issues. Again, Poland's accession to the European Union in 2004 has brought more attention to these issues, and also because of examples of consumer protection in the United States it is expected that these issues will become increasingly important for businesses.

The primary governmental body protecting consumers is the Office of Competition and Consumer Protection. Its president has the authority to recall unsafe products, investigate and make decisions about practices which violate consumer rights, and intervene in situations where contracts and sales agreements do not comply with law or accepted practice. Such interventions to date have been few but will undoubtedly rise. The two main non-governmental organizations in this area are the Association of Polish Consumers and the Consumer Federation which aim to protect and raise awareness among the country's consumers.

Raising awareness among Polish consumers has been the single weakest element of responsible business practice in Poland. Many companies have operated on the assumption that as long as consumers do not demand responsible business practices, the companies can ignore the issues. But sensitivity to companies' images is on the rise, and there have been instances of consumer boycotts of products and of entire

companies. Thus, this basic instrument to exert pressure on a company, consumer activism, virtually non-existent in Poland until now, is gaining recognition. The main obstacle to greater consumer involvement is not indifference but a lack of information about firms' practices and reputations.

Business ethics and CSR in the Polish Business Community

First, it is important to explain that Poland's form of capitalism – i.e., its form of economic activity – differs from that in the United States, Canada, and the United Kingdom; it is much closer to what is found in Germany and the Scandinavian countries. Gayle Avery (2005), relying on Hall and Soskice (2001) describes the two forms of western capitalism as follows:

“One form of capitalism, referred to as Anglo/US capitalism, stems from the USA and focuses on short-term maximization of shareholder value. It is often called ‘neoliberalism’ or ‘liberal market economics’. Variations are typically found in other parts of the English-speaking world, including Australia, Canada, Ireland, New Zealand and the UK. Anglo/US capitalism is widely celebrated as the ideal for of capitalism. The second form of capitalism is less widely publicized. It is based on concepts of social justice, and recognizes the interdependence of business and their local community. It is known as ‘Rhineland capitalism’, ‘stakeholder capitalism’ or ‘coordinated market economics’. This approach is concerned about the long-term sustainability of an enterprise and its relationships with many interest groups, not just with shareholders. It is typically found in countries like Austria, Denmark, Finland, Germany, The Netherlands, Norway, Sweden and Switzerland, and in more widely varying forms in Italy and Japan.”

Over the past few decades, as Poland has evolved into a market-oriented economy, the traditional view of the business community is that corporate activity other than pursuing profits is a voluntary and purely philanthropic exercise. In 2005 the World Bank surveyed 154 top Polish managers to get their views of the meaning of “corporate social responsibility.” A majority equated CSR with behaving ethically. They listed the internal benefits deriving from CSR practices as business sustainability, competitive advantage, compliance with regulations, employee loyalty, increase in productivity, attraction and retention of qualified employees, reduced costs, and access to capital (Enabling a Better Environment, 2006).

The two biggest hurdles to the broader adoption of CSR practices, according to the same survey, were the lack of a strong and well-understood legal framework and the threat to a firm's profitability because of incurring higher costs.

Support for the growth of CSR thinking and activity is beginning to come from various business organizations. For example, PKPP Lewiatan, the most important employers organization with roughly 3,000 member companies, has promoted the adoption of codes of conduct and produced in 2006 a “Social Manifesto” which declares, “Employer thinking cannot be limited to profits. Only socially responsible business can be sustainable and reliable. Entrepreneurship and social solidarity are not mutually exclusive. We choose social dialogue as the method to promote a social model offering Poles a chance for a better life. This is how we understand our civic mission” (www.pkpplewiatan.pl/?ID=166147).

Likewise, the Polish Chamber of Commerce with some 300,000 Polish member enterprises, has been a partner in the 2005 European Union awareness raising campaign on CSR in small and medium-sized enterprises, “Partnership for Fair Play Employment, Promotion of Business Culture, and Labor Market Ethics.” The project involves conferences and workshops designed for small and medium-size businesses focusing on ethics and businesses' employee-related responsibility (<http://www.praca.fairplay.pl/>).

Codes of conduct have become increasingly common in Poland. They are often developed by industry sectors and then adopted by the individual firms in that industry. The Polish Bank Association has developed its Principles of Good Banking Practice, for example. The insurance sector has adopted a Principles of Ethics statement, and the tobacco industry has its own Responsible Sales Program. Almost all of the eighty companies which participated in the 2011 Responsible Enterprise Ranking had codes of conduct, and 30-40% of the TOP500 Polish companies displayed codes of conduct on their websites. There is some skepticism, however, as to whether these codes are simply “window-dressing” and whether employees throughout the organizations take them seriously or are even aware of them.

Business Ethics and CSR in the Polish Academic Community

Business ethics has been a subject of study and discourse in the Polish academic community for several decades although the concept of corporate social responsibility is a more recent phenomenon, stemming from the influence of multinational corporations and the European Union community. In 2000 there were perhaps only about twenty professors throughout Poland teaching in the Business Ethics field, whereas now there are roughly fifty senior professors teaching in the field, fifty or so junior professors, and another fifty professors in other disciplines who incorporate business ethics and CSR material in other courses such as Management. Business Ethics (sometimes including CSR material) is usually a required course in a business curriculum at both the undergraduate and graduate levels.

Annual conferences devoted to issues of business ethics and CSR have been organized by the Kozminski University Business Ethics Centre since 2000. The University of Wroclaw and the Economic University of Cracow have also organized such conferences in more recent years. Academic papers and studies in these fields are still rare in Poland. However, there have been three studies done in cooperation with schools from other countries: "Internal Dimensions of Corporate Responsibility in Central Eastern European Countries" done by the Business Ethics Centre in collaboration with the European Academy of Business in Society (2009-10); the "CSR IMPACT Project," currently being conducted by the above institutions plus the Copenhagen Business School, INSEAD, and IESE; and "The role of governments in promoting sector-specific Corporate Responsibility – a European Benchmark" done in 2011-12 by the University of Lodz, the University of St. Gallen, and Bertelsmann Stiftung. There have also been surveys conducted by individual Polish researchers on codes of conduct and other business ethics matters (Jarzebska, 2008, Kuraszko, 2007, Strzalecka, 1998).

CONTEXTUAL ANALYSIS

What seems clear from the information presented above is that the study and practice of business ethics and corporate social responsibility in Poland are different from what we find in Western Europe, the United States, or in Canada. And in the Polish business and academic communities there may well be a different perception or understanding of those terms: business ethics and CSR. Let us use the framework of analysis as presented in Exhibit 1 to better understand these differences.

History

Poland's history over the past two hundred fifty years has been extraordinarily turbulent. It lost its independence through partitioning by its neighbors, Austria, Prussia, and Russia, in 1795, and it did not regain that status as an independent country until the end of World War I in 1918. For the next two decades its political, social, and economic development progressed rapidly. However, this growth and development came to an abrupt end in 1939 when Germany invaded the country from the west and Russia from the east. Even after World War II ended, however, the country did not enjoy true independence; as a result of the Allied nations' agreement at Yalta in 1945 Poland along with its neighbors in eastern Europe came under the influence and domination of Russia. Poland remained under Soviet control for another four decades until in 1989 the long struggle of the Solidarity movement under Lech Walesa, begun in 1980, came to a successful end, and free elections were held. Since that time there has been a gradual shift in economic and political alliances, from East to West, culminating with Poland's joining NATO in 1999 and the European Union in 2004.

This turbulence – from imperialism to German domination to Soviet satellite status and finally to true independence – has meant that Poland's political, legal, and economic infrastructures have only recently been given a chance to take root and develop. Not surprisingly, then, it is only recently that the concepts of corporate social responsibility have begun to take root in Poland as the country adopts to an increasing degree the business-society relationship patterns of the West.

Political Structures

Poland was the first of the Eastern-bloc nations to break free from Soviet domination. On June 4, 1989, the country held truly free elections and elected the first non-communist government in Eastern Europe since the end of the Second World War. Its constitutionally established government structure is not unlike that of the United States: independent executive, legislative, and judicial branches, a bi-cameral legislature, and a president elected by popular vote. It differs from the United States in that Poland also has a prime minister, appointed by the president and approved by the legislature.

With a democratic political structure firmly in place and a populace fully engaged and committed to a participatory form of government there is no political impediment to the development of corporate social responsibility concepts and the refinement of business-government-civil society relationships.

Religion

Poland was converted to Christianity in 966 by its first historical ruler, Prince Mieszko the First, and has remained a staunchly Roman Catholic country for the ensuing thousand-plus years. The strength of the Poles' commitment to Catholicism was enough to weather the persecution of first Nazi Germany and then Soviet Russia, and the elevation in 1978 of the Archbishop of Cracow, Karol Wojtyla, to the papacy gave the already dominant religion a huge additional boost. Catholics make up 88% of Poland, and along with much smaller percentages of Eastern Orthodox and Protestants Christianity accounts for perhaps 95-96 % of the population.

It can be assumed, therefore, that to whatever extent religious values have an impact on how Poles think about moral issues in business and questions of corporate social responsibility, there will be an emphasis on the public good as well as on private gain, on a concern for employees and communities as well as on shareholders.

Social Norms

The family has always been, and still is, the center of Poland's social structure, and the extended family often forms an individual's social network. This was challenged during the post-World War II decades under communist rule and ideology; although it was only with family and friends that Poles felt they could speak freely, nevertheless, they were forced to rely more heavily on the state, and favors were granted to those who put their loyalty in the Communist party. This Communist era experience also explains Poles' reluctance to challenge authority which makes whistle-blowing a more problematic issue than in the West.

An important consideration is a significant level of skepticism on the part of Poles regarding business as an institution. The majority of Poles see no relationship between the quality of their lives and the growth of business. The level of trust towards business is undermined by financial frauds, corruption, and other irresponsible practices. Research has shown that Poles often believe that private business brings them no benefits, and their attitude toward business in general remains ambivalent (Accelerating CSR Practices..., 2007). It is interesting to speculate whether in this issue of skepticism about the benefits bestowed on society by business Poland may actually be leading the United States. Only recently have the financial scandals, the "Great Recession" and a painfully slow recovery, and the Occupy Wall Street movement combined to make Americans question the contribution of capitalism and free enterprise to the well-being of our society.

Strength of Civil Society Institutions

The media. In general Polish media are free but highly partisan. The state-controlled Polish Television (TVP) network was noted for its recent biased coverage of the presidential campaign, and changes were made to the media law and the institutional framework of Polish public broadcasting to address these issues of political independence and objectivity in future reporting. Radio stations and print media are predominantly private and highly diversified, and a number of national dailies have been launched in recent years. According to the European Journalism Centre foreign owners, many of them German, control approximately 80% of the Polish media market. Roughly 62% of the population had regular access to the Internet in 2010, and the government has been active in promoting use of the Internet throughout the public school systems (Freedom of the Press in Poland, Freedom House, 2011).

Advocacy groups and NGOs. Compared to the West the number and the importance of advocacy groups and non-governmental organizations in Poland are relatively minor. This is easy to understand given Poland's history. Until 1989 it was only during those brief two decades between the world wars that the Polish citizenry enjoyed anything resembling the freedom of speech and expression, having been suppressed first by autocrats and more recently by fascist and then communist bureaucrats. This situation is now changing; organizations, both domestic and international such as Transparency International, Reporters Without Borders, and the Helsinki Foundation, have made important contributions to the debate on major national issues (Freedom House, 2011).

Labor unions. The importance of labor unions in Poland's achieving independence has already been noted, and unions continue to be a strong, active participant in the debate over corporate social responsibility and business ethics issues.

Poles have a long history of fighting for human dignity, exemplified in recent years by Lech Walesa and Pope John Paul II. From an institutional standpoint, however, the media and NGOs

represent as yet underdeveloped forces in the molding of thought, teaching, and practice of CSR. It can be assumed that as Poland's commercial and economic development continues to emulate the West through its membership in the European Union that these institutions will grow increasingly important in the public discourse and understanding of individual issues and corporate social responsibility more generally.

Level of Economic Development

According to the International Monetary Fund's figures for 2011, Poland's nominal gross domestic product (GDP) of \$513.8 billion ranked 22nd in the world just behind Sweden and just ahead of Belgium. On a purchasing power parity basis (PPP) Poland's GDP at \$771.7 billion ranked 20th. On a per capita PPP basis Poland ranked number 44 in the world at \$20,334. This was lower than its neighbors Slovenia, the Czech Republic, and Slovakia but higher than Hungary and Russia. Germany, Poland's neighbor to the west and its most important trading partner, dominates the region with a nominal GDP of \$3.577 trillion and a per capita GDP of \$37,897 (Wikipedia). These figures put Poland solidly in the middle tier of countries, well below the largest economies such as the United States, China, and Japan, but far above the so-called third world developing countries. Poland's economy has a well-developed manufacturing sector; its principal exports are autos, machinery, furniture, and iron/steel products. It has a relatively low-priced labor force, but it cannot compete solely on this basis due to even lower wage rates in Belarus, Romania, and Bulgaria. One of its major challenges, then, is to develop higher levels of technology, innovation, and new patents.

There is nothing in Poland's economic picture in terms of sectoral strength or level of development that would impede or influence the further development of ethical business behavior and a broadened concept of corporate social responsibility.

Geographic Considerations

As has been described above, Poland's geographic situation in the heart of Europe, between east and west, has been an important determining factor in its long history of wars, domination, and now its emergence as a relatively strong, developing nation. We should expect that its recent turn to the west, most notably its joining the European Union, will result in a corresponding western tilt in the development of ideas about acceptable business practices and the responsibility businesses owe to their multiple stakeholders.

Health and "Safety Net" Issues

Poland does not face overwhelming public health problems, unlike some impoverished countries of Asia and Africa where widespread infectious diseases, lack of decent sanitation, and an underdeveloped medical infrastructure limit the development of the concepts of acceptable business practices or in the United States where obesity and the related problems of diabetes and heart disease may be having the same effect. However, it is important to make note of the "safety net" conditions: the societal protections in place to protect the unemployed, the impoverished, the infirm, the underfed, the retired, and the aged. Poland's situation is not unlike many of the Western European countries in that the government provides a robust system of protective programs. The public, therefore, looks more to the government for these "safety net" provisions than to employers. Corporate contributions to these societal needs are more likely part of their philanthropic efforts.

CONCLUSIONS

The study and practice of business ethics and corporate social responsibility are very much a part of Poland's developing economic, political, and social systems. Predictably, Poland's concepts of CSR differ somewhat from those in the United States, Canada, and Western Europe, and the contextual analysis proposed in this paper helps us to understand the nature and the causes of those differences.

Quite appropriately, Poland is developing its own, unique form of corporate social responsibility. Assuming that Poland's membership and participation in both the World Trade Organization and the European Union grow deeper and stronger, as international trade, investment, and capital flows continue to develop, one can anticipate that CSR in Poland will gradually take on an increasingly European aspect, and this is likely to be more in line with the "Rhineland model" than the "Anglo-Saxon model" for the reasons suggested above. Societal expectations of Polish businesses will conform more closely to those in Germany and the Scandinavian countries than to those in the United Kingdom or in the United States. Poland's turbulent history over the last one hundred years – the pull and tug from its Eastern and Western neighbors politically, militarily, economically, and socially – help us to understand why this will be true.

Poland's wide-spread and deep-rooted historical allegiance to Catholicism cannot help but influence the concern shown for the least advantaged in Poland's society. However, the degree of corporate responsibility, as opposed to government responsibility, for this care is likely to be closer to the European model than the American model, not only for geographic and proximity reasons but also because of Poland's lack of trust in business as an institution.

The exchange of ideas, specifically about corporate social responsibility and business ethics, can and should develop alongside the developing trade in goods and services. It is important for Western scholars to explore the nature of CSR in other countries with quite different histories, traditions, and cultures so that we break free of the constraints of our insular understanding of the subject and better understand the nature of corporate responsibility in a truly global society.

Exhibit 1 – Contextual Elements

History	1. Transition from imperial rule to communism to democracy. 2. Effects of ravages of war. 3. Low level of trust in political institutions.
Political Structures	1. How well established is democracy? 2. Independent judiciary, and acceptance of a "rule of law?" 3. Status of relationship between business and government
Religions	1. Strong Roman Catholic heritage. To what extent does this influence perceptions of CSR?
Social Norms	1. Importance of family loyalties. A more communitarian and less entrepreneurial or individualistic outlook than the West. 2. Skepticism regarding business.
Strength of Civil Society	1. How important and well-developed are advocacy groups? 2. How free is the media to publicize unacceptable business practices? 3. Strength of labor unions.

Level of Economic Development	1. Agrarian vs. industrial sectors. 2. Income disparities. 3. Level of technology. 4. “Style” of capitalism.
Geographical Considerations	1. To what extent is Poland influenced by her neighbors?
Presence and “Safety Net” Issues	1. Level of health care and retirement benefits. 2. What sector of society – business or government -- provides, or is expected to provide these benefits?

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ON RESPONSIBILITY IN CHINA: UNDERSTANDING AND PRACTICE

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Abstract. Chinese “responsibility” is constituted by the two words: “ze” (charge) and “ren” (office). According to “zhai” (debt) was the etymon of “ze” in ancient Chinese; “ze” corresponded with the right of using a debt. In ancient Chinese books, “ren” had the meanings of “appointment”, “position”, “duty”, “undertaking” and “trust”, and hence, it related to charge of a position, charge of a power, and professional dedication of, and trust on, a position holder. In modern Chinese language, though the two words of “ze” and “ren” are mostly used as one word, we still can tell from their usage the close relationships between ze and right, ren and duty of a position or a power. In today’s real life, however, there is a serious with such a historically close and consequential relationship. This problem assumes as the expansion of the domains of right and power, while responsibilities, obligations, and duties have been often ignored. For example, in contemporary China, the term of “right” has entered ordinary people’s daily expression; especially “labor right”, “right of employment”, “right of property”, “consumers’ rights”, and “environmental rights” become the fastest growing and most concerned right in recent decades. But, the expansion of expressions in “rights” and increasing enactment of relative laws, regulations and moral codes, to a great extent, have not begotten the consequential relationships between rights and responsibilities, powers and duties, and responsible behaviors, but on the contrary, occurred abuses of freedoms, rights and powers. Food safety, environment pollution, official corruption, are most seriously ethical issues in recent years. From these issues, we see that these officials, enterprises and individuals had no any sense of responsibility, duty and obligation, and what they considered were only to abuse power for personal gain, to make power-for-money deal, and to draw water to one’s mill, lost minimal conscience and sense of shame. It is thus to raise such a question to us: how to understand and deal with the deviations of freedom from responsibility, right from obligation, and duty from power? This paper tries to discuss the question. First, the author will investigate the understanding of responsibility and relative concepts of duty, obligation, right and power in Chinese context; and second, analyze the key issues of responsibility associated with the expansion of rights and powers in today’s China; and finally, explore the actors’ responsibilities on different levels and offers the author’s suggestions on cultivation of responsibility as a systemic building and moral education.

Key words: responsibility, freedom, and obligation, right, in China

“Responsibility” in Chinese is consisted of two words: “ze” (charge) and “ren” (office). According to “zhai” (debt) was the etymon of “ze” in ancient Chinese; “ze” was connected with the right to use a debt. In ancient Chinese books, “ren” had the meanings of “appointment”, “position”, “duty”, “undertaking”, “trust”, and hence, it related to the charge of a position or a power, and to the professional dedication of, and the trust on, a position holder. In today’s real life, however, there is a serious problem with such a historically close and consequential relationship. This problem appears as the expansion of the domains of rights and powers, while responsibilities, obligations, and duties have been often ignored. For example, in contemporary China, the term of “right” has entered ordinary people’s daily expression; especially “labor right”, “right of employment”, “right of property”, “consumers’ rights”, and “environmental rights” become the fastest growing and most concerned rights in recent decades. However, the expansion of expressions in “rights” and increasing enactment of relative laws, regulations and moral codes, to a great extent, have not begotten the consequential relationships between rights and responsibilities, powers and duties, and responsible behaviors, but on the contrary, occurred abuses of freedom, rights and powers. Food safety, environment pollution, official corruption, are most seriously ethical issues in recent years. From these issues, what we see are that these officials, enterprises and individuals had no any sense of responsibility, duty and obligation, and what they considered were just to abuse power for their personal gain, to make power-for-money deals, and to draw water to one’s mill, lost at least conscience and sense of shame. It is thus to raise a question to us: how to understand and deal with such deviations of freedom from responsibility, right from obligation, and duty from power? This paper tries to discuss the question in the following three parts. First, the author will investigate the understanding of responsibility and relative concepts of duty, obligation, right and power in Chinese context; and second, analyze the key issues of responsibility associated with the expansion of rights and powers in today’s China; and finally, explores the actors’ responsibilities on different levels and offer the author’s suggestions on cultivation of responsibility as a systemic building and moral education.

Part One Responsibility, Duty, Obligation, Right, and Power

What is responsibility? According to *Ci Hai*, "ze" in ancient Chinese books, there were the meanings of "take a responsibility, call somebody account, blame, punish, claim "and etc. It is worth to note that, "zhai" (debt) was the etymon of "ze". For example, "Do you want to collect ze (debt) back from Xue?" Or "Bo says he is in ze (debt) of millions."⁴¹⁶ According to this, the debtor had the obligation to repay the debt and to be punished if the debtor could not repay. Therefore, according to "debt" was the etymon of "responsibility", "responsibility" and right of using a debt are consequential.

In ancient Chinese books, "ren (office)" had the meanings of "appointment", "position", "duty", "undertaking" and "trust", such as "ren xian wu er"(to appoint virtuous people should be no doubt on them), "shang ren" (get on an office), "xie ren" (get off an office), "ren lao ren yuan"(willingly bear the burden of hard works), or "wang shen ren zhi"(the king trust him very much), and etc.⁴¹⁷ According to these usages, "ren" came from "position", "get on an office", "get off an office", and from ren came ze, trust or not, came to be able to bear or not, came willingly bear the burden of hard works, and came professional spirit or dedication. By this taken, "ren" related to responsibility of a position, a power, and professional dedication of, and trust on, a position holder, contained two requirements: one that from the duty of a position or office and the other from the duty for a position holder.

Compared In Chinese, another word related to "ze" is "zhi" (job, office), which is synonymous with "zhi"(flag), which means: helm, charge, position, job title, and occupation.⁴¹⁸ Compared with "ren", "zhi" (office) put particular emphasis on the requirement of duty by the office per se, namely, the duty associated with exercising a power or holding an office, while "ren" focuses on the incumbent themselves can meet the requirements to fulfill the "duty" or not.

Interestingly, corresponding to the Latin word "officis" and English word "office" including "duty" and, "responsibility" as well, if a person holds an office, he is an officer, and according to the meaning of office, "a public office is an public trust", he should assume a duty, and should be responsible.⁴¹⁹ By this token, it seems that the Latin "officis" and the English "office" also include a duty required by a position or a job, a duty required for an officer, especially a trust required on an officer as in the Chinese words "ren" or "zhi".

In modern Chinese, "ze" and "ren"are mostly used together as one word, but from its interpretations, we still can tell this close, though broader, connection with "ren" and "zhi". For example, in the *Contemporary Chinese Dictionary*, the interpretations of "ze ren" (responsibility) are: "1) do one's part, do one's duty; 2) didn't fulfill one's duty, therefore should be liable for the fault, such as to be investigated for mistakes."⁴²⁰ Namely, responsible and accountable, and the standard for them are one's part. Part, in Chinese, is fen, also termed as fen (portion), namely, each one has his or her own status, duty in a family, community or society, and if each one holds his or her own part, that is each does one's duty. And if one doesn't hold his port, he should be liable for the negligence. Therefore, office or job is the standard for responsibility, and responsibility is stipulated by ren and zhi.

Responsibility, duty and obligation, these three are now often interchangeable. They are overlapped, but not all the same. Duty, as described above, related to one's role or position, is such a kind of responsibility that stipulated by role or position, and the holders of the role or position are whether or should be responsible according to the requirements by the roles or positions either. Ancient societies, like China or Greece, seemed mostly to understand responsibility defined by duties (the responsibility of one's status, position or role), and therefore the two concepts, responsibility and duty were largely overlapped. The interpretations of "ze ren (responsibility)" in the *Contemporary Chinese Dictionary* as described above, also fall within the overlapped understanding of responsibility and duty. However, modern understanding of responsibility includes not only a responsibility according to one's roles, namely, duty, but also according to a contract, agreement, or a commitment; not only a responsibility going with one's role, but also with one's action and its results, namely, a causal responsibility.

Obligation refers to the responsibility that should be fulfilled legally or morally stipulated. We often call those voluntary actions, which ask no pay as obligations, in fact, such actions are also out of moral principles or virtues, therefore, and they belong to the category of moral obligation either.

Generally speaking, the concept of responsibility covers the most widely range, including all duties and obligations, namely, the responsibilities legally or morally stipulated by offices, jobs, positions or agreements and etc., as well as those causal responsibility related to one's actions and their results which do not belong to

⁴¹⁶ *Ci Hai*, Shanghai Ci Shu Publisher 1979, p.1307.

⁴¹⁷ *Ci Hai*, Shanghai Ci Shu Publisher 1979, p.194.

⁴¹⁸ *Ci Hai*, Shanghai Ci Shu Publisher 1979, p.1966.

⁴¹⁹ Cf. Stephen Young, *Moral Capitalism*, Berrett-Koehler Publishers, Inc., 2003, p. 54.

⁴²⁰ *Xian Dan Han Yu Ci Diani(Contemporary Chinese Dictionary)*, Commocial Publishing House (Beijing), 1999, p.1574.

the duties and the obligations. Therefore, responsibility belongs to a generalized understanding, namely, "each of us is responsible for all of his or her actions."⁴²¹ Duty or obligation belong to narrow understandings of responsibility, namely, we are responsible for those we should fulfill morally or legally. As for the broad understanding of generalized responsibility, in addition to a distinction between legal responsibility, moral responsibility and causal responsibility, there are more distinctions such as economic, environmental and social responsibilities according to different areas, and moreover, governmental, corporate or organizational, and individual responsibilities according to different actors' levels. Civic responsibility includes all citizens' responsibilities, as well as corporations' responsibilities. On the whole, a interlocking net of responsibility, composed by responsibilities, duties and obligations of different positions, areas and on different action levels, and supported by legal provisions and moral norms, is covering the all sides of human actions and their consequences. As development of people's practice and its understanding, their cognition about consequences and responsibility of their behavior has been increasingly developing, e.g., the emphasis on environmental responsibility or corporate social responsibility in recent decades.

According to *Modern Chinese Dictionary*, "quan li (right)", refers to "the power that citizens or legal persons lawfully exercise of and the benefit that they lawfully enjoy."⁴²² The problems with this definition are: 1) It is limited to legal rights, namely those legally confirmed and protected rights, but does not include other due rights, such as moral rights, namely morally justified rights, e.g. human rights (they are firstly moral rights) ; Citizen's rights only can be enjoyed by the citizens, however, moral rights are the rights that all people, whether they are citizens or not, should have and enjoy; 3) Many moral rights and legal rights are overlapped legal rights are the rights that morally can be acceptable or the rights at the bottom line of morality. So, in the discussion of rights, we should in the first place make clear that the rights here should include moral right as well. Of course, not all things can be taken as rights, what law and morality protect and maintain as the rights are the things of "paramount importance," such as freedom, life, and property.⁴²³ In addition, because a right is legitimated and justified as a power and an interest, and it will be weak if without a corresponding obligation to require a moral agent or a group of agents to respect it, so a right requires a corresponding obligation, namely a responsibility that stipulated legally or morally. For example, among rights, the right to freedom of physical movement is the primary right, which includes "I" have the right to physical security, the right to action in liberty and the freedom to engage in personal affairs within the limits prescribed by law, and at the same time, the right requires government's obligation to protect, and others' obligation to respect, these "my" freedoms and rights, as well as requires me to fulfill the obligation to respect other's same rights and freedoms. In other words, a right itself contains an obligation.

It is worth noting that, first of all, usually people pay more attention on congruity of right and obligation, but didn't notice the implication of "power" in "right" as the interpretation mentioned above offered by *Modern Chinese Dictionary*. According to German scholar Bernhald Irrgang, German word "macht" originated from ancient German word "maht", English word "might" came from the word "mugan", which meant capacity and ability, and the two words mean ability, possibility and power that act on some objects.⁴²⁴ Such a capacity, possibility or force acting on objects (human or natural) is a kind of subjective force of freedom, and can be understood in the sense of ontology as a kind of dominant force or influence through acting on an object or environment, namely, a kind of force directly relating to human existence and behavior, and in separating from human responsibility.⁴²⁵ If understand the concept of right from its power factor, we can then consider: by this force, from causality, it might bring anticipative or unanticipated results or influences on existence, human being and society, and hence, it will bring a problem of responsibility with this ability, possibility and force, and bring a problem of responsibility with the result of this application, whether people admit it or not. Moreover, because this force is a kind of control force, dominant force, or impact, it will produce a positive or negative effect, do good or evil, and hence it has the problem of constraint, regulation and specification of its exercise and use. From this perspective, power in the form of right, shows human cognition and control of such a force and requires its exercise and use in the legal and valid form of right. Therefore, right from perspective of power, means responsibility, means the responsibility for use of power.

Second, benefit in right is relative to power as well, since acquisition of benefit can't do without the power in above sense, and maintenance and exercitation of a power are also for meeting a need of a certain benefits, so what comes together with getting a benefit or meeting a requirement of a benefit is the responsibility to get a benefit by exerting a power and the relative responsibility to assume such an exercising

⁴²¹ De George, R.T., *Business Ethics*, Prentice Hall, 2010, p.99.

⁴²² *Xian Dan Han Yu Ci Diani (Modern Chinese Dictionary)*, Commercial Publishing House (Beijing), 1999, p.1048.

⁴²³ Cf. Thomas Donaldson, *The Ethics of International Business*, Oxford University Press 1989, p.66.

⁴²⁴ Cf. *Lexikon der Wirtschaftsethik*, Verlag Herder Freiburg im Breisgau 1993; Chinese version, Shanghai People's Publishing House 2001, p.288.

⁴²⁵ *Idem*, p.290.

and obtaining. Corresponding with the understanding of a responsibility in terms of a duty, the power in Chinese touches upon the responsibility of a power either. . For example, according to *Modern Chinese Dictionary*, "power" has the two interpretations: "1. Political coercive force, such as state power; 2. A control power within a scope of a duty, such as to exercise the power of the chairman, and etc." ⁴²⁶ Of course, the first meaning is not limited to the political, and state power includes economic, cultural, and other aspects' dominant or influential forces while the second meaning indicates that a power as an official one, such as the power of the chairman, comes from the duty and plays its role as the control or dominant force within the scope of the duty. Such a duty's power of a position or office is not a personal attribute, but a control or dominant force endowed by a position or office, and it is the power that necessary for fulfilling the duties, and hence a power of a duty itself contains requirements for fulfilling the duty. Also, as a position or office' right, it contains not only a power, but also interests or benefits. As the interests or benefits of a position or office' rights take fulfilling duties as its prerequisite, and obtaining compensation as the rewards for fulfilling the duty. For example, you bought a car and obtained the qualification to drive and operate it, and got the ownership and use right of the car, or if you were an official, due to the needs of official business, you had the right to use an official business car, no matter under whatever situation, you were all accountable for complying with the vehicle and traffic regulations, and for your driving consequences while you obtaining and enjoying the vehicle and its traffic convenience. And it's absolutely not to say that you can brazenly bump into pedestrians, into traffic police and into toll collectors.

General speaking, the relationship between of right and responsibility is as the following. First, according to "zhai" (debt) was the etymon of "ze", "ze" corresponded with the right. Second, right corresponds with obligation, which is the responsibility legally and morally stipulated. Especially, from the content of a right, as a power of a right, obtained by legal recognition, it is directly related to human existence and their behavior, and hence bring a problem of responsibility with it; as an interest or benefit of a right, obtained by legal recognition, it is also directly related to the responsibility that justly using power to obtain interests and the responsibility of the use and the obtaining. Finally, though a power and a benefit as a right, largely comes from a position, the premise and basis of an office' power and its reward, are to fulfill the duty by the position or office.

Part Two The Expansion of Right and Moral Responsibility as a Key Concept of Contemporary Morality

Although a right with a responsibility theoretically and normatively is consequential. But in the real world, especially in contemporary, such a consequential relationship is faced with problems. For example, in the West, it is particularly manifested as to abuse the language of rights, exaggerate importance of right, and to extremely expand domain of rights, and at the same time, the importance of responsibility, obligation, and duty have been ignored.

For example, Richard De George points out, "The language of right is frequently abused. People have claimed a wide variety of rights." He added that such abuse particularly in the case that takes privileges as rights. ⁴²⁷ John Boatright points out, " there is a tendency to stretch the concept in ways that dilute its meaning. For example, the rights to receive adequate food, clothing, and medical care, mentioned in the Universal Declaration of Human Rights, are perhaps better described as political goals rather than rights." ⁴²⁸ While seeing the extension of rights, Georges Enderle has noted the issue of responsibility and obligation had been neglected. He says, we must admit that " the importance of rights has been strongly exaggerated: the domain of right claims was extremely expanded; the significance of duties was neglected; and the whole moral sphere was conceived in terms of 'rights'". ⁴²⁹ And as the reaction to the expansion and ignorance, it is a strong call for responsibility. Gertrud Nunner-Winkler indicates, "Today, responsibility is a hot concept. However, it is not clear that the hot means people's moral sensitivity improving or personal sense of responsibility vanishing." ⁴³⁰⁴³¹ , I think, it is clear that responsibility is becoming a "hot concept", though they didn't explain the hot's reasons. If we consider that rights in the west were defined as a "trump" over a collective good, which is to say that the assertion of one's right to something takes precedence over all but the most compelling collective goals, and overrides the state's interest ⁴³² ; then, we may ask: whether it means

⁴²⁶ Xian Dan Han Yu Ci Diani(*Modern Chinese Dictionary*), Commercial Publishing House (Beijing), 1999, p.1048.

⁴²⁷ Richard T. DeGeorge, *Business Ethics*, p. 76.

⁴²⁸ John. R. Boatright, 2007. *Ethics and the Conduct of Business*. Pearson Prentice Hall 2007 (fifth edition), p.37-38.

⁴²⁹ Georges Enderle, Towards Business Ethics as an Academic Discipline. *Business Ethics Quarterly*:1996, 6, p. 43-65.

⁴³⁰ Gertrud Nunner-Winkler: Verantwortung, in Lexikon der Wirtschaftsethik, Verlag Herder Freiburg im Breisgau 1993.

⁴³¹ Georges Enderle: Business Ethics in the Global Context: A Conceptual Framework, in Georges Enderle: *Action-Oriented Business Ethics*, Shanghai Academy of Social Sciences Press 2001, p.30.

⁴³² Thomas Donaldson: *The Ethics of International Business*, Oxford University Press, 1989, p.66.

the ascension of collective or national interests that the concept of responsibility corresponding to concept of right becoming "hot concept" and "key concept"? Or what are the reasons making such a concept which means collective and national interests lifted to the level of "hot" and "key" concept?

In today's China, the term of "right" has entered ordinary people's daily expression; especially "labor right", "right of employment", "right of property", "consumers' right", and "environmental right" have become the fastest growing and most concerned rights in recent decades. In China where Liang shu-ming regarded as "individuals would be never found", this concept of "right" borrowed together with "Mr. Morality" and "Mr. Science" by Chinese then, has been come from our own political, economic and social life now. Particularly, the 2004 Constitutional amendment for the first time absorbed "human rights" into the Constitution, clearly approved that "the state respects and safeguards human rights", shows that human rights as natural rights and moral rights have become legal rights in China. Today's Chinese, according to the Constitution, have civil rights including: the right to ownership of property, the right of personal liberty, the right to vote and the right to be voted, the rights to freedom of speech, press, assembly, association, procession and demonstration, the right to freedom of religious belief, the right of human dignity, the right of residence, the right of communication liberty, the right to work, the right to rest, the right to education, and etc., the comprehensive basic rights. It's worth noting that the obligations specified in the Constitution do not enlarged. They are still the most basic obligations as the followings: 1) citizens in exercising their freedoms and rights, should not harm interests of the state, the society, and the collective and other citizens' legal freedoms and rights; 2) the obligation to safeguard national unity and peoples' unity; 3) the obligation to maintain national security, honor and interests; 4) the duty to defend the motherland and resist aggression; 5) the obligation to serve in the army and join in the militia in accordance with the law; 6) the obligation to pay taxes in accordance with the law. However, because our legal rights expanded, correspondingly, the citizens' first obligation that is "should not harm interests of the state, the society, and the collective and other citizens' legal freedom and rights" are being extended either. This is from the basic laws, to reflect the rights in China's progress and expansion, to reflect the scope and responsibility of government, state to protect citizens' rights in expanding, and to respect the obligation of the citizens themselves to respect freedoms and rights in expanding. Of course, the Constitution has stipulated the most basic obligations. Along with expansion of rights in various areas, divisions and on different actors' levels of political, social, especially economic life, China's legislative branch also lose no time to formulate, revise, and issue a lot of related laws and regulations. According to some legal experts' opinions that, the laws and regulations in China are not incomplete, what legislation can do, have basically all done. These laws and regulations specifically embodied the provisions of the civil rights and organizational rights by the Constitution, and stipulated in detail the duties, obligations and responsibilities in various areas and on different actor's levels. Moreover, not only stipulated by the laws and regulations, in the field of moral rights and obligations, the Chinese central government by issued "The Program of implementation of Citizen Morality", have provided for citizens the basic guidelines of social morality, professional ethics and family moral. But, it should admit that, the expansions of rights, and the promulgations of laws, regulations and code of ethics, to a great extent, in real life, have not begotten the granted correlative relations of responsibilities and rights and the responsibility undertaking. On the contrary, there was a great quantity of abuse of freedom and rights. Food safeties, environment pollution, official corruption, are the most serious social and economic ethical issues in recent decades. These abuses even overflow to overseas, such as earlier than the SanLu milk scandal, two small Chinese companies in Jiangsu and Shandong, put melamine into the pet food exported to USA, in order to reach the criterion of wheat gluten used by Menu Foods, caused many pets die from renal failure. From these events and issues, we see that these involved officials, enterprises and individuals had no any sense of responsibility, duty and obligation, and what they considered were only to abuse power for personal gain, to make power-for-money deals, and to draw water to one's mill, lost minimal conscience and sense of shame.

It is to raise a question for us: how to understand such a serious deviation of the freedom from responsibility, right from obligation, and power from duty occurred in the world and particularly in China? 30 years ago in China, today's the two pet food merchants could only be peasants in a productive team who took several work points by tilling team's land, and absolutely no possibility to start their own companies and had a chance to export toxic products to USA.

In addition, even now after 30 years, investors in China didn't think of their deposit security in the bank of China would have been put on the repayment ability of the poor workers in Cleveland of USA, who could not afford a square meter for an urinal bowl. Peoples in different parts of the world through marketization, globalization and informatization become increasingly closer together, individuals' liberty and ability get unprecedented display opportunities, and at the same time, they have changed original connections of responsibility and constraints, such as those toxic pet food consumers in USA or depositors in the bank of China who did not know how the food or the subprime mortgage products made out, as well as had no way to restrict the making of the food and subprime mortgage products. It should admit that the serious deviation of

the freedom from responsibility, right from obligation, and power from duty, on one hand, exhibits the increasing and expanding in human capacity and strength acting on the around world, on the other hand, it reflects the weakness and lag in restriction on such acting force in the manner of responsibility, duties and obligations. This is involved in the social practical movements as driving forces behind of these increase and expansion or weakness and lag, involved in the changes based on the movements of marketization, globalization and informatization and corresponding economic changes and the changes of social organizations for recent decades, and involved in the tremendous impact on the relationship between rights and responsibilities, on the responsibility situation, and on the ties that bind.

Whether the western market capitalism, or Chinese socialist market economy, the former insist and the latter adopt, in Karl Marx's words, is a special kind of wealth creation way, namely, capitalist production mode, or surplus value or exchange value production mode. The production mode takes maximization of surplus value as its premise and condition, as the purpose of producers' decision and action, and manifests "a tendency of capital civilization" called by Marx, in the process of this pursuing maximization⁴³³, that is, tends to cause an ever expanding and increasingly widespread production system, continually to destroy all restricts that hindering the development of productive forces, expanding needs, making varied production, and using and exchanging natural and spiritual forces⁴³⁴, continually to explore the nature, find useful new attributes of objects, adopt new processing natural objects, so as to set the way of their new use value, and at the same time, to increasingly find, create and meet new needs generated by the society itself, and to produce human being as the one with rich attributes and contacts, thus with wide needs as far as possible.⁴³⁵ The marketization is such a way to coordinate and configure resources that necessary or suitable for the mode of production, the globalization is the promotion of the mode of production in the worldwide, and the informatization is to handle or coordinate the objects expanding to intangible ideas and information, not limited to tangible material recourses, and hence further reflect the continuous exploration and exploitation of the nature and the ability of human being per se by such a mode of production. This is the process of a basic trend happened for past four hundred years in the west and recent 30 years in China. As long as the worldwide promotion process of such a production mode has not been over yet, the expanding process of the pursuing surplus value or exchange value as a driving force for the mode, along with the expansion of the production system caused by the pursuit, and the process of destroying the obstacles to development of productive forces will not end, and the expanding human beings 'capacity, potentials and forces on objects, namely, the expanding human's freedom spaces, the pursuing and preserving human interests, will not stop, and at the same time, the concerns about, and the requirements for restrictions on, the indulgence of the freedoms and acting force will not stop as well. The expansion of rights and the hot of the concept of responsibility, on one hand, reflect the expansion and indulgence of such freedoms or acting forces, on the other hand, reflect the concerns about, and the restricts on, the expansion and indulgence. It should notice that the expansion and indulgence contain the expansion of human individual ability and their freedoms, pursuits and maintenance of their own interests. They are not only the results of human civilization and capital civilization, but also the impetus for further development, and the preservation and maintenance of the results and impetus in the form of rights. At the same time, it should face that the expansion and laissez faire of individual rights have been broken through the correlate and corresponding relations between rights and responsibilities, taking the responsibility for the results of the expansion and laissez faire, and the respect for others and the collective rights and interests, as the obstacles for their free developments that should be destroyed, so inevitably arouse accountable requirements and restraints. The concept of responsibility becoming popular indicts that freedom cannot be separated from responsibility, right cannot be separated from obligation, and power cannot be separated from responsibility. The relationships between them reflect the process of human being from "the realm of things in itself" to "the realm of freedom" on the perspective of values and norms. Of course, we should not abolish rights for being divorced from obligations. But we do need to face up to the serious consequences on others, public and even the actors themselves, caused by the freedoms breaking away from responsibilities, the rights abandoning obligations, and the powers disregarding duties.

We may further consider that, although capitalist production mode and relative marketization, globalization and informatization have caused great impacts and influences on the relationship between rights and responsibilities, why not all actors are in court and to jail? The author thinks that, the impacts and influences are still external causes, resulting no necessarily the behaviors that only apply rights but not fulfill obligations. So, here we will discuss the issue from internal causes, from agents' own capacity for responsibility and its connection to these external causes.

⁴³³ Karl Marx, *Collected Edition*, 30th vol., p.395.

⁴³⁴ Karl Marx, *Collected Edition*, 30th vol., p.390.

⁴³⁵ Karl Marx, *Collected Edition*, 30th vol., p.389.

We usually say that people are responsible for their actions. This means to satisfy the following three requirements. First, the actor's capacity to fulfill responsibilities, which includes to have: 1) normal rationality; 2) the knowledge about laws, regulations, ethical norms and most basic experience consequences of behaviors; and 3) freedom of will, that is, an actor has the freedom to make choices and decisions by his own will. Second, a behavior whether has fulfilled or not the relative legal or moral responsibility that a behavior should undertake. Third, whether there is any causal liability relationship between a behavior and a behavior, namely, whether a behavior and its consequences caused by a behavior, especially to see whether the behavior did the behavior intentionally. These three requirements, are meaningful to identify the liability behavior, but not enough for analysis of it, especially for analysis of whether a responsibility has been fulfilled or not. For example, in terms of capacity for duties, freedom of will is a free state of will; it answers the question whether the behavior is out of the behavior's own will. And will is a kind of psychological persistence, a kind of subjective determination to putting one's will into practice. Such a persistence and determination manifest as a choice of, and persistence to, a value. From the content of the determination, it manifests as actors' value orientation. It is a kind of psychological persistence to fulfill a responsibility; a kind of determination to put one's complying with responsibilities, duties and obligations into practice. It manifests as a responsible orientation. I've argued somewhere before that value orientation is the value that an agent takes as a goal or an expectation to pursue, a possibility that an agent to try to realize.⁴³⁶ According to agents' capacity to fulfill responsibilities, value orientation can play role only as a behavior's psychological persistence of a choice. So, with agents' three elements in the capacity to fulfill responsibilities, it's crucial to integrate the three elements, and hence, can form a subjective insistence and persistence of responsibility value, as well as form real capacity to fulfill responsibilities. In other words, freedom of will is only a behavior's subjective state, showing that the behavior has freedom will to choose. As for what action an actor would choose, it is up to the actor's own value orientation. As for a responsibility, it is to have a will of responsibility, namely, to have an insistence or persistence to responsibility value. Further, we can ask, what is the reason or consideration that makes a behavior to insist the value orientation or responsibility orientation? The author thinks that, this includes the reasons in two aspects. One is a deeper spiritual impetus or control behind a behavior's value orientation, such as the concept of honor and disgrace, conscience, love, sympathy or God, etc.; the other is external legal coercive force and the function of moral public opinion, which will influence and restrict actors' value orientation and decision by will. For example there is a common saying: "Don't hand out your hand to steal something, otherwise will be caught", telling to have to take care of the legal deterrent force on the consequences of a behavior, and therefore, to prevent one's decision to "hand out".

We can call this simple structure of responsible connections as a basic pattern of behavior responsibility. Obviously, even according to such an abstract responsibility pattern, it's not difficult to imagine that, any change of a condition or control force in the pattern, it can cause an issue of responsibility. For example, if the knowledge about a moral or legal rule has changed, or if the knowledge about experiential consequences of a behavior has become uncertain or abnormal, or if the used clear evaluation on certain behavior by the concept of honor or dishonor, the public moral opinion or the relative law have been becoming flexible, all will influence an actor's value orientation for choosing and deciding his or her behavior, therefore influence his or her determination of will. For example, many people, after the sentence of Peng Yu's case, are not sure if they would help an elderly faller later, for the expectation about experiential consequences becoming uncertain and less simple, therefore, these influence actors' value orientation and practical choices. However, it is worth noting that, if actors think, Peng Yu case is just an exceptional one, and still take "to respect elderly and care children" as the virtue they should have and the obligation that they should fulfill, then no one can stop him from continuing to practice this virtue and obligation. In particular, e.g., the old woman Chen who took up the injured little girl on the road knew nothing about the obligation orientation we are talking here, but the love and compassion for children prompted her to pick up the injured child, as many now still continue to lift up elderly fallers and rescue injured children. Here, we see the key role of actors' value orientation to respect the elderly and take care of the children, the responsibility orientation, and the deeper spiritual forces of actors' conscience, sympathy, love and etc., behind actors' responsibility behaviors.

The two actors' choices and influences are quite different. An actor's choice is a real choice, a choice about real problem, and makes the choice in the real life. Actors' positions or occupations in real life are different, and the constraints to, and influential range of, their choices are different as well. Usually, we call the action space of constraints and influences on actor's decisions as actors' freedom spaces, and think actors' responsibility and his freedom spaces are proportional, namely, the bigger the freedom space, the more the responsibility.⁴³⁷ For example, the old woman Chen, a scrounger, whose freedom space usually will not exceed such a question: which trash has a value and can be exchanged into money, that is only about the

⁴³⁶ Cf. Xiaohu Lu: *Studies on Business Ethics*, Shanghai Academy of Social Sciences 2008, p. .

⁴³⁷ Cf. Georges Enderle: *Action-Oriented Business Ethics*, Shanghai Academy of Social Sciences Press 2001.

fate of wastes. But the freedom space of the Judge of Peng Yu case is much bigger. As a judge, his duty is to find the truth of the case through the hearing of the case in according with the provisions of relative laws, and apply the laws to make a fair sentence on the case, involving the fate of people and their freedom spaces. Take another example. A ordinary citizen buys a lamp in what price, it is his or his family's business, but China Petroleum & Chemical buy what price a droplight for the central nave of its office building, it is not its officer's personal business, because it uses the money of state-owned company, investors' money, the officer's freedom space is bigger, the amount he uses, and the deal he makes, and the social influence the deal bring with, are all far more than the individual citizens. In particular, as managers of the state-owned holding company, of the public company, they assume the responsibilities, to a great extent, from their duties. For example, as fiduciary of state-owned assets, the trustee of the public property, they have the obligations to respect the rights of the property and owners, do not steal, seize, invade, waste, but protect the entrusted property. Obviously, at least when purchasing "droplight of sky-price", the relative officials abandoned this fiduciary responsibility. .

This involves the issue of rights. Why the officers of China Petroleum & Chemical have bigger freedom spaces than the old woman Chen's? Why they should bear the more important responsibility as the duty to protect the fiduciary property? This is correlated to the right of the duty they obtained. The SASAC and public investors entrust the state, individual assets to them, and the latter have obtained the right of corresponding reasonable remuneration while got the operation right which including corresponding rights of production, employment, and distribution, namely, including the rights to use the social members and material resources of the society. According to the understanding of rights offered in the above, these rights include the powers obtained in the legal and justified form, namely, the capacity, possibility and force to act on objects. These objects include the environment and people themselves that can be approached, imposed, affected and changed by the capacity, possibility and forces of the players as the subjects. Thus, this brings out two kinds of responsibilities accordingly: one is the responsibility and obligation corresponding to the rights of the positions in the provisions, such as the right to protect the entrusted property corresponding to the operation right mentioned above; the other is not in the provision of duties, but for the consequences caused by using the position's power. For example, though Sinopec has no specific provisions about the price of droplights in the hall of the building, its managers should bear the responsibility of the negative influence on the society by abusing their capital power to buy a droplight with "skype-high price".

It is worth noting that, in the real world, with the globalization, marketization, informazition and the corresponding economic and social organization changes, the above simple basic responsibility pattern has become increasingly complicated and difficult to construct, especially the responsibility connection between behavers and behaviors, present a growing and diffusing trend, and hence the simple pattern has been replaced by an extended pattern.⁴³⁸ We can observe this extension and diffusion of responsibility situation from its length, width and height. First, the length of the chain in behavioral consequences is extending, at the same time; behavers' sense of responsibility is reducing the correlation to one's behaviors diminishing. For example, recently China Mengniu Dairy Company Limited 's milk products were detected the excessive levels of a cancer-causing toxin, aflatoxin M1. The company admitted that because the cow ate the moldy feed. But, the company claims it will be unable to effectively prevent the dairy farmers from using moldy feed.⁴³⁹ Indeed, tracing from the milk products, back to the cows, the feed, or according to the net friends' ridicule, to the grass, soil, water and so on, the long causal chain can be extended, all persons in charge of any link of the long chain may fill with bad or neglect duties because of remote relationship with consumers. However, even if the company cannot effectively prevent the farmers from using moldy feed milk, and the farmers were the nearest causes of the carcinogenic milk, this is not equal to say the company can't guard its strict inspection to the mange, can't eliminate big defects in the links of its production and the processes of quality controlling, and hence, it should be liable for the responsibility of the toxic milk products. From this perspective, the extending causal chain increases the difficulty to assume the responsibility in these responsible links, as well as the requirements for the behavers' corresponding responsibilities. Second is the issue of dispersion of responsibilities. Because responsibilities for behaviors involve a whole community or a lot of people on-site, none of them will feel responsible for the event, as a result, the more the number of people on-site, and the less the people fulfill the responsibility. For example, after its toxic milk scandal exposed, SanLu Milk Group's reason for defending itself is that, to add melamine to mange is a unspoken practice in the whole domestic dairy products industry. Implicationally, this is a problem with the whole industry, not just Sanlu. Indeed, an industry' responsibility, a collective's responsibility, only if all enterprises, all people in the industry fulfill their duties, can be solved an industry's problem. So this means that we should have the behavioral

⁴³⁸ Cf. Lexikon der Wirtschaftsethik, Chinese version, pp. 541-543; Richard T. DeGeorge's dissection on the relative topics, *Business Ethics*,

⁴³⁹ <http://video.sina.com.cn/p/finance/20111227/235161625471.html>

rules with the binding for a whole industry or a whole community, but this not to say that Sanlu and similar actors could be executed from the responsibility. It should know to add the melamine or not, was Sanlu's own decision. So Sanlu must by itself rather than the whole industry bear the legal and moral responsibility of the toxic milk. Third, because the agency chain of behavioral responsibilities is increasingly layer upon layer, the marketization and globalization have promoted further enlargement of labor division, the size of the enterprise bigger and bigger, and layers of management more and more. Especially in those large organizations, "the chain of agency frequently involves many people who are hierarchically related to one another. This raises problems of moral responsibility, both for those at the top and for those lower down the chain." ⁴⁴⁰ Due to the long distance from top leaders to low employees, and the lowers to carry out orders from the uppers, the lowers or the uppers in a chain all don't think they should be responsible for this behavior. But "the absence of the 'feeling' of moral responsibility, however, does not indicate an absence of moral responsibility." ⁴⁴¹ The upper and the lower all have their freedom will spaces. For example, Ms. Tian Wenhua, the former President of Sanlu Group, might not have to add melamine to the milk, but she had enough freedom space to stop rather to indulge the illegal behavior, and for her subordinates, especially for those direct adders, they might do so under all kinds of pressure, but this did not make an excuse for the responsibility they should assume, since they still had, even if very small, freedom space to make a choice to add or not. Recently, the employees of Hsin Tung Yang exposure and boycotted the enterprise to make dried meat floss with moldy meat. This event is a good example for the lowers even in the limited behavior freedom space were still is able to bear the responsibility. Therefore, we can see, even in the expansive pattern of responsibilities, behaviors' will of responsibility is still crucial.

To sum up, in the modern expansive and diffusive pattern of responsibilities, the issue of liability becomes increasingly complicated, and the changes of various internal and external conditions, links and constraints, all cause the problems of responsibilities, but we still should admit that, actors 'will to implement their responsibility orientation is crucial; at the same time, because of behaviors' responsibilities are proportional to their freedom spaces, behaviors' rights are corresponding to their obligations, and hence, the more the rights and freedom spaces increasing, the more the obligations and responsibilities extending, the higher the behaviors' positions and the bigger the behaviors' powers, the more crucial the behaviors' will of responsibility. Therefore, against the background of the enormous impacts and influences on the connection of rights and responsibilities with the marketization, globalization and informatization, the concept of responsibility has become the key concept of contemporary morality. It is important for the behaviors on various levels, particularly for those on high positions to admit their will of responsibility and highlight their responsibility orientations. The author would discuss below the behaviors' responsibility practices on different levels, as well as the issue of cultivating moral responsibility from systemic and moral constructions.

Part Three The Responsible Practices of Agents on Different Levels and Cultivation of Responsible Agents as Systemic and Moral Constructions

As mentioned above, the old woman Chen and Ms. Tian Wenhua are on different levels of action, and their spaces of freedoms and corresponding responsibilities are different either. Therefore, in discussing the issue of agents' responsible practices on different levels and cultivation of responsible agents as systemic and moral constructions, we would not discuss it departure from agents' action levels and spaces of freedoms. Usually we divide agents' action levels into macro, meso and micro levels and distinguish the different actors on the three levels: governments, organizations, and individuals. The macro level refers to the level of social systems, involves in maintaining, changing or shaping various social systems, conditions, orders, and polices, and its agents are governments and their various organs as administrators and managers of the social and public powers. The meso level refers to the level of organizations, including enterprises and all the units, groups or communities with organizational structures, such as, consumer group, industry association, and etc. Micro level refers to the level of individual behaviors and decisions, such as residents, consumers, employees, managers and other individuals, "the group that consist of a few individuals but has no organizational construction and make no collective decision and collective actions, belongs to the level either." ⁴⁴² The latter two action levels are overlapped with the concept of "citizens". Differing from the traditional concept of citizens in China which only includes individual citizens, contemporary concept of citizens includes corporate citizens either, namely, corporations are now not the special agents that can be separated from civil societies, the public, including corporations themselves now also regard corporations as members of societies, citizens that enjoy citizens' rights while fulfill citizens' obligations. 'In addition, differing from the traditionally legal and moral responsibilities bearded only by individual persons, a consensus arrived in recent years is that, organizations, especially enterprises, are also considered as legal and moral persons,

⁴⁴⁰ Richard T. DeGeorge, *Business Ethics* (Seventh edition), Prentice Hall 2010, p.106.

⁴⁴¹ Idem, p.106.

⁴⁴² Cf. Georges Ederle: *Action-Oriented Business Ethics*, Shanghai Academy of Social Sciences Press 2001, p.31.

since they, as individuals, have goals, values, interests and strategies, and can make decisions, take actions, with spaces of freedoms to make action choices and as well as within constraints for making choices, namely, they like individuals are able to .exercise their rights and at the same time to fulfill their responsibilities, even though the way that they conduct behaviors and make decisions through internal structure of decision making in organizations. As for the emphasis on the meso-level, it shows the important role organizations play in contemporary societies. There is another division of social areas and agents in China according to governmental organization, profit organizations, and non-governmental & non-profit organizations, and hence call governmental organizations as the realm of public powers, the markets or profit organizations as the private realm, and the non-profit & non-governmental organization as the intermediary realm, the three respectively as the first, second and third sectors, or the political, economic and public realms. This classification helps to define and restrict the organizational functions and activity ranges with different powers and influences, but ignores that the agents of government, enterprises and civil society organizations are not on the same meso-level, so does individual agents on micro-level; and ignores that the agents on the three levels have different spaces of freedoms and hence bear different corresponding responsibilities even to the same issue such as an environmental issue: the government's responsibility is in the regulation and supervision in terms of environmental laws, rules and policies; enterprises' responsibility is to comply with laws, rules and policies; and carry out them into business activities; and individual actors such as consumers, residents are to consider how to fulfill the citizens 'responsibility for the environment as the slogan "taking good care of environment is everyone's duty." For example, when the environmental pollution happened on the meso-level, the enterprise cannot put the responsibility of pollution onto systemic or governmental level. Of course, sometimes, a problem on one level needs collaborative action on several other levels. For example, in order to effectively stop environmental pollution, in addition to have clear business policy on the meso level, the government should strengthen its supervision, because it is not enough to solve the problem only rely on enterprises'self-discipline. This is not to say, enterprises can put the responsibility of pollution to the government, since this concerns who did the pollution. Whether the enterprise is sneaking the sewage into the near rivers, and even after the exposure, whether the enterprise still insists on pollution even would rather to be fined, such as what the listed company, HPGC did, in the end, it still depends on the enterprise itself, especially on its executives who are in the decision making position in the responsible structure of the company. .

As citizens, whether individuals or organizations, all should have civil rights prescribed in the Constitution. In China, as mentioned before, the citizens have "human rights" according to the Constitution; have the right of property, the right of personal freedom and the other basic rights. Accordingly, the citizens must fulfill the basic constitutional obligations, including the obligations of respect the state, collective and other citizens' freedom and rights while exercising their own freedoms and rights. In addition to these legal provisions on the rights and obligations, the citizens also have the rights and obligations according to the moral norms and principles.⁴⁴³ Because after the reforms and openness, most systematic and completed document of government's guidelines for the citizens' morality is still "The Implementation of the Program of Citizen Morality "(IPCM), my discussion here mainly based on this document. The IPCM proposes, "the socialist morality construction should insist that its core is to serve the people, its principle is collectivism, its basic requirements are: love the motherland, love the people, love to work, love science and love socialism, and its focuses are civic morality, professional ethics, and family virtues. The citizens' basic moral norms are summarized as the twelve words: "love the country, comply with the law, courtesy, honesty, solidarity, amicable, diligence, self-improvement, dedicated and devotion. ". From the connection of rights and responsibilities, one of the IPCM's guidelines for the moral construction is "to insist the balance of respecting individual legal rights and assuming social responsibilities, guaranteeing citizens to enjoy all kinds of democratic rights including political, economic, cultural, social rights and so on, encouraging people to get proper material interests through honest work and legitimate business. To guide each citizen consciously to implement the obligations stipulated by the Constitution and the laws, and to actively assume their social responsibilities. To combine the rights and obligations, sets up the socialist view of putting the interests of the state and the people in the first place while fully respect the legitimate interests of individual citizens." ⁴⁴⁴ Consider the legal rights and obligations, the corresponding relationship between the subjects of the civil rights and obligations is clear, "the state respects and safeguards" citizens' these rights, at the same time, the citizens should fulfill their basic obligations to the state. As for the IPCM, however, the requirements to safeguard citizens' civil rights and citizens to fulfill their civil obligations are proposed in the way that the ruling party's initiative and

⁴⁴³ The Xinhua News Agency: The Implementation of the Program of Citizen Morality "(IPCM), 24 Oct. 2001.

⁴⁴⁴ The Xinhua News Agency: The Implementation of the Program of Citizen Morality "(IPCM), 24 Oct. 2001.

expectation of the citizens' response to it, among them, the subject who assumes the responsibility to "insist", "safeguard", "encourage" and "guild" is the government while as the expected responding subject, the citizens in fact know and understand these their moral rights and responsibility through these "insist", "safeguard", "encourage" and "guild" etc.. This raises very high requirement for both of the government and the citizens, for such initiative and expectation appeal to citizens' own moral will, not legally mandatory requirement. From a practical perspective, for the government, it is easy to just stop at documental level and on the theoretical propaganda; for the citizens, it is also easy to put it on the shelf for the cognitive or practical reasons.

Of course, for Chinese citizens, the legal or advocatory rights and obligations by the Constitution or by the IPCM are applicable to all people in the country. However, the issue bring with the market economy and the transforming society is that, the original unit society, acquaintance society, have been transforming to civil society, stranger society; and the development of information technology and the space on internet have been forming anonymous network society. Accordingly, the responsible relationships and the ties formed in the former society of the units, the acquaintances, and with the real names, have been fetches way, marginalized or broken. The business relationships, contractual relationships, virtual relationships, formed by markets, employments and networks, have been penetrating into, impacting on, and even replacing, the traditional responsible relations and ties. People stay in the same place, e.g. Shanghai, can live in two kinds of social life: one is the society of units, acquaintances and autonyms, and the other is in the markets, in the public communication realm of strangers, and in the virtual society online. Especially, large quantity of rural workers come to Shanghai, getting away from the original society of acquaintances, autonyms. These short and changeable business and contract relationships let them into the society of strangers or virtual society, forming no new stable unit society and acquaintances society. The extensibility and unrest of people's social life, on the one hand, make them increasingly extending their independence, autonomy and freedom than before, and on the other hand, make the traditional ties completely play no role at all in the latter new kinds of societies. For example, many cases occurred in recent years all have one thing in common, that is, these suspects usually had good impressions on the people in their units, communities or at homes, so that when the cases exposed, the people's first reactions were "we had not thought that", as the peoples' reaction to Li Hao's case of sex slaves, these "we" are his relatives, neighbors, and colleagues. Why persons like Li Hao "had good behaviors" in the units, homes, and communities? It explains that the traditional social constraints for these people still play a role, but fails in these new formed social lives. Virtual communities have the obvious characteristics in this aspect. There has always been a controversial about whether network users should access internet with real names or not. It is the problem indeed, however, that some people put freedom of speech as the liberty of "leaking private dung" in the network, rumors and invectives, nasty words and lousy posts upload ad arbitrium, let readers under the harrow have to guess: what exactly these posters look like to hide behind these IDs to post them? Can they treat their colleagues, friends and family in real life like this? In particular, whether laws, social morality or professional ethics, all require citizens work honestly, do business legally, and get rewards justly. However, from food safety scandals frequently exposed such as "swill-cooked dirty oil", "tainted steamed buns", "clenbuterol" and so on, watching those suspects who squatting down in filthy shack and processing these toxic foods from the TV news, it is difficult to link these suspects with the concept of landlich farmers. Didn't they know they were doing what conscienceless harmful behaviors? Here, the reasons of making them callous, might not only be blinded by gain therefore by lust for money, but also because of those cheated in the another end of the distant causal chain were the strangers to them. They didn't even think, they themselves, their loved ones, and friends, are also strangers to other people. If all individuals in all industries act so shameless, then how can they themselves, their relatives and friends be survived, and the society can normally operate as well?! In the basic pattern of responsibility proposed above, citizens, as normal persons, are rational beings with reason. Reason is a kind of generalized thinking ability, such as imagine and treat the strangers in the another end of the distant causal chain as same people to one's family and him or herself. Reason is also an ability to understand laws, regulations, ethical norms, and to summarizes and foresee experiential consequences of behaviors. They all have will freedom, namely, in their scope, they have the freedom to choose a certain action or not, have the freedoms to honestly work, legally doing business, and gain due rewards, have the freedom to refuse illegally trade and production. Market economy and information technology have not cancel people's rational ability, not cancel citizens' basic rights and obligations, not change a person's basic principles as a human being, and not change deeper cultural strengths such as beliefs, conscience and etc., under market rules and behind people's behaviors. For example, we can't believe, a person with a faith and conscience will do the cheating and kidnapping to other innocent people, even in a society of strangers, in a world of anonyms, where the

ties that bind units, acquaintances, and autonyms loose, those persons will still keep their bottom line of morality by virtue of their beliefs or conscience. Of course, we should acknowledge that for those lacking these deep strengths, in the environment without these forces or constraints, they might be unscrupulous and carve for themselves.

Among the citizens, corporate citizens are particularly noteworthy. The serious scandals concerning public health and safety, from "swill-cooked dirty oil", "tainted steamed buns", "clenbuterol" to "Melamine infant milk powder", "strong carcinogens pure milk", and Dalian Fujia Dahua's leakage of virulent products, these disputing parties are all enterprises. Not alone domestic enterprises. In the case of the "refrigerator door" event recently happened, the disputing party is Siemens, the German large international brand. Luo Yonghao, a Chinese consumer of Siemens' refrigerator, smashed the refrigerator in anger as protest to the company in front of Siemens in Beijing after more than two months with no response to his complaint from the company about the door failed to close. And not just Siemens, many multinational well-known brands such as Heinz, KFC, Johnson & Johnson, Lipton, Nestle, and Haagen-Dazs were exposure of quality scandals one after another. These accidents of obvious liability on low-level but so tough to correct the mistakes seem seldom to happen in the West now but often appear in China. .

Meso-level is a new important behavior and decision-making level of responsibility in mainland of China. Since the reforms of market economy, springing of enterprise and corporations, its modern organization form, have formed the meso-level with relatively independent rights, benefits and responsibilities. The number of and strength from this level are still increasing⁴⁴⁵, plus the enterprises from Hong Kong, Macao, Taiwan and the foreign invested enterprises, the enterprises as the main body of the market economy have been producing assignable important impacts. China's Constitution and Law of Corporations have stipulated the enterprises' legal rights and responsibilities. The Constitution stipulates that the state-owned enterprises should be independent operation, democratic management within the limits prescribed by law; collective enterprises have decision-making power in conducting independent economic activities, and implement democratic management in the premise of compliance with relevant laws; enterprises of different types of ownerships are stipulated from the rights of ownership, operation and management such as to stipulate them to have and exercise these rights within the constraints prescribed by the state and relative laws. Correspondingly, the country shall be liable for the protection of their legal rights. The Constitution just stipulates the enterprises' basic and general rights and obligations. Law of Corporations assimilates the basic citizen morality of the IPCM as the legal obligations. The Law stipulates "A corporation is a legal person of the enterprise, which has the property of the independent legal person and enjoys the property of the legal person"; "The corporation engaging in business activities, should abide by the laws, administrative rules and regulations, comply with the social morality, business ethics, honest and trustworthy, and accept supervision by government and the public, assume social responsibility."⁴⁴⁶ In addition to the Constitution and the Corporation Law, the movements of business ethics and corporate social responsibility in recent decades have accumulated and provided a number of standards or criterion as the achievements of the movements, "assume social responsibility" in China's Law of Corporation reflects the important achievement. Chinese enterprises, especially those going abroad in recent years, should know and actively practice these normal requirements. Because, though the requirements, not promulgated in the form of China's laws or not completely included in foreign laws and regulations, to a great extent, they have gained the recognition of international society and the world of corporations, and become common behavior norms and evaluation standards of international markets and corporations. These standard literature include Caux Roundtable Principles for Business (1994), the "OECD Guidelines for Multinational Enterprises (1976), the UN Global Compact, (1999), and the "Sustainability Reporting Guidelines (2006). Also we can refer to *Up to Code: Does Your company's Conduct Meet World-Class Standards?*⁴⁴⁷

From these requirements for corporate responsibility based on these literature, we can see that the contemporary understanding of enterprises' economic responsibility have not only exceeded the traditional responsibility that only assumed by enterprises for shareholders' assets, to expanding to assume all the responsibility for all stakeholders of enterprises, but also add corporate social responsibility and environmental responsibility which didn't including the traditional enterprises' responsibility. One of the basic cognition expressed by these responsibilities is that freedom does not equal to indulge; a society cannot allow to be driven by the wildness of market forces, let enterprises desperately maximize profit. Market economy must help to respect and protect social, environmental, and personal security, and as the main actors in markets,

⁴⁴⁵ For example, according to the Bulletin on main data of China's second general national economic survey, at the end of 2008, there were 4.95.9million units of enterprise legal persons, up by 1.709 million from 2004, an increase of 52.6 percent.

⁴⁴⁶ Standing Committee of the National People's: Corporate Law of the Peoples Republic of China (2005 Amendment).

⁴⁴⁷ Lynn Paine, Robit Deshpande, Joshua D. Margolis, and Kim Eric Bettcher: *Up to Code: Does Your company's Conduct Meet World-Class Standards?* Harvard Business Review, December 2005.

enterprises, should go beyond merely to pursuit profits, instead to assume a wider range of responsibilities including to respect and protect environment, labors and human rights. In China, some organizations, industries or departments released a few corresponding guiding principle and evaluation standards, among others, the textile industry and Pudong New District in Shanghai have already laid out relevant guidelines and criteria for the evaluation. Although these responsibility guidelines and standards, more specific than the requirements of those general ethical norms, and more binding through industries' valuation, however, as I mentioned above, events of enterprises' abuse freedoms and rights to maximize profit, did not care of corporate responsibility, despite the public interests, have been taking place continuously. Particularly after the scandals exposure, often "not aboveboard to assume their responsibilities, but use all means to carry out "crisis in public relations", try to buy popular support governmental sectors and media, to confuse, the public opinion, and to suppress consumers." Some as Dalian Fujia Dahua, after the incident of leakage of its poisonous products, they incredibly beat the reporters of CCTV who came to investigate the incident. This indicates that such an abuse has come to very rampant point. The event of Siemens's refrigerator door also reflects the seriousness of enterprises' anomie. Siemens' values and vision are "responsible, excellent and innovative", and its commitment to responsible is "we are determined to meet-and wherever possible, exceed-all legal and ethical requirements. Our responsibility is to conduct all business according to the highest professional and ethical standards and practices: there must be no tolerance for non-compliant behavior."⁴⁴⁸ But it's shocking that the company's response to its problem was far from its values and vision. The problem of the refrigerator door belonged to technical problem, belonged to "provide consumers with health and safety products and services" which is the most basic request of corporate economic responsibility, far from "to exceed all legal and ethical requirements", "according to the highest professional and ethical standards and practices: there must be no tolerance for non-compliant behavior."

We can analyze issues of corporate responsibility according to the concept that enterprises are moral agents and the basic pattern of responsibility discussed before. Still take Siemens' refrigerator door as an example. The company has a clear values and vision, and has the will of freedom to act in accordance with its values and vision, in the case of the refrigerator door, it may response to the problem of the door in time according to its values and vision, or it may lay aside and neglect its values and vision, as it in fact did so, put off the problem as long as two months, thus reflected the company lacked of its will of responsibility at least on this issue, namely, lacked its persistence and insistence to put its recognition and promise about its responsibility into practice, or lacked a self-discipline. To analyze it further, we can see that, according to the company's organizational or responsible structure and the causal chain of the event, those who were at the link that most close to the causal chain and on the top level who assumed the highest responsibility for the whole flow, all had the spaces of their will of freedoms. Occurring such an event reflected something wrong with its internal management, ignored its management of values and visions, made the company's values, visions, and orientation of responsibility didn't put into practice through the company's flow of responsibility flow at least in this case. Corporate self-discipline, will of responsibility, as with individuals, need the driving forces and external restraining forces by law and moral public opinion behind it to play their roles. It might difficult to imagine for people in Germany or USA or other European countries, who experienced the movement of business ethics and corporate social responsibility, that to the quality problem, paid to attention on consumer's complaint for two months and only issued a paper statement to response it after the consumer used such an extreme way as to smash the refrigerator. The event exposed not only the problem with Siemens' self-discipline of responsibility, but also lack of enough pressures and restrictions from consumers, civil society, and government' regulations as the external environment on enterprises in China. Many domestic enterprises, may not have such higher values and visions and strict normative structure of corporate responsibility as this great brand, as well as such strong social repercussions caused by the event, however, these domestic enterprises still enjoy the legal rights and benefits stipulated by the China's Constitution and the Law of Corporations and other legal protections, and at the same time assume the economic, social and environmental responsibilities as moral agents, and still have their will of freedom to fulfill the responsibility, although a company's causal chain of behavior is longer than individuals', its agency chain is more complicated than individual chain, and hence its space of freedom is bigger than individuals', however, it is still crucial for companies as for individuals, to have a will of responsibility, namely, to have insistence and persistence to value orientation in their operation, decision making and behaviors. Enterprises, governments and various parties of a society should realize that, as the main agents in the markets, enterprises have been in charge of managing enormous human and material resources of social production, and have formed tremendous impacts on China's economic, political and social life, including people's confidence on the government's economic managerial ability and social economic security. Therefore, it becomes an important for governments, enterprises and all social groups to pay more attentions on responsibly use these impacts, make them becoming impacts toward goodness, rather than becoming an evil influence on public safety as to

produce "swill-cooked dirty oil", "tainted steamed buns", "clenbuterol", "Melamine infant milk powder" and "strong carcinogens pure milk".

Governments are the agents on the level of macro-system. According to China's Constitution, the government is the administrative authority of the People's Congress (NPC), the organ of the state power. The administrative authority is granted by NPC and in accordance with the laws, through all sorts of ways and forms, to manage state, economic, cultural, and social affairs. A system is not an organization. It is usually defined as a set of normative social rules, and implemented through laws or other social control mechanisms. It is these laws and other social control mechanisms that influence people including business organizations. 449 So, for example, for the business organizations on the meso-level, the relationship of government with the organizations does not restrict to a designated area or sphere according to the division of political and economic fields, rather the government as an official representative of social and public interests, can and should regulate its own behaviors through legal, administrative and moral ways, to protect the legal rights and interests of enterprises, shareholders and creditors, to maintain social and economic orders and public interests, and to promote social and economic development. 450 According to the Constitution, the government is also responsible for the leadership and management of education, science, culture, and etc., and hence, the government should assume its responsibility "in building and constructing moral environment of the society." In a word, the government's right and responsibility is to lead and manage the state affairs inside and outside, safeguard the citizens' personal legitimate rights, protect the state, national and public interest of the society, namely, to hold the power for the people. Usually, a political party is such a political organization that represents certain class or group of people and go hand in hand for maintenance of their interests and realization of their political goal. The Chinese communist Party insists that it is a working-class vanguard, represents the most majority of Chinese people's interests, takes the realization of communism as their top and final ideal goal, and assumes the construction of a new China, a socialism with Chinese characteristics and the socialist market economy, as its compelling obligation of leading the Chinese people go forward to this ideal goal, and at the same time, by the way of administration, policy and regulations, positively rely on, and expect, agents on all levels to participate in the activities and bear on their relative responsibilities. However, it is needless to say that, since the reform and opening, the CCP and its officials as the ruling party have been mastering the most fundamental resources for using capitalist production mode to develop social economy: the powers on the administrative allocation of lands, capitals and human resources. According to its concept of governing, it should exercise the powers to serve the people through administrate these resource and at the same time to accept the people's supervision. But since the role of capital, everything, especially powers, become the things can be directly exchanged for all kinds of economic benefits, plus the capitalist mode of production is inseparable from the requirements for lands, credits and human resources, this makes those officials mastering the powers and rights of these resources become the tourney object. Facing such huge money and interest, not a small part of the officials lost the aim of serving the people, disregard of the party discipline and national law, from accepting bribes to asking bribes, degenerate the power for serving the people to the greedy tools to infringe upon the people's interests for seeking their own self-interest, and, some regulators or supervisors even became the thieves. As a result, the governmental regulations should be the external restrictive force to play role on the miso-level, instead became evil force, such as the case of Wen Qiang, the former chief officer of Chongqing police bureau. I was a leader but now stand here, the lesson is hard. Just in here, I witnessed Zhang Jun and a large number of criminals for trial. But now, I stand here as a defendant as well. There were various reasons for this huge change, some because of our selves, and some because of the influence of social environment, because of the lag of systemic constraints and so on. But our selves are the main reason to trend to crime. So, I hope that the general cadre, especially the security officers, must always keep a clear mind and keep alarm bells." 451 In terms of the pattern of responsibility provided above, his reason is really the main reason. He said before his way to execution that, "All say that I embezzled so much money, played so many women. I don't deny these. I want to say that this blamed me, or did not blame me. Of course, I should be more responsible for these. But no matter who sit at that position, all will embezzle so much money, play so many women, and even more than me." 452 Although he admitted that his own reason was the main reason of his crimes, we still can tell from his saying that he took the social environment and the lag of institutional constraints as the reason of the reasons. From his case, we should face up to the problem of social environment and the lag of institutional constraints, pay attention to the dangers from the "positions", or the powers without constraints. However, admittedly, making the choice of corruption was Wen Qiang himself. As the officer in charge of public security

⁴⁴⁹ Cf. Henk van Luijk, *Business Ethics and the Quest for A Harmonious Society*, in Xiaohe Lu & Daryl Koehn eds. *Business, Corporate Governance and A Harmonious Society*, Shanghai Academy of Social Sciences Press 2005, p.501.

⁴⁵⁰ Zhou Jinwei, *Government's Responsibility in the Market Economy*, in Xiaohe Lu & Deon Rossow eds. *Freedoms and Responsibilities in Developing Economy in China*, Shanghai Academy of Social Sciences Press 2007, p.12.

⁴⁵¹ *The China Youth Daily*, 12 July: 2010, http://news.sohu.com/20100712/n273432933_1.shtml

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power for decades know clearly than the average persons the party discipline, the state laws, and the moral norms of the society, know clearly than the average persons the consequences if break the laws and norms. From spaces of responsibility, the higher the personal status, the less under control, and the more of behavior independent, the more crucial and important of personal's will of responsibility. If in making decision of one's behaviors, he or she still succumb to the environment without constraints, then this only shows that, the behavior choose to break the laws and rules. As for the reason for the decision, what he or she believe is only money and women, rather than the basic principles as an official or a member of the citizens, and his behavior was far from to whom is responsible for. The case of Wen Qiang proves from the negative that it is the irresponsible behavior sent oneself to the death.

In above discussion, we first put forward the issue of anomie during social transformation and hence raise the issue of the reconstruction of social norms, especially analyze the external and internal causes of the deviation of rights from responsibilities; and then discuss the agents on the three responsible levels, try to find out as much as possible the existing legal provisions and moral norms of rights and responsibilities that can be applied to the agents on the these levels, and argue that, although we have cognitive and practical anxiety about responsibility, the reconstruction of responsibility is not to start from nothing. Adapting the development of freedoms and rights, we have some basic provisions and regulations of responsibility and obligations. As for the construction of responsibility, however, it is far from the triple reconstruction of Chinese market economy and social system. From the analysis of the issue of responsibility about the agents on the three levels, there are lots of issues in the various links of the basic responsibility behavior pattern. I emphasize the key role of the responsible will, this does not require all people to be responsible heroes, namely, willing take responsible behavior even have the consequences disadvantageous to one selves. If most people in this situation all hesitate to move forward or do not know what should do, this indicts something wrong with the social confirmative system of responsibility. In order to improve responsible practice, the author would like to consider the cultivation of responsibility from the two sides: systemic construction and moral construction.

First is to perfect as far as possible the system of responsibilities, norms and rules corresponding to rights and freedoms. To the question of responsibility, it needs to answer the following four: who's responsible, to whom is responsible for, what should be responsible for, and how to be responsible for, namely to solve the issue of moral decline or the issue cognitive anxiety. Particularly for those issues of gray responsibility caused social debates, namely, the issues of vague responsibility, they need to be dialogued and discussed by the concerned parties and achieve consensus and reasonable solution. Second is to put the standards of responsibility that have reached consensus and agreement onto operation level, integrate them into the standards and evaluations of performance in various industries and fields, and make the moral norms and value orientations have the actual force of restriction. Third is to strengthen the legal, moral and administrative pressures and restrictive forces as the external environment of agents, particularly, to strengthen the binding mechanisms for those officers who hold political and economic powers, such as indicted by the lesson of Wen Qiang, the systemic settings making the abuse of power may impossible from the beginning. Fourth is education of moral responsibility. Systemic setting is always not complete. So the true line of defense of responsibility is the agent himself. Responsibility is not only a norm, but can be a capacity of will, and it can do a great dedication such as "Everyone is responsible for his country", or a small thing such as to comply with the traffic rules or do not spit everywhere. From the cases and the basic pattern of responsibility above, it is known that the crucial role of behaviors' will of responsibility for the responsible behavior, and the supportive role behind agents' will of responsibility are people's moral conscience, cultural beliefs, values, outlook of honor and dishonor and etc., and hence shows that, the initiative orientation of responsibility for the whole society requires common ethical framework as the premise of social culture, as the concept of sacred duty rooted in the protestant ethic. The orientation of responsibility is a kind of cultural and ethical attitude.

According to the three action levels, the behaviors' spaces of freedoms are different, their responsibilities are different, and the characteristics of cultivating the sense of responsibility are different either. First are the government and the ruling party, particularly its officers. Chinese society traditionally has the saying that "to take officers as teachers", the ruling party's conducts about responsibility as examples have important influence on the responsible practice of the whole society. According to the requirements for responsible governments, it is necessary to update the understanding of the concept "to serve the people", namely, to change understanding "serve the people" from the concept of liberator or savior of Chinese people in the past into today's fiduciary of the people. People's interest is not just a political concept; it is a managerial concept either. As a manager, the ruling party of the government should not only have a responsibility to fulfill its fiduciary duty to the people, according to people's interests to act, but also should assume the duties for all the people, all the stakeholders of its power. To serve the people today means, to work for the people's interests, to do good governance according to the people and all relative stakeholders' interests. So to serve the people is the requirement by the duty for the managers as the fiduciary, not as the liberator or savior. So it is necessary to fully develop the democracy within both the party and the society, to supervise the party

officials and social managers on all levels and in all aspects of the society. It is need to change "the rulers" of the people into "the fiduciary" of the people, to change "the master" of the people into "the steward" of the people, and to change the lord of the people to real public servant of the people.

Second is enterprises or organizations. In the past China, the enterprises were only of a single ownership, as well as their ideology, without corresponding idea of organizational responsibility. Since the reform and openings, there have been a large number of companies to be set up, as well as issued many regulations about companies. However, we lack of corresponding corporate theory, culture and ethical norms for the enterprises as organizations and legal persons. To a large extent, the construction in this respect is spontaneous; such as many enterprises use their understanding of how to be a person as their understanding of how to do an enterprise. Or they borrow the regulations including the ideas about corporate social responsibility from abroad. However, the idea of corporate social responsibility need to be rooted in building of corporate culture, need entrepreneurs to integrate it into their motivations and sense of responsibility for their personal family, local and national and to form moral bottom line for safe quality of production and products. And at the same time, the government and enterprise stakeholders should strengthen the supervision of enterprises, to limit enterprises' profit motive in safety constraints, so that they can't and not willing to, take risks, rather than to indulge some enterprises to damage environment and violate public health and security driven by GDP growth pursuit and local government's interests only.

The last is civil society. The orientation of responsibility is not isolated moral orientation, not an abstract separated from human being. Orientation is chosen and determined by human beings, and orientation of responsibility is the citizens' orientation, its subject is a citizen, as a citizen, using Marvin brown's words, "As the original meaning of the term, a citizen is the one who belongs to a city. A person could not just a citizen. It is a term of relationship."⁴⁵³ The personal level differs from the business organizational level, and the spaces of freedoms and responsibilities they have are different either, though there is one thing in common, namely, they are all members of civil society. However, we have citizenship, but not to have civil consciousness. We have civil rights, but not to assume the responsibility as the citizens. Citizenship, civil rights, in the fundamental, means to live together, rather than isolated life. To reduce the responsibility of the members of the civil society just to the duties of concrete jobs, or to duties and responsibilities consisted of contracts or agreements, forgot the responsibility of citizens to the society is the "meta duty" which is higher and earlier than all responsibilities of particular contracts and professions. The former understanding is called by Robert Solomon as "atomic individualism"⁴⁵⁴. This concept ignores individual, enterprise is an important member of a society, society created them, so their responsibility to society is not the result of the contract between them and the society, but the responsibility as members of the society they originally should assume. To make a civil society becoming the society where we live together and with the combination of freedom and responsibility, right and obligation, to make a civil society becoming the society where people to respect each other, each have the right to live an autonomous and better life, and have the right to participate in public construction of the country, the city, that is the public domain of the community, members of a civil society should play their own part, and have the responsibility for the construction of the civil society. From this perspective to see citizens' participation and discussion of governments, it is not only the question of the rights to vote, but concern the citizens' rights and responsibilities. This requires the members of a civil society and government, their decisions and actions, not only to fulfill their specific job responsibilities, but also to consider their mate-responsibility to a civil society, because only assume such responsibilities, and can they have freedoms and autonomous citizens' most precious thing, their citizenship.

THE CSR STANDARDS IN SMALL BUSINESS: A COMPARATIVE STUDY BETWEEN BRITISH AND POLISH FIRMS

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⁴⁵³ Marvin Brown: Business Ethics and Civil Society: A Context Approach, in Xiaohe Lu & Deon Rossow, eds. *Freedoms and Responsibilities: Governments, Corporations and Civil Society Organizations*, Shanghai Academy of Social Sciences Press 2007, p. 242.

⁴⁵⁴ Robert C. Solomon, *Ethics and Excellence, Cooperation and Integrity in Business*, Oxford University Press, 1992, p.149.

Summary: The aim of this article is to discern the crux of SME sector social responsibility in developing countries. An attempt is made to identify, empirically, the ethical standards subscribed to by small firms in Poland and to compare them with the standards of small firms in the UK. The methodology of empirical analysis of the ethical standards of Polish entrepreneurs running small businesses was modelled on Laura Spence's research on the priorities, practices and ethics of small firms in the UK (Spence 2000). This analysis has revealed certain similarities and significant differences in the way CSR is perceived by Polish and British entrepreneurs. British entrepreneurs manifest a higher degree of awareness with regard to the issue of social responsibility and are more strongly motivated by their external environment to take up social responsibility issues than Polish ones.

Key words: CSR standards, Polish and British small firms, comparative study

Introduction

In practice, the concept of corporate social responsibility (CSR) is primarily a response of big firms to the pressure of public opinion and non-government organisations (NGOs) concerned at the negative effects of the activities of such firms. Typically, these negative effects manifest themselves in the lowering of work standards, the infringement of human rights, the degradation of the natural environment, and the violation of consumer rights. In essence, the aim of CSR is to progress from paternalistic charity activities towards building positive and durable relations with all the stakeholders of a given firm which both take into account their interests and respect their rights. The broad theoretical debate on the ethical foundations of CSR (e.g. Friedman 1970, Freeman 1984, Freeman & Evan 1990, Freeman & Velamuri 2005) is accompanied by an analysis based on empirical data aimed at establishing the link between a firm's social responsibility decision-making process and its business success (Aupperle *et al.* 1985, McWilliams & Siegel 2000, Margolis & Walsh 2001, Husted 2005, Paul & Siegel 2006). However, nearly all of the attention, of both theoreticians and practitioners involved in this issue, is concentrated on the big firms, particularly the international corporations which are the main players in the globalization process.

Meanwhile, as Enderle (2004) has observed, the shape of this process also depends on the social responsibility of the small and medium-sized enterprise (SME) sector. Though no such firms have a greater influence on their environment, together they play a significant role in the economy, both in developed and developing countries. For example, in Poland, this sector accounts for almost half the national income and employs two-thirds of the labour force. However, an attempt to turn CSR into a prospective management strategy for adoption by SMEs would spell the need to take the specifics of this sector into account, and that is why this issue is beginning to attract the interest of researchers (Enderle 2004, Jenkins 2006, Spence 1999, Spence *et al.* 2000, Spence & Schmidpeter 2004, Valentine *et al.* 2006).

The social responsibility of SMEs demands particular attention in countries whose systems are undergoing transformations since CSR is a concept that took root in countries with well-established market economies and that remains its focus. The promotion of the idea in Poland and other CEE countries has to be thoroughly researched in terms of a specific strategy of implementation, because a simple transfer of standards from the developed countries may prove to be a serious problem, defined as asymmetry of rationality (Lewicka-Strzalecka 2006). The phenomenon of asymmetry of rationality means that the rational procedures and institutions that were developed for markets of different scale and different historical circumstances are imposed on the post-communist countries (Staniszki, 2003).

One of the conditions of achieving a competitive international market position by SME's from the EU's new member countries is for them to adapt to European standards in management. 'In particular Poland's association with the EU requires that companies pay close attention to several requirements that have ethical components' (Valentine *et al.* 2006: 77). This article represents a step in the direction of that area of research whose aim is to discern the crux of SME sector social responsibility in developing countries. As such, an attempt is made to identify, empirically, the ethical standards subscribed to by small firms in Poland and to compare them with the standards of small firms in the UK. Though both are EU member countries and their firms are subject to similar political and economic regimes, their different historical and cultural conditioning has had indisputable effect on the way the social responsibility of firms is perceived by those who run them. The research that has been carried out is of an exploratory nature, having the aim of specifying the determinants of CSR in small firms and their hierarchies of ethical standards. The identification of the

similarities and differences among these countries could provide a basis for the formulation of further hypotheses and CSR-related recommendations as appropriate to small businesses.

Methodology

The methodology of empirical analysis of the ethical standards of Polish entrepreneurs running small businesses was modelled on Laura Spence's research on the priorities, practices and ethics of small firms in the UK (Spence 2000). The ethical standards peculiar to the small business sector is, in the opinion of this author, determined by the following characteristics of small firms: independence and owner-management, a broad range of tasks, limited cash flow and survival problems, emphasis on personal relationships, mistrust of bureaucracy, control by informal mechanisms (Spence 2000: 10). These characteristics are of universal character and also apply to small firms functioning in Poland.

Spence's research was conducted in two stages: face-to-face interviews and a telephone survey. The first stage, in the character of qualitative research based on semi-structured interviews, had the aim of getting to know the views of small scale entrepreneurs on ethical issues, and provided a basis for drawing up a questionnaire which was utilized in the second stage of the research. That second stage – the telephone survey – was carried out among 100 firms employing no more than 50 people, located in various regions of the UK. The service sector was represented by 51 firms, the remaining 49 belonging to the manufacturing sector. This research was quantitative in character and it was conducted with the help of a questionnaire containing questions concerning the following issues: motives for starting and staying in a small business, relations with stakeholders: co-owners, employees, suppliers, customers, competitors, contributions and influences on society (Spence 2000).

The research into small Polish firms was carried out with the help of a tool which was a modified version of the above-mentioned questionnaire. The modification consisted of adapting several questions to correspond to conditions specific to Poland, and of adding a few original questions aimed at identifying and structuring misconduct in small business. Like in the British firms' survey, the Polish research sample numbered 100 enterprises employing no more than 50 people, representing various regions of Poland. The sector-by-sector structure was also similar: 52 firms belonged to the manufacturing sector, and 48 to the service sector. The preponderant majority of Polish firms sprang up after the fall of the communist regime and that is why the age structure in the Polish sample was different to that of the British. 51 of the firms have been going for no more than 5 years, 45 no longer than 15 years, and just 4 for over 15 years. The respondents were owners of small firms who gave their answers by internet in autumn 2006.

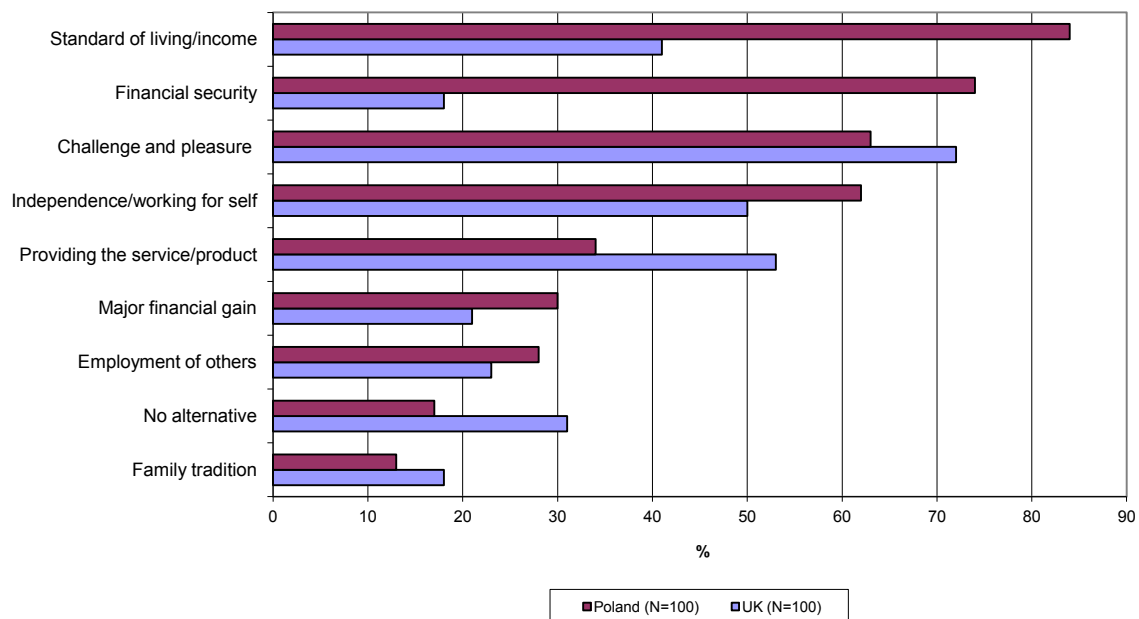
Motives for setting up and running small firms

In the planned economy era, the group of people running their own firms in Poland was – apart from individual farmers – very narrow and limited to craftsmen and shopkeepers. People were systematically put off undertaking economic activities by the legal regulations, and those who did carry on such activities were often destroyed by intentionally set swingeing taxes. A negative image of an entrepreneur, as someone striving to acquire material goods at the expense of society, was fostered and reinforced in the public mind. Most Poles were used to working in state-owned firms, in which the remuneration, albeit modest, guaranteed a basic living. One of the significant consequences of the transformation of the Polish political and economic system that commenced towards the end of the 1980s was the emergence of a new social group, namely a group of people who decided on setting up and running their own businesses, that is, people with enterprise. Since, as would emerge from the research, the entrepreneurship of citizens of the former Soviet bloc is of fundamental importance to the success of their countries in the process of transformation into a market economy (McMillan & Woodhuff 2002), the question regarding the conditions in which entrepreneurs must operate, especially regarding the motives for going into business is crucial.

The motivations for entrepreneurship were the subject of much research, chiefly psychological, which was variegated in terms of content and adopted approaches. Individualistic determinants of entrepreneurship were sought within the framework of this research, in other words, an attempt was made to find in people those attributes that predispose them to turn their hand to economic activity more frequently than others. However, the attempt to set apart the type of personality unequivocally attached to entrepreneurship failed, and the idea that there is such a thing as an entrepreneurial personality did not find confirmation (e.g. Hansemark 2003, Collins *et al.* 2004, Cunningham & Lischeron 1991, Brandstätter 1997). It came to be recognized that entrepreneurship is not a characteristic of the man, but of a given set of an individual's behavioural responses which can be learned, in other words, in line with Drucker's opinion, anyone with the will and courage to run a business, can run a business (Drucker 1993).

An analysis of the cognitive processes accompanying those behavioural responses have won a dominant position in research into entrepreneurship. This cognitive orientation contains research into the motives inducing people to go into business and, in particular, research into the perception of these motives as presented below. Answers to the following questions were sought: what motives do Polish businessmen ascribe to themselves when deciding on setting up their own firms? What motives do Polish businessmen ascribe to themselves when deciding to continue to run their firms? The distributions of answers to these questions is presented in figures 1 and 2. They have been juxtaposed with the responses of British entrepreneurs, hence they are shown against the backdrop of motives inducing people to go into business in a country with a long-established market economy.

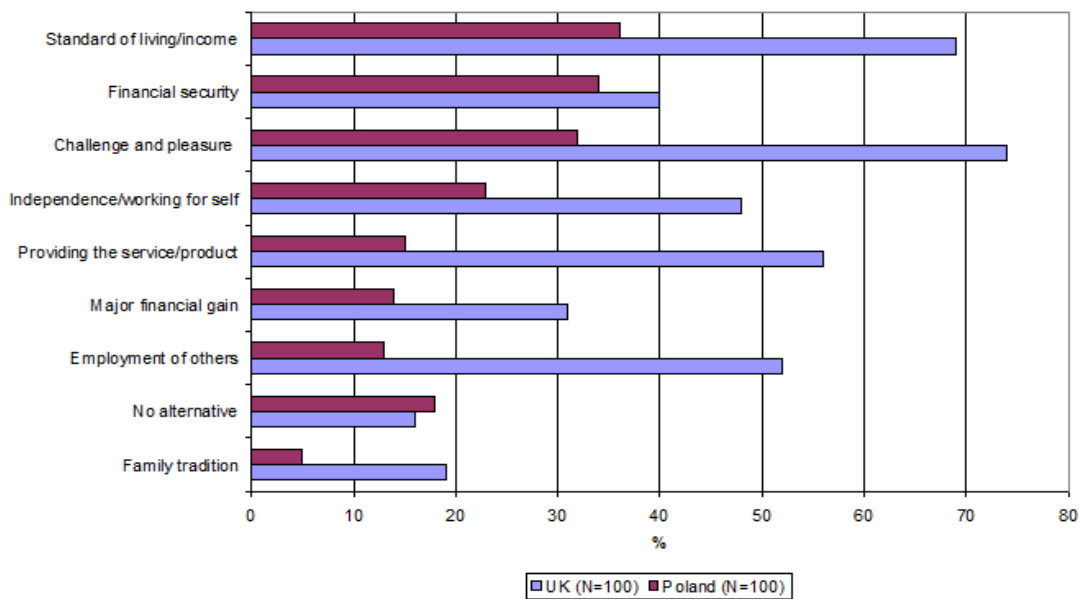
Figure 1. Mentioned reasons for starting business



The prospect of significant financial gain is a relatively minor motive in going into business with both Polish and British entrepreneurs. However, the differences in the basic motivations of both groups are clear-cut. For Polish entrepreneurs the running of a firm is to be primarily a way of ensuring a desirable standard of living for themselves and their families and a feeling of financial security, while for British entrepreneurs, business activity is to a significant extent a response to the challenge they see in the chance to achieve ambitious aims. Polish entrepreneurs are motivated more by the wish to avoid failures, while the British – by the striving for success.

Family tradition proved to be the least popular motive for setting up a firm in both groups though that seems more understandable in Poland where there was a hiatus of half a century in the functioning of a market economy. It could be, however, that family traditions in running a business are increasingly less significant in an era of fast changing technologies and a high degree of social mobility.

Figure 2. Mentioned reasons for staying in business



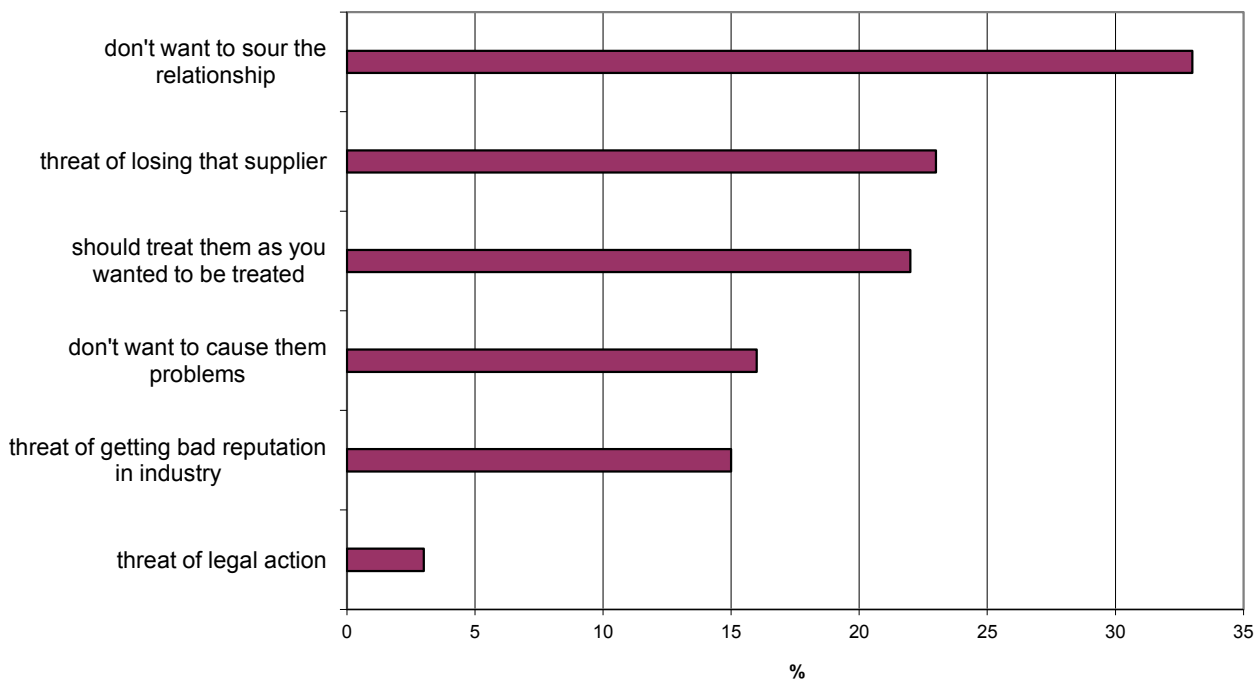
The hierarchy of motives inclining one to continue running a business in the Polish group of entrepreneurs is the same as the hierarchy of motives inducing them to start up a business, that is, like in the case of starting up, the most important motive is to ensure an adequate standard of living and financial security for oneself and one's family. Somewhat further down come aspirations of self-fulfilment and activities for the benefit of others, and least important of all is family tradition. However, the frequency of each of the stated motives for persevering declined appreciably, which could attest to a high level of disappointment in running a firm in relation to initial expectations.

In the group of British entrepreneurs there is a perceptible shift in the hierarchy of motives inducing people to continue to run businesses in comparison with the hierarchy of motives to start up business and also a shift in the intensity of the motives. The assurance of desirable living standards and financial security for oneself and one's family have become considerably more important, which could suggest that running a firm affords a large measure of hope of success in such a quest. The creation of work places has also gained in importance which, in turn, is indicative of the satisfaction flowing from activities pursued for the benefit of society.

Running a small firm is never an easy task anywhere and, both in Poland and in the UK, it involves great determination and an endless struggle to overcome numerous problems. However, as would emerge from the World Bank report (World Bank 2007), the conditions for setting up and running a business in the UK are considerably better than in Poland. In 2006, Poland found herself in 75th position out of 175 countries in terms of "ease of doing business", while the UK was 6th. Although British businessmen complain about bureaucracy (Small Business Service 2005), it is relatively mild in comparison with other countries. Setting up a limited company in the UK takes a week on average and costs 28 euros as compared to the EU average of 25 days and 883 euros respectively. The UK is among the front runners of countries with the least red tape shackling entrepreneurship. Meanwhile, Polish entrepreneurs must overcome considerably more daunting barriers, such as: high and over-complicated taxes, limited access to sources of finance, opaque and frequently changing laws, hugely time-consuming and onerous bureaucratic requirements besetting entrepreneurs.

A particular drag is the low level of effectiveness Polish debt recovery procedures which can sometimes take up to 1000 days (World Bank 2007). No wonder then that the Polish entrepreneurs' group of respondents has come to see the law as the least important factor inducing them to the timely discharge their financial obligations with regard to suppliers. However, it turns out that, as can be seen in figure 3, the law is not the only factor regulating contractual liabilities. The decidedly greater influence on their decisions is the wish to maintain good mutual relations with business partners, as well as ethical considerations.

Figure 3. Factors influence Polish small firms to pay suppliers on time (N=100)

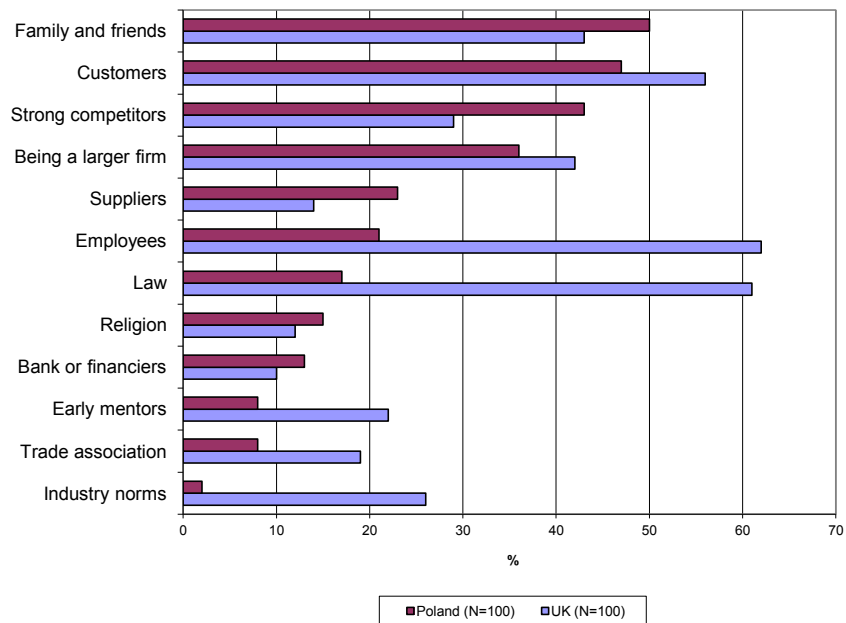


Factors generating social duties of small firms

Small businesses and big enterprises differ not only in terms of their commercial characteristics, but also in their approach to and implementation of ethical and social duties. In the big firms, CSR standards are imposed from above and put into practice in a formalised way, with codes of ethics being drawn up, training in ethical practices being laid on, offices dealing with ethical matters being activated. Attempts are made to operationalise CSR, with appropriate procedures and indicators being devised. In small firms, the values' system of the owner becomes the values' system of the firm. Ethical principles of procedures are generally passed on in an informal and even unarticulated way. The workers absorb them from their work environment, and in particular from the people running the firm, in the course of performing their everyday duties. Ethical principles are of an unwritten character, codes of ethics seem unnecessary with regard to regulating mutual relations in a small group. As Spence (2000) observes, the relations between the owner and the staff, suppliers, customers, and even competitors, have an individualised character since they are based on personal contacts, leading as a rule to the creation of mutual trust. On the one hand, this type of trust reduces numerous transactional costs but, on the other hand, it can contribute to the emergence and consolidation of a familism culture (Banfield 1958, Fukuyama 2000, Lipset & Lenz 2000). In the familism culture, the norms of interaction such as honesty and mutuality in inter-personal relations are binding only inside a certain restricted group and are suspended with regard to other entities. That enables such firms, for example, to square a reliable discharge of duties with regard to orders from regular customers with tax fiddles.

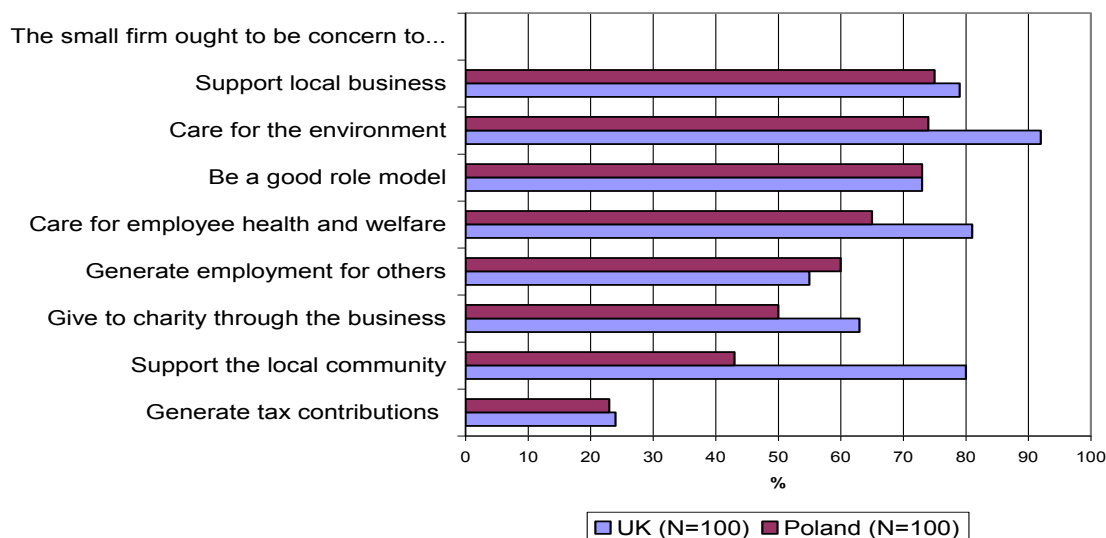
Big firms assume social obligations due to external pressures – public opinion, consumer and ecological organisations, the media. Small firms are not subjected to such pressures and, moreover, being targeted on assuring their owners a living, their chief concern is to survive and retain financial liquidity. Despite the fact that CSR strategy does not serve these aims directly, it is the competition and the striving for repeated transactions that induces the observance of certain ethical standards. Big firms employ specialists concerned with the elaboration of CSR strategies and dedicate specific, sometimes substantial resources for its systematic implementation, while small firms undertake activities for the benefit of society spontaneously, frequently as a heartfelt reaction to needs that may appear at a given moment or to a given situation.

Figure 4. Factors Likely to Influence Owner-Managers to Respond to Social Issues



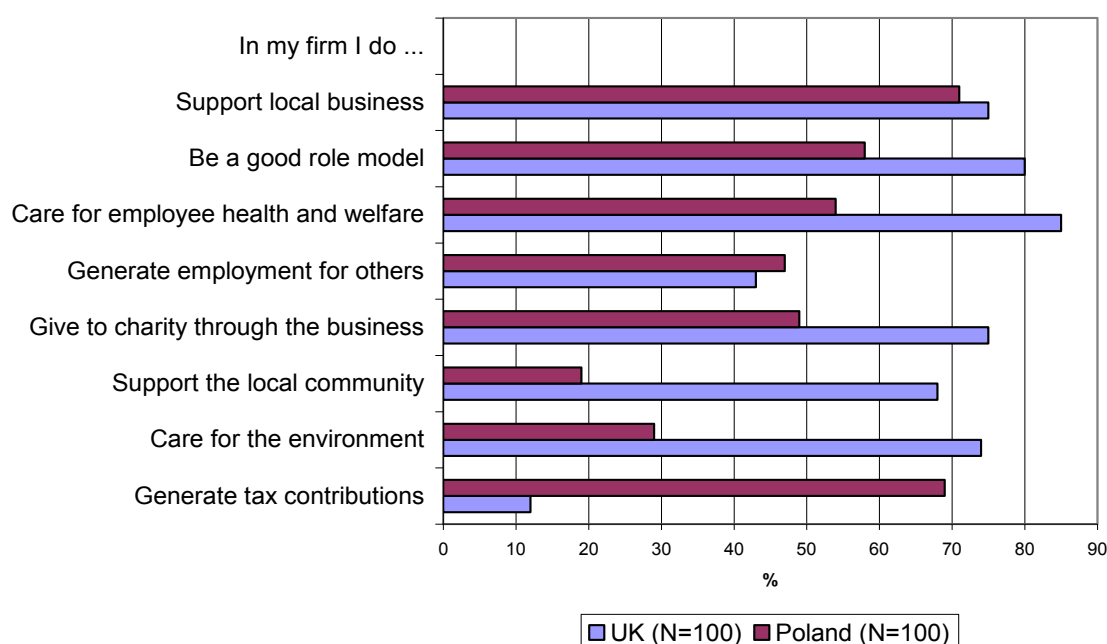
The feeling of social responsibility in small firms is shaped under the influence of a variety of factors and groups. The frequency of their impact has been presented in figure 4. From this it would emerge that, in general, small Polish firms are to a lesser degree motivated by social responsibility considerations than British firms. For Polish entrepreneurs, the most frequent spur is their family and friends, as well as customers and competitors. The lack of incentive as provided by the law and the industry norms, is strikingly low, especially in juxtaposition with the influence of these factors on British entrepreneurs. Polish legislation is far from sufficient with regard to providing support for CSR initiatives. There is also a big difference in the influence exerted by Polish and British small enterprise employees on matters relating to social responsibility. That, in turn, is probably caused by the excessive surplus of workers on the Polish labour market which makes them amenable to infringement of the legally binding regulations. It may be assumed that this situation will be subject to change due to the mass exodus of Polish workers, mainly to the UK.

Figure 5. Responsibility in Relation to Social Issues



The distribution of answers presented in figure 5, regarding the duties of small firms, indicates the similarities and differences in the level of acceptance and hierarchy of these duties as seen by Polish and British entrepreneurs. What primarily attracts attention is that British entrepreneurs declare their commitment to social responsibility much more often than Polish ones; in other words, they manifest a higher level of socially responsible awareness. The exception is the generate employment for others, possibly due to the traumatic experiences of Polish society connected with the highest unemployment rate among the EU countries. British entrepreneurs most strongly express their concern for the environment, followed by care for employee health and welfare, and support the local community. Both these groups are least inclined to generate tax contributions what they see as excessive taxes on their hard earned income.

Figure 6. Action in Relation to Social Issues



The data presented in figure 6 illustrates the scope of pro-CSR activities undertaken in practice by both groups included in this survey. This data suggests that British firms are engaged in these activities to a much greater degree than Polish firms, with one exception. 69 % of Polish entrepreneurs are convinced that they are contributing to the increase of state revenues. For sure these are not voluntary activities, but they indicate that Polish entrepreneurs have a feeling of making a telling contribution to public finance. A comparison of figures 5 and 6 reveals that Polish entrepreneurs more frequently recognise the legitimacy of the call upon them to discharge their social duties than they do justice to these duties in reality, while in the perception of British entrepreneurs, in regard of some issues, they do more than they should. Polish entrepreneurs thus have a feeling of an incomplete discharge of their social duties, frequently justified by the lack of financial resources and the need to concentrate on their current tasks.

Misconduct in small firms

The Polish version of the questionnaire contained additional questions aimed at identifying the status of ethical practises in small firms. The entrepreneurs participating in the research were given 18 unethical practises to consider and they were asked to specify the frequency of encountering them in small firms. The distribution of responses to these questions is presented in Table 1. The results obtained lead to the conclusion that the decided majority of these practises is encountered relatively frequently and some of them are encountered with astonishing regularity.

Table 1. Frequency of encountering misconduct in Polish small firms (N=100)

Misconduct	In %	
	often	sometimes
Arrears in settling liabilities	23	22
Failure to keep one's word	14	30

Untimely performance of services	9	33
Late deliveries	4	38
Incompetence	9	26
Unfair competition	6	28
Dishonest tenders	3	30
Abuse of informal contacts	9	24
Exploitation of customers' ignorance	6	25
Failure to abide by written agreements	3	28
Giving small gifts	1	29
Changes of terms of transactions in the course of their performance	4	22
Dishonest promotions	6	18
Breaking legal norms	3	21
Forcing customers to make bigger purchases	4	15
Illegal employment arrangements	4	12
Bribery	1	14
Disclosure of business secrets	1	10

The most frequently encountered misconduct proved to be arrears in settling liabilities. This confirms the common opinion that non-payment of remuneration on time and defaults on due and payable dates on commercial transactions is one of the most troublesome problems for Polish entrepreneurs. This primarily affects small firms which cooperate with bigger partners in the construction sector, the supermarkets, hospitals and state-owned enterprises that are in debt. Firms that do not receive their receivables on time cannot then settle their liabilities. In this way log-jams in settlements crop up, which not only paralyse various branches of the economy, but contribute to the erosion of the moral norm that demands repayment of debts.

The second unethical mode of conduct, due to the frequency of it being viewed as such, is the failure to keep one's word, while the third and fourth – defaults on deadlines for the delivery of services or supplies – are also forms of unreliability. It may be assumed that the responsibility for that result to a large extent rests on the cultural factor. As Ossowska (1970) observes, respect for one's given word attaches to societies which had undergone the hard school of capitalism. A responsible attitude to the word one gives is, at times, treated as an indicator of the level of trust in a given society, and trust is, next to freedom, one of the axiological pillars on which the free market economy rests (Williamson 1996).

The most seldom mentioned unethical practice proved to be the disclosure of business secrets. This seems understandable because the stock of classified internal data in small firms is relatively limited.

In order to obtain a structured picture of the ethical condition of small firms, the responses to the questions in the questionnaire concerning the frequency of encountering misconduct were subjected to factor analysis (principal components, Varimax solution). The Kaiser criterion and the screen test were applied to check the number of factors. Eventually three factors were isolated and the rotated matrix of 3 factors (Table 2) was interpreted in the following way:

Table 2. Factor analysis of misconduct in Polish small firms (N=100)

Misconduct	Factors		
	I	II	III
Bribery	.75	,03	,10
Giving small gifts	.70	-,12	,22
Dishonest tenders	.59	,16	,29
Dishonest promotions	.58	,18	,33
Illegal employment arrangements	.55	.14	-,04
Breaking legal norms	.54	,19	,23
Late deliveries	,06	.79	-,12
Failure to keep one's word	,03	.72	,10

Changes of terms of transactions in the course of their performance	,29	,61	,16
Failure to abide by written agreements,	,02	,51	,01
Forcing customers to make bigger purchases	,02	,49	,24
Incompetence	,21	,02	,82
Abuse of informal contacts	,28	,12	,76
Untimely performance of services	,04	,01	,63
Exploitation of customers' ignorance	,29	-,04	,60
Unfair competition	,02	,24	,55
Arrears in settling liabilities	,23	,43	,39
Disclosure of business secrets	,31	,27	,37
Eigenvalues	5,8	1,9	1,7
Percentage of explained variance	30,7	10,2	9,3
Cumulated percentage	30,7	40,9	50,3

Factor I. Cheating practices

In this factor the dominant loadings were ascribed to the following practices: bribery, giving small gifts, dishonest tenders, dishonest promotions, illegal employment arrangements, breaking legal norms. Practices that make up this dimension of the ethical condition of the small business segment comprise abuses characterised by a high level of censurable behaviour, not only from the point of view of ethics but also the law. These are practices, aimed at helping in attending to some immediate interests of the given firm, which have a negative impact on the effectiveness of functioning of the sector and, indirectly, the whole economy. These practices, and in particular corruption, dishonest tenders, informal employment arrangements, breaking legal norms, disrupt the functioning of the basic market mechanism, that is, competition. In consequence, entrepreneurs are not inclined to shape good, long-term relations with their stakeholders, since the position of their firms to a small degree depends on customers, workers, suppliers, local community. It is not worth minimising costs, care for the quality of goods and services, invest in research, take risks, since it is good connections with the local authorities, ministry and tax office officials etc. that count most of all.

Factor II. Unreliability

This factor was made up of the following practices: late deliveries, failure to keep one's word, changes of terms of transactions in the course of their performance, failure to abide by written agreements, forcing customers to make bigger purchases. These practices consist of a failure to fulfil established conditions, that is, obligations taken on voluntarily, and constitute a corruption of the norms which Ossowska (1970) included in the norms "serving the need to have trust". Trust, having the status of a so-called soft concept, submitting to operationalisation with difficulty, was for a long time the subject of reflection undertaken mainly on the basis of philosophy of man and ethics. However, in the second half of the 20th century, interest in trust as an important regulator of social and economic life began to rise (Luhmann 1979, Barber 1983, Eisenstadt i Roniger 1984, Colemann 1990, Gambetta 1988, Fukuyama 1995). Both sociologists and economists noticed that trust is an essential ingredient to every act of exchange, and should not be bypassed when analysing such acts.

Factor III. Lack of professionalism

This dimension was constituted by the following variables: incompetence, abuse of informal contacts, untimely performance of services, exploitation of customers' ignorance, unfair competition. The above practices, frequently slipping through the legal regulations' net, are reprehensible from the viewpoint of business ethics or good customary practice. They fit into that sphere of behaviour about which some might be inclined to say are admissible since the law does not ban them. These are practices which entrepreneurs can allow themselves if they do not count on their being repetitive transactions, or on their longer functioning on the market. What is also favourable to them is the lack of tradition in a given profession or sector, which has great significance in relation to the shaping of professional standards in the long-term process of their practise.

Conclusions

This research project has revealed certain similarities and significant differences in the way CSR is perceived by Polish and British entrepreneurs. Although Poland is among Europe's leaders in terms of entrepreneurship as measured by the level of engagement in new economic enterprises, a large proportion of

these initiatives is force-driven by external events. In Poland, this rate is far higher than in the UK, but at the same time, there are considerably more people who set up their own firms out of necessity, that is, every third person is unemployed or lives in fear of losing their job (Global Entrepreneurship Monitor 2006). Running a business out of necessity, in oppressive external conditions, does not bring such good effects as activities stemming from the wish to take up the challenge in a relatively friendly environment and this, undoubtedly, exerts an influence on the attitude of Polish entrepreneurs towards social responsibility.

This conclusion is corroborated by the comparisons of the opinions of Polish and British entrepreneurs, as presented in this article. For the first of these, the most important motive in setting up a firm is to secure a reasonable standard of living, for the latter, it is a question of rising to the challenge. The running of a business fulfils to a lesser degree the initial expectations of the Polish entrepreneur than those of his British counterpart. Small firms in Poland must, above all, fight for survival on the market and to retain financial liquidity, and cannot afford to invest in CSR which only offers the prospect of profitability in the long-term perspective. Moreover, they have to dedicate much time and effort to comply with the excessively complicated legal requirements attendant on the running of a business.

British entrepreneurs are more strongly motivated by their external environment to take up social responsibility issues than Polish ones. Good practices and the observance of ethical standards in business are seldom rewarded by the external environment, and sometimes can even be penalised. Undertaking activities for the benefit of society in many instances is associated with additional bureaucratic burdens and may spark off additional compliance reviews and difficulties.

In the SME sector, competitive advantage is often gained by those who infringe the principles of fair competition, resort to corruption, deviate from established norms or break the law. This is conducive to the conviction that it is such practices that are profitable and even indispensable to surviving on the market and it inclines honest entrepreneurs to resort to malpractices in the name of the principle which holds that in face of such common law breaking, an honest person has no chance of keeping afloat on the market and has to adapt to the prevailing customs.

Polish entrepreneurs manifest a lower degree of awareness with regard to the issue of social responsibility than British ones, which to some extent is explicable by the fact that 80 % of Poland's new firms (up to 2 years old) are run by people without a higher education, in other words, people who are less open to progressive attitudes. Although organisations belonging to given sectors do undertake certain activities aimed at disseminating CSR ideas among small firms, these activities reach a relatively narrow circle of recipients. The average entrepreneur lacks knowledge in CSR matters, and the source of his/her ethical standards being the general moral standards as nurtured at home or as based on religious premises, s/he lacks the professional skills to wield the tools of CSR. At the same time, Polish entrepreneurs have the feeling of an incomplete discharge of their social duties, which provides a window of opportunity for development in this area. This chance should be seized by the Polish authorities which, in cooperation with organisations appropriate to the given sector, should actively support a CSR-friendly infrastructure. 'The Polish government, by cooperating with professional business associations, needs to actively promote organizational ethics by developing and sponsoring legislation that supports socially responsible business' (Valentine *et al.* 2006: 80).

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CSR IN SMALL AND MID CAPS: A DIFFERENT APPROACH?

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Summary: This paper wishes to study if and how small and/or medium sized enterprises (SMEs) conceive and implement Corporate Social Responsibility (CSR) in a different manner than large companies. Our hypothesis is that there should be a perceivable difference. Given the exploratory nature of our research question we test our hypothesis qualitatively, through a series of interviews with CEOs and managers of a sample of French SMEs. Our first results seem to confirm our hypothesis. We find that SMEs don't implement CSR as uniformly as larger capitalization firms do and that the personality of the owner-manager influences implementation much more.

Our research confirms that prior research by Jenkins (2006) that suggests SMEs learn more successfully from their peers, in following the example of "champions", is also confirmed for CSR.

Keywords: CSR integration, Small and Medium size Enterprise, France

1. Introduction

CSR is sometimes seen as an umbrella term and academics have long denounced the lack of consensus on the notion (Carroll, 2000; Dahlsrud, 2008; Taneja, Taneja, & Gupta, 2011; Van Marrewijk, 2003). That is why it time to suggest using a more inductive way of defining what CSR is, and above all how it is understood and implemented by companies. When trying to know who does what in terms of CSR, we have to observe, that CSR reports are mainly published by large companies that can afford to invest time and money to compile them. However, multinationals companies are not the only ones in the world and we cannot describe reality as it is built and experienced by other companies in lying what big companies show us. Despite the general acknowledgement that there appears to be a growing interest concerning CSR as practiced by SMEs (Jamali, Zanhour, & Keshishian, 2009), research papers appear to be sporadic and no definitive trend has been set yet.

Part of the issue we propose to address here, is that researchers are more prone to use reports published by large companies rather than small or medium sized ones. This is almost self explanatory: not only, following the first argument, more CSR reports are available but they are of greater interest to the academic public, the state and the financial community. CSR reports by smaller companies don't weigh as much.

As has been already mentioned (Lockett, Moon, & Visser, 2006) "the research field of CSR as driven by agendas in the business environment" and "the single most important source of references for CSR articles was the management literature itself", almost exclusively focused on large companies. Thus we could say that current CSR research is self-perpetuating and self-limiting, all the more when it comes to extend it to the SMEs.

In this short paper, we wish limit ourselves to studying whether there is a perceivable difference between the way SMEs handle CSR and the way big companies do; and, if so, try to define it in a coherent manner.

Our research question can thus be summarized as:

"Do small and mid capitalizations conceive and implement CSR in a different manner than larger companies?"

Our paper is structured in three parts. The first part briefly review the academic literature (or lack thereof) covering CSR as advocated by small/medium sized companies. Then, we will provide evidence that CSR is more prevalent in large companies and we will remind the reader about "academic opportunism", or in other words, the tendency for researches to flock where data is available. Finally we warn about the possible bias that can arise from the close interdependence between universities/business schools and the business sector. We believe the reader will be fully convinced of the need to study SME CSR in order to control that potential bias. We also cover the distinctive features of CSR in France because this context surely influences our findings as recent French legislation institutionalizes and actively promotes CSR, for companies of all sizes. As stated by Cormier and Magnan already in 2003, France has a "unique legal and regulatory context" that has been enhanced recently with the "Grenelle de l'Environnement" initiative and subsequent acts. The

second part of this short paper is empirical. We will present and summarize the results of a series of interviews with SME's management about CSR, undertaken as part of a "Mid-Cap Values" project. The third part is exploratory. We will try to formalize, extrapolate and comment all discernable patterns identified in the previous section.

2. Literature review

CSR and SMES

Jamali et al (2009) underline the importance of SMEs by reminding us that they make up 90% of business worldwide and account for 50–60% of employment, particularly in developing countries. They also point out that SMEs have been recently receiving attention in the CSR literature "with burgeoning evidence of their positive responsibility inclinations and their strengths and peculiar relational attributes in the context of CSR."

However, Murillo & Lozano (2006), suggest that "the very concept of CSR in SMEs is confused with the account of the specific practice carried out. In most cases, the term CSR is not a concept that makes people feel comfortable or one with which they can identify".

Thus SMEs "may well be doing CSR without knowing it or calling it" (Moore, Slack, & Gibbon, 2009). This probably stems from the fact that SMEs are not homogenous and/or the fact that a consistent definition of CSR has not been established yet (Castka, Balzarova, Bamber, & Sharp, 2004; Jenkins, 2006; Lindgreen, Swaen, & Johnston, 2009).

Thankfully, five years later, according to the findings of Fassin et al (2011) this confusion seems to have dissipated: "Small-business owner-managers, pragmatically and rather clearly, differentiate among the various concepts related to corporate responsibility and business ethics but, at the same time, they recognize the interrelationships and interdependencies of these concepts."

Lepoutre & Heene (2006) also remark that empirical evidence indicates differences in CSR perception between smaller and larger firms. They interpret these differences due to moral imperatives, is experienced along three moral intensity dimensions: Probable Magnitude of Consequences, due to reduced visibility or reduced environmental and/or social impact; Proximity of the responsibility issues, due to reduced pressure from stakeholders, and Social Consensus," leading to "more difficulties than their larger counterparts when engaging in socially responsible action."

Perrini et al (2007) using an extensive sample of small and large companies in Italy find a relationship between CSR and size, confirm that, indeed, the bigger a company is the more CSR projects it undertakes. However, Russo & Perrini (2010) in a later article acknowledge that methodological problems encountered were "(1) the definition of SMEs; (2) assumptions of comparability between small and large firms; (3) clarity of focus and wider implications; (4) methods used." As we share their concerns, we argue that Medium & Small Capitalizations have to be studied outside the framework for Big Capitalizations.

Attitudes of SMEs' managers can seem sometimes confusing. Jenkins (2006) admits that SMEs can be at the same time reluctant to adopt voluntary regulation, such as CSR reporting, and at the same time very innovative, adaptive to market opportunities. He thus advocates the use of "Business Champions" and the "the development of CSR learning networks, possible sectorally specific ones through trade associations" to promote SME CSR.

CSR and Large Capitalizations

Our position is that Large Corporations have influenced the way we perceive CSR. We share the same view as Pesqueux & Damak-Ayadi (2005) which find that stakeholder theory, from its inception, has been advocating a particular form of "deliberative democracy" that advocates the ideas of Large Corporations, and, most importantly, the fact that they should be left to their own devices while enforcing these ideals.

Knox & Maklan (2004) also identify this bias and suggest that all researchers should "explore how and how strongly CSR investment is linked to business and social outcomes among mainstream business. The stakes are high as it should lead to systemize the link between CSR and performance.

Gond (2006) also identifies this field of research as highly controversial due to five looping mechanisms: rationalization, cognitive biases, social desirability, informational biases and legitimation/persuasion. All of these mechanisms are exploited by large corporations, who only have to reinforce them by continuing to publish reports.

CSR and Smaller Capitalizations

Fassin et al (2011) identify a “conceptual confusion in academic literature”, reminding us “the lack of consistency and coherence, that we can identify as well for Small and Medium Capitalizations. Sometimes referred to as “alternative investments”, Small and Medium Capitalizations are an order of magnitude larger than SMEs. Yet, besides the fact that the first ones are introduced in the stock market, a definition accepted by both businesses and academics is still lacking. The European definition of medium sized company with over 500 employees is not necessarily fitting.

Jones (1999) had already identified that companies from different sectors developed diverging company cultures which meant they handle CSR in inherently different ways. He went on to formulate the hypothesis that “The incidence of stakeholder management will be more evident in high profile industries” which was validated in his study. We posit that, given the relative indifference of both the academic and business world concerning Small and Medium Capitalizations, CSR will be significantly less developed than their positioning between small and large companies would lead us to otherwise believe, meaning they won’t necessarily adopt a formal position concerning CSR like large corporations, nor an emergent/spontaneous one like small businesses.

For example Moore & Spence (2006) in their extensive editorial for the Journal of Business Ethics identify the biggest gaps in current CSR literature: “tools for responsible business practice; ‘business case’ analyses; the impact of different organisational forms; SMEs in developing countries; innovating for ethics and networking; and finally methodological approaches and theory development”, then spend an extra page explaining exactly what’s missing in current CSR SME academic literature, without mentioning medium sized companies, nor medium sized capitalizations. Thankfully they do recognize that there is a common mistaken conflation inside this group. Continuing the parallel with SMEs, Fassin et al (2011) also remind us that SME’s do not form a homogeneous entity meaning that “research has the potential to shed new light on many aspects of how topics related to CSR and business ethics are perceived by small-business owner-managers.”

The same could be said about small and medium capitalizations: research focused on them is already sparse; CSR-related research about them even sparser. We believe that our exploratory research can contribute in this field.

For example, Jamali et al (2009) list the cultural differences between SMEs and Large Corporations to extrapolate on possible differences between their CSR implementations. However, since determining whether Small and Medium Values belong to the left- or right-hand column depends on the definition used, it’s difficult to employ their classification.

Preuss & Perschke (2009) have adopted such an approach. They begin by compiling a 3-column table identifying the major differences between large, medium and small businesses. After going through an extensive literature review of CSR implementations by company size they compile a 2-columns table comparing social responsibility in large and small firms. By the end of their article they suggest a 3-columns framework for social responsibility in large, medium-sized and small firms based on their empirical observations. This paper seems to share the same purpose; however we don’t have the same definition for what a “Medium Sized Firm” is, and sampling was performed in two different countries.

Parsa & Kouhy (2008) performed a CSR study sampling SMEs listed in London’s the Alternative Investment Market (AIM). Contrary to Preuss & Perschke (2009) they do not differentiate between SMEs, Small and Medium Capitalizations, and Large corporations; however we do share the same sample selection criteria. Their findings suggest that “even SMEs – with all the constraints and limitations they face – realize the significant part social reporting can play in establishing and retaining a favorable reputation when operating in a competitive capital market”. They do however express concerns over the extent of their sampling. Irrespective of our distinct theoretical positioning, we can only hope our own study will complete their sampling and will corroborate their initial findings.

A final warning by Udayasankar (2008) before we present the French CSR context, reminding us that the functional implications of firm size vary with the context: “Managerial opinion has alternately gone for, and against, being a large firm. It is also widely accepted amongst scholars that size is one of the most fundamental firm characteristics that can impact many outcomes, and for this reason, is often included as a control variable. (...) In the case of CSR, size is interpreted to mean visibility, access to resources and operating scale, however, this meaning may differ according to the context of study.”

CSR in France

Lindgreen et al (2009) remind us that Maignan and colleagues were some of the first to build on Carroll’s (1979) work, conceptualizing a complimentary version of CSR based on “stakeholder expectations” instead of “society’s expectations”, developing instruments to measure stakeholder CSR practices, and validating their studies in France and the United States. France has thus a tradition of stakeholder approach CSR. We argue

that this is linked with the particularities of the French corporate culture, as well as the specific legal framework of the country.

Cultural Context

When studying CSR, one cannot help but discern the influence of US-UK culture that belies some of its key concepts. English literature dominated the field from the start, despite the fact that studies were quickly replicated in other countries. Thus anglo-saxon CSR implementations have become the de-facto norm. Nevertheless cultural, socioeconomic and legal contexts, influence on how ideas are structured, which questions are considered judicious, and which solutions are acceptable (Berthoin-Antal & Sobczak, 2007). Similarly, Gendron (2000) reminds us that the geographic, cultural and historical context of a company influences its ethical positioning and the way it perceives CSR.

One of the findings of a comparison between French and Canadian environmental reporting management by Cormier & Magnan (2003) is that the relative influence of firm size seems to be less important for French firms. Their interpretation is that “environmental reporting in France is less institutionalized or subject to ritual than in Canada.”

However, a rise of proceduralism and dependence on consultancies can be attributed on French cultural and business environment factors (Bihr, 2010). Firstly, since French higher education, including business schools, places a much greater emphasis on engineering and quantitative approaches than other European countries, it should come as no surprise that quantifying CSR was one of the country's first priorities.

Secondly, this quick rise of extra-financial consultancies can also be linked to the French apprehension of transparency issues. Possibly because of the catholic heritage of the country, discretion is highly praised, and is to be applied in every facet of public life, including virtuous, altruistic acts (Segal, 2004). Thus CSR not expected to be “publicized” in reports, but rather undertaken humbly, the same way French magnates and wealthy companies have sponsored various philanthropies, ONGs and artists in the past.

Thirdly, France is highly unionized. In fact, holding elections for union delegates is required by law for all companies employing over 50 employees. Certain mistrust is to be expected; direct confrontation can easily be avoided though by conforming to universally accepted procedures. Thus CSR implementations that have been approved by a third party certification organism (AFNOR) or consultancy (Vigeo) can be perceived more easily legitimized than a company's own spontaneous CSR initiatives.

Finally, we could mention the impact of Socially Responsible Investment (SRI). Indeed, SRI funds are, on the one hand, usually dependant on consultancies for extra-financial notes and reports, and on the other hand, benchmarked against SRI indexes. At the same time, French consumers already have one of the highest propensities in Europe for investing in insurance and mutual fund schemes for their retirement plans. So when recent laws made gains from SRI funds subject to tax-cuts, inciting mutual and pension funds to invest in socially responsible companies, we could say that, besides influencing companies CSR whose strategic importance is still under consideration, these cultural attributes end up indirectly but significantly influencing their cost of capital- particularly for Small and Medium Capitalizations who suffer from reduced liquidity due to small floatation and a very binding regulatory context (Basel III, Solvency II).

Legal Context

Almost a decade ago, Cormier & Magnan (2003) assured us that “while French firms' financial reporting is strictly regulated by the state, their non-financial reporting context is less rule-oriented (prescriptive) than the United States, and thus more conducive to voluntary disclosure.

That might no longer be the case. With the initiative of the former French President, two nation-wide round tables were conducted, called “Grenelle de l'Environnement” I and II. While the first one could have been thought as a PR stunt at the time, it nevertheless induced the creation of a “Grenelle” law, mostly a formalization of principles concerning six axes that had surfaced during the talks: urban planning, transportation, energy policy, climate change, biodiversity, public health, recycling, and corporate governance. The second Grenelle and subsequent Grenelle II law however clearly showed the government's will to press on with reform. And, in a surprise move, just before were the elections, a decree was passed, enforcing some of the principles expanded upon with the Grenelle II. During the same period, a “new economic regulations” law (loi NRE) was passed, focusing on overhauling corporate governance practices in France. In the same vein as the Sarbanes-Oxley Act in the US, loi NRE was marketed as a response to the 2001 Enron crisis, mandating transparency and advocating the use of “Triple Bottom Line” reporting.

One particular implication of these recent laws is the obligation for companies that meet certain criteria to publish certified ESG reports. These criteria include generating company turnover of over 100 million euros;

employing more than 500 employees; or just be being a publicly traded company. In other words, with the advent of these recent laws, Small and Medium Capitalization companies are expected to produce high-quality extra-financial reports. The cost of compiling – and certifying – these reports could be non-negligible added cost for Small Capitalizations, thus legitimizing our research once again.

The purpose of this literature review has been to remind the particular characteristics of CSR as implemented by SMEs, the influence of large corporations upon the very concept of CSR, the ambiguous position of Small and Medium Capitalizations between SMEs and Large Capitalizations, and of course the specificities of the French context, since it will undoubtedly influence our empirical study's sample, presented below.

3. Purpose and design of the research

We believe our research subject is both relevant and topical.

Relevant because, while CSR research has been quite prolific for the past decade, research focused on non-standardized CSR implementations, notably in the form of Environmental, Social and Governance (ESG) reports, has been severely lacking. At the very least our short paper will contribute to that branch of CSR research. We already stressed that a huge amount of literature focuses on large capitalization firms, framing our perception of what is and/or what CSR should be. A recent literature stream deals with SMEs, highlighting that there are specific barriers in this kind of corporation for the implementation of a socially responsible policy (Lepoutre et al., 2006). With some notable exceptions, (Jamali et al., 2009; Jenkins, 2006; Lepoutre et al., 2006; Preuss et al., 2009; Russo et al., 2010), few researchers have deemed mid-sized companies a worthy field of study. Nevertheless the aggregate of small and medium sized companies is one of France's biggest employers and we thus believe studying it yields representative results – particularly when trying to identify concepts.

Topical because, due to the current crisis that has been plaguing the world economy for the past four years, consumers' demands for CSR have started to include more and more companies – including those that are situated outside the big stock market indexes.

To answer our research question, we conducted a series of interviews with SME's management about CSR, undertaken as part of a "Mid-Cap Values" project⁴⁵⁵.

Sample construction:

The objective of this study is to present the practices of Small & Mid Cap in terms of CSR. a Small & Mid Cap is a medium sized company, listed on stock markets, so we initially selected all firms satisfying these criteria on size and listing on the French market. Accordingly, we consulted the record of companies listed under the Paris Eurolist B and C compartments; we then cross-referenced them with the list of companies having received good marks by Ethifinance, a CSR scoring agency specialized in SME evaluation. We then sampled randomly and adjusted for size and geographical representativeness. We ended up with a list of 30 SMEs actively pursuing CSR. All of them have accepted to grant us an interview.

The interview guide was compiled in advance and proofread by a panel of academics, managers and CSR consultants. The interviews are conducted face to face, recorded and transcribed. Given the restraints of this short paper we will not relate the testimonies in full.

4. Findings and contribution

This part is still exploratory. We try to formalize, extrapolate and comment all discernable patterns identified through the interview process.

We conclude that the answer to "do SMEs conceive and implement CSR in a different manner than large companies?" is positive.

Our first observation is that, while large companies nowadays usually have dedicated staff responsible for handling CSR, this is not the case in small sized companies. Medium sized companies often have an employee than handles CSR; however this does not constitute their sole responsibility and we could not characterize them as "dedicated CSR" department. These differences already support our argument that SMEs handle CSR differently.

Our second observation is that, contrary to larger companies which have a formalized approach to CSR, resulting to a top-down diffusion of CSR initiatives that can be subsequently publicized through ESG reporting, smaller companies tend to have "emergent" CSR initiatives. In other words in smaller companies, where the

⁴⁵⁵ A first round of interviews has already been conducted but, for representativeness purposes, we are not yet in a position to say that we were able to have all SME's profiles. At the time, we can then only present the methodology and preliminary results.

vertical distance between higher management and the workforce is smaller, employees initiative about, for example, saving the environment, promoting equality, or interacting with stockholders are more likely to be heard.

Our third observation is that, while CSR-related initiatives exist, they are not necessarily labeled as such. A large portion of mid-sized companies' managers are not necessarily aware of all the possible CSR manifestations, thus eschewing labels. This confirms the Fassin and Van Rosem (2009) fears that "while CSR is seen as the best candidate for an umbrella term, no unified paradigm has yet to be achieved in the business and social field".

In tandem with the above, our fourth observation is that CEOs of medium sized companies are very receptive when it comes to formalized CSR concepts. Combining these two observations we venture to say that SMEs are "fast learners" Jenkins (2006) when it comes to CSR.

Finally, we make two suggestions that academics could follow in order to cultivate CSR diffusion in SMEs: on the one hand, following Fassin and Van Rosem's (2009) suggestion that "corporations cannot restrict their actions and communication regarding social issues in management to one single domain" and that promotion of CSR implementations have not only to lie on ESG reporting. On the other hand, we should follow the publication of CSR case studies in order to take advantage of SMEs' ability to pursue the example of champions, as identified by Jenkins (2006).

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A HABERMASIAN VIEW OF ACCOUNTANTS

AS SUSTAINABILITY ADVISORS FOR SMES

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Abstract

We present emerging research on the potential of small accounting practices as advisors on environmental sustainability for their small and medium sized clients (SMEs). Enabling this resource could have substantial implications to improve sustainability because SMEs are notoriously difficult to reach and influence, but their most 'trusted advisor' is consistently their accountant. Using Habermas' notion of steering, we present research data primarily from interviews with accountants which suggests that although SMPs are key steering media for offering environmental sustainability advice, their potential for doing so is hampered by an overdependence on relational steering mechanisms based on the personal trust. We argue that the provision of sustainability advice by accountants beyond reflection on their own experiences is inadequate to guide SMEs into changing their activities and behaviours. In contrast to previous research which stresses the importance of relational steering, in our research we argue that transactional steering mechanisms are necessary for more purposeful direction to be achieved. We conclude with recommendations for future research.

Keyword List: Small and medium sized enterprises, Habermas, steering, accountants, environmental sustainability advice.

As questions of sustainability and business responsibility become more readily accepted in the mainstream, practical issues of how firms are supported in addressing their sustainability challenges need also to be addressed. This paper reports on research which seeks better to understand the arena of provision of sustainability advice to small and medium sized enterprises (SMEs). Building on previous research on advice provision to SMEs, we focus on the potential role of the accounting profession. Accountants have long been a source of support and advice beyond strictly financial matters for businesses, being consistently the most commonly used advisors for small and medium sized enterprises (Bennett and Robson, 1999). Rather than large accountancy firms, it is usual for SMEs to turn to (local) small and medium sized accounting practitioners (SMPs), with whom there is the opportunity to develop a trusted relationship over the long-term (Blackburn and Jarvis, 2010; Hasle *et al*, 2010). Small and medium sized enterprises are by far the most common organizational form, comprising 99% of European businesses⁴⁵⁶. While individually their effect may be small, collectively they are critically important in terms of their economic, environmental and social impact (CEC, 2008).

This paper will report on part of a wider research project on accountants as advisors on sustainability to SMEs⁴⁵⁷. The accounting profession has acknowledged the importance of corporate social responsibility including sustainability as an emergent key issue at a global level (IFAC, 2010). We focus particularly on the nature of the SMP/SME relationship as a forum for sustainability advice. The research questions addressed here are accordingly:

1. *What is the nature of trust in the 'trusted advisor' relationship between small and medium accounting practitioners and their small and medium sized enterprise clients?*
2. *What are the implications if any for the potential of SMPs as environmental sustainability advisors for SMEs?*

This interdisciplinary paper contributes to the accounting, sustainability and SME literatures. We find that there are limits to the efficacy of the 'trusted advisor' role and its incumbent attributes in promoting sustainability in SMEs by small and medium sized accounting practitioners. Whereas previous research has promoted the benefits of the relational and social mechanisms available to long-term business partners such as SMEs and their SMPs, we find that this alone is insufficient to facilitate sustainability awareness and actions in clients. We find that formalized and transaction-based mechanisms are necessary in order to embed sustainability in SME systems via the accounting relationship.

The paper comprises of five sections. In the next section we provide a background literature review that explores the nature of the SMP/ SME relationship. We then discuss the Habermasian notion of steering (Habermas, 1984, 1987; Broadbent, Laughlin and Read, 1991; Broadbent and Laughlin, 2009) and employ this framework to examine theoretically how and whether SMPs may steer SME behaviour. In the third section we discuss our research approach, followed by which we present our empirical findings. In the discussion and concluding section we note the implications of our study for future research.

Literature Review

Research on the role of SMPs has recognized that the relationship between small firm owner-managers and their accountants is primarily an economic one (Marriott and Marriott, 2000). In this regard Blackburn *et al*. (2010) argue that the provision of business advice to SMEs focuses mainly on financial management, where trust, competency, culture and communication are significant variables that influence the SMP-SME relationship (Dyer and Ross, 2007; Gooderham *et al*., 2004). In a context of the changing nature of competition, the effects of technological developments have different implications for small and medium-sized accounting practices, where the provision of specialized services is likely to represent a key to success with many smaller firms concentrating on particular services and sectors (Martin, 2004). For example, Jarvis and Rigby (2011) discuss different models used by accountants to provide advisory services about Human Resource Management and employment issues, while Hasle *et al*. (2010) look at accountants providing advice in terms of Health and Safety issues. Accountants have also been shown to be the primary source of advisory services when it comes to the implementation of change (e.g. growth, succession or takeover, change in government regulation or an external environmental change)(Blackburn

⁴⁵⁶ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm Accessed 23 February 2011.

⁴⁵⁷ With thanks to the Association of Certified and Chartered Accountants for funding this research.

and Jarvis, 2010). Finally Martin (2004) analyses the business area of ownership succession in which medium-sized accountancy practices are increasingly involved. Underlying much of the research in this area is the idea of the accountant as the most 'trusted advisor' for the SME.

Gooderham et al. (2004) identify some of the conditions that have contributed to making SMPs a source of advisory services for small firms. The first prerequisite that is perceived as necessary for survival and maintenance of competitive advantage is competence. Often the owner-managers of SMEs lack of financial skills and knowledge of how management accounting systems might be used to aid decision-making but also have difficulties in acquiring or retaining competent persons (Blackburn and Jarvis, 2010; Deakins et al., 2001). Therefore small firms are particularly dependent on being able to access the market of business advice where trust represents the other fundamental condition. The establishment of trust (through perceived "value for money" advisory work undertaken by SMPs) within relationship appears to be most important for the use of the accountants for non-conventional services (Gooderham et al., 2004).

Accountants perform their professional activity within a government-backed self-regulating framework of training, qualification, code of conduct, trading standards, discipline, enforcement, and group insurance, which is supposed to govern the behaviour of the supplier (Bennett and Robson, 1999). Therefore advisory services are provided inside a very specific institutional regulatory-framework that recognizes them as having a high level of institutional trust. Big accounting firms, for instance, benefit from a high level of institutional trust, and are acknowledged as having a high level of competence. On the contrary, SMPs operate in a context centred upon personal acquaintance and social relations with their clients. Consequently, SMPs draw on a system of high personal trust and low institutional trust. Different levels of trust, and the balance between personal and institutional trust, "lead to very different expectations about the extent and form of use of advice services for different sources" (Bennett and Robson, 1999, p. 160).

Lewis et al. (2007) examine the business assistance interactions from the perspective of SMEs' ability to use what is provided, aiming to understand what makes assistance successful. The authors argue that assistance choices, and the correspondent interactions, can be influenced by several characteristics such as stage of firm development (younger firms are more likely to seek assistance, as opposed to older firms), gender of assistance interaction, age of assistance choices, managers' personality and issues SMEs seeks assistance for. However, the sought for assistance is not always fully implemented. Nahavandi and Chesteen (1988) investigate the impact of consulting on SMEs, providing insights into the degree to which owner-managers employed the recommendations they have received, and the reasons for non-implementation of such recommendations. In the first instance most owner-managers perceived assistance as having a positive impact upon the business fundamentals (sales, profit, net worth). In the second instance, perhaps more interestingly, the reasons cited for not implementing were, in this order: not perceiving the need to implement 100% of the recommendations, issues related to the capability of the consultant (not able to understand the business, incompetence, confusing advice, participation in the project) and cost of the assistance.

SMPs-SMEs and the potential for environmental sustainability advice

Evidence of an ongoing provision of advice on a range of topics, and an established level of trust in SMPs does not of itself recommend SMPs as good environmental sustainability advisors to SMEs. However, there is a gap in accessing advising and supporting SMEs in this area and reasonable grounds for investigating the potential of SMPs to fulfil this role alongside their other activities (IFAC, 2012). However, environmental sustainability will likely represent a very specialist and technical area for advisors, also compelled by regulatory frameworks, and commonly associated with account, standards and guidelines (AccountAbility, 2011; GRI, 2011).

The changing landscape of environmental challenges and business support has created, some argue, room for a response by accountants and SMPs to the increasing importance of sustainability and sustainable development for SMEs (IFAC, 2012; Steadman et al, 1995). The opportunities for SMPs to play a support role beyond traditional compliance work are manifold. First, accountants may provide assistance to link SMEs' performance on environmental sustainability to traditional business metrics and value creation and improve the usefulness of their communication and reporting and familiarize with the integrated reporting (Gould, 2011; IIRC, 2011). Second SMPs can help businesses to measure their sustainability performance in terms of their positive and negative environmental impact, to calculate organizational or product carbon footprint, improve energy efficiency, reducing waste and water consumption (Stubblefield Loucks et al.,

2010). Third, for those working in close contact with the owner-managers, accountants can play a leading role in establishing the business case for sustainability by ascertaining that proper accountability mechanisms are in place, and finally engaging stakeholders.

To conclude this section, there appears to be potential for SMPs to assist SMEs in progressing environmental sustainability practices and at the same time turning moderating factors into business opportunities. Among the factors that can be considered when it comes to providing environmental advice to SMEs are the following:

- in many cases SMEs are not aware of their own environmental impacts (NetRegs, 2002);
- in Europe, only a small proportion of SMEs adopt standardized environmental management systems to implement sustainability strategy (Hillary, 2004);
- the business case for environmental sustainability is unlikely to be the same for each business but each organization has to determine its own case by learning about the environmental practices that are most relevant for their business (Stubblefield Loucks et al., 2010);
- “regulation”, “business performance”, and “supply chain pressure” seem to be the most important drivers of SMEs’ environmental practices (Rutherford et al., 2000; Williamson et al., 2006);
- SMEs may be hesitant to apportion time to address concerns that are not obviously related to business, and sustainability related issues are often misperceived as being outside of core operations (Walker and Preuss, 2008);
- typically SMEs have not been subject to regulatory oversight to the same extent as larger firms (Labonne, 2006);
- SMEs tend only to react to strong pressures from external stakeholders that they have relationships with (Stubblefield Loucks et al., 2010).

Theoretical Framework: Habermas’ steering

From a business ethics perspective we are perhaps most familiar with Habermas’ concept of discourse ethics from his work on moral consciousness and communicative action (Habermas, 1990). In this paper we draw from an element of Habermas’ broader work on the theory of communicative action, that of steering media. Since this concept is intended to explain how norms, values and behaviour are changed, we use it as a lens to understand how and whether accountants may change the sustainability-related behaviours of SMEs.

Habermas (1987) considers that the social world consists of two distinctive and yet inter-related spheres known as “lifeworld” and “systems” (Habermas 1987: 118) that co-exist simultaneously but are analytically separable. The lifeworld reflects the convictions and values of society and represents the lived experiences that give meaning to everyday life (Rasmussen 1990; Roslender 1995). Its concerns should be predominant and guiding of all social action since societal norms and values reside within the lifeworld. In contrast to this, systems are “tangible definable arenas of action” that should operationalize the lifeworld’s desires. To ensure that the functional systems remain anchored to the lifeworld there exists a third element of the theory, the mediating systems, that steer the functional (operational systems) towards the lifeworld values. These mediating systems or steering media have coordinating roles and carry out steering processes that achieve legitimation by meeting lifeworld norms and values.

According to Habermas, steering media guide the synchronization and harmonization of actions between the lifeworld and systems because with societal development there is the tendency for the two spheres to grow apart. Coordination between lifeworld and systems should, in an ideal situation, be achieved through communication, debate and dialogue between social actors. The aim of steering through communication is to gain mutual understanding and consensus within society based on societal norms and values. However over time and within advanced capitalist societies instead of communication and discursive practices coordinating activities between the lifeworld and systems, more areas of life become subjected to the influences of money and power. The use of finance and funding begins to dominate and crowd out communicative rationality.

Broadbent et al (1991) have developed these Habermasian ideas, taking them from a societal “meta-theory level” and placing an organizational slant on them. They argue that societal steering media consist of a range of government, professional and financial institutions. In our study, small professional accounting

practices, in the context of the theory of steering may be analysed as steering media whilst small and medium enterprises analytically represent the operational systems tasked with delivering societal functions. Whilst the work of Broadbent and Laughlin has concentrated on government departments as examples of societal steering media, our particular focus is on the role that small professional accounting firms play in steering or guiding small medium enterprises towards sustainable activities and behaviours.

In developing their earlier project, Broadbent and Laughlin (2009) build on the work of Habermas, provide pointers to how steering may take place arguing that it depends upon the “model of rationality” underpinning actions of the steering media. Rationalization, that is the pursuit of reason in human affairs, may be undertaken in an instrumental manner or in a communicative manner. Instrumental rationality refers to “goal orientated rational social action” with clearly specified goals that are formally decided upon based on theoretical rationality, underpinned by an authority structure. On the other hand, communicative rationality “pursues ends that are discursively agreed” between participants and stakeholders leading to consensus as in Habermas’ ideal situation discussed above. Broadbent and Laughlin (2009) and Broadbent, et al (2010) suggest that instrumental reasoning will tend to lead to *transactional* steering mechanisms developing. These are likely to have a high level of specificity about the ends to be achieved (e.g. through performance measures, targets, etc.) and often a clear specification of the means needed to achieve these defined ends similar to a simple, in effect, ‘exchange transaction’ to achieve a particular end state through a defined set of means. In contrast, communicative reasoning will lead to *relational* steering mechanisms developing where the expectation is that the ends and means are deliberately subject to a discourse between the stakeholders and chosen by them. Often the specific focus will be less like a defined project, less short-term in nature and more concerned with the long term survival of the organization/unit through which the stakeholders are working. (Broadbent and Laughlin, 2009: 289)

Transactional and relational steering exist on a continuum and are the extreme ends of this continuum. Organizations that act as steering media will most likely select mechanisms that enable them to achieve their intentions. The most active protagonists in this arena are Broadbent and Laughlin and their work has concentrated on how funding and governmental regulatory practices operate as steering mechanisms for different government departments, mainly in health and education. Our work, uniquely, considers small professional accounting firms and investigates the nature of the steering mechanisms they employ to steer small medium enterprises into sustainable practices. The position of small professional firms differs from that of government departments that have positional power through legislation and financial resource control. Small professional accounting firms however have “a trusted advisor relationship” with small medium enterprises. This study investigates how and whether this facilitates their roles as steering media for sustainability. It also considers the nature of the mechanisms used to steer SMEs behaviour, whether relational or transactional.

Methodology

Taking a broadly qualitative approach to this exploratory study, research interviews were completed with nine practicing accountants working in small and medium sized accounting practices, three representatives of small and medium sized enterprises and two environmental advisors. The accounting practitioners were selected on the basis that they were sensitive to environmental issues.

Agreement to be interviewed was considerably more challenging than anticipated and in comparison to similar studies previously completed by the researchers, in part apparently due to the economic challenges at the time of the study (2011/12). We interviewed three SME representatives in order to gain a perspective from small businesses to counterpoint the accountant’s viewpoint. It was not possible to interview clients of the accountant’s interviews in order to triangulate the data due to reasons of client confidentiality. We adopted the broad European Union definition of an SME as having fewer than 250 employees, although we acknowledge that this is not uncontroversial. An international perspective was included at the behest of the funders, thus some data is from Canada and Hong Kong alongside the majority from the UK.

Details about the interviewed respondents and the corresponding code we use when citing them in this report are given in Table One below.

Table One - Respondents and codes

Respondents	Code for citations
UK accountant	SMP1
UK accountant	SMP2
UK accountant	SMP3
UK accountant	SMP4
UK accountant	SMP5
UK accountant	SMP6
UK accountant	SMP7
UK accountant	SMP8
Canadian accountant	SMP9
UK SME Representative	UKSME
Canadian SME representative	CSME
Hong Kong SME representative	HKSME
Hong Kong Environmental Advisor	HKEA
Netherlands Environmental Advisor	NLEA

The literature review informed an interview schedule for SMPs which was varied according to the respondent type. The questions ranged beyond the topic of this current paper, but here we focus on the aspects of the broader study relating to our research questions. All UK and Hong Kong interviews were face-to-face, the Canadian and Dutch interviews were by telephone conference. In all but 3 cases (due to logistical reasons), two researchers participated in each interview, with accounting and SME/Sustainability expertise respectively. The Dutch respondent was included because he was the only qualified accountant working full-time as an environmental advisor found in any European country, and therefore offered a valuable complementary perspective to the study. Nevertheless, the dominant group of respondents is UK based and this is the main context for the research. All interviews were in the English language and were recorded and transcribed in full. The interview transcripts were coded according to the emerging themes relating to the research questions, and with the Habermasian steering framework as a broad lens. The data were treated as socially constructed accounts of the SMP/SME relationship and advisory role in relation to environmental sustainability and analyzed accordingly. Additional supporting documentation and web-based material were gathered where possible but this is very limited due to the lack of external reporting by small businesses and the confidential nature of the material handled by accountants. The research team included individuals with specialist knowledge in accounting, sustainability accounting, and sustainability in SMEs, ensuring the necessary interdisciplinary approach to the topic was achieved.

There are a number of limitations to the research. As a small scale study we were only able to access a limited number of respondents. This was especially constricted in terms of the international element, with only a few inputs from outside the UK possible. Hence the study is not seeking to be generalizable and only gives an indication of points for future research and substantiation. The accounts given by the SMPs could not be verified by any of the SMEs with which they worked due to reasons of client confidentiality. It was also clear from the outset that the research was sponsored by the professional accounting association in the UK, and since most of our respondents were active members of this body, they may have been influenced in their responses.

Findings and Discussion: Steering for sustainability?

In our study, we found extremely strong evidence of the *opportunity* for relational steering by SMPs as steering media on the behaviour and activities of SME. Notwithstanding this strong opportunity for relational steering, in our study we found the provision of environmental sustainability advice to SMEs to be highly limited. The nature of the relationship, we found to be based on largely *ad hoc* conversational nature of the environmental sustainability advice given was shaped in the most part by the limited resources drawn on by the SMP. Key resources employed were personal experiences reflecting on environmental issues in the SMP practice itself. Alternatively, SMPs based their discussions on their knowledge of both personal and commercial experiences of other clients. As we discuss later in this section, evidence of transactional steering in relation to sustainability was scant.

In this section we reflect on our data using the lens of relational steering. As noted earlier, communicative rationality pursues ends that are discursively agreed between participants, resulting – according to the theory - in long term behaviour change towards, in this instance sustainability. As we will show, this is not the case in our research. Our identification of relational steering is in light of the common experiences of SMPs and their clients as both being small and medium sized enterprises; their ability to draw on the experiences of other clients; and the trust and proven track record of the accountants. The physical format of any advice given was precisely in keeping with a relational steer, being as a conversation rather than formal advice. Heavily influential in these aspects is the role of the accountant as a respected peer.

SMP experiences as SME businesses

SMP respondents suggested that they shared their experiences of running their practices in an environmental friendly way with their SME clients. SMPs are the respected peers who lead by example.

We're always seeing our clients and as we built this extension, which was... twelve months ago? And as we went through the process of getting the low-energy bulbs in, you just find yourself talking about it. In the next conversation that crops up, you find yourself passing on what you have done (SMP2)

SMPs were interested in saving money through making adjustments to their working practices. To their minds SMEs behave in similar ways and thus it was necessary to draw upon the experiences of their practices within the conversations about environmental sustainability. In the following comment, SMP6 equates her own experience within the business with the requirements of SME clients.

That's something that we're personally aware of and that's partly because I'm interested. So from a completely selfish point of view the greatest benefit of sustainability on the micro-scale is the fact is it usually saves you money. It's a very small scale thing, I mean, we use less and less paper now, for instance, we scan documents, which means every time we send a letter out... But sometimes we're sending letters out electronically now anyway. But when we send a letter out in the post we don't have a back copy anymore, we scan it before it goes so we have an electronic copy so therefore that's halving our stationery bill, which is quite considerable. So we'll do things like that but nothing too clever. When it comes to clients, again, I think most small businesses are... Life is so hard at the moment ... that the most interesting thing to them is the money saving. I mean, I'm sure they would tick the box saying, would you like to save the planet? Yes, of course I would, I'd love to do that. But fundamentally would you like to cut your stationery bill? Yes, I'd like to do that. So I think that's the real driver that will have an influence on small businesses. And if they can get down their fuel costs then that's something that makes people sit up and listen(SMP6).

Our SMP respondents suggested that where environmental sustainability was discussed with SMEs, it was at the initiative of the accountant. The driver for the SMPs to do so was personal interest rather than expected financial gain. Most SMPs in our sample did not charge SME clients for environmental sustainability advice provision. Our SMP respondents showed a range of levels of stated interest in environmental sustainability from one who had sought a qualification in environmental management through to the majority of others who claimed some personal interest. For example, one practitioner suggested that he talked to clients constantly about his interest in solar panels:

I've got a very keen interest in sustainability and solar and ground source technology. I'm interested in it and I've just had solar panels installed... they're [SME clients] bored to tears hearing about my solar panels (SMP5).

In most cases, however, personal interest in environmental sustainability issues was only transferred to SMP working practices to a minimal degree. There were two exceptions. One accountancy practice had branded itself as “green” from the outset and had a significant client base of environmentally and socially aware clients as a result. This firm gave all their SME clients some basic environmental sustainability advice routinely as part of an introduction to the firm’s services.

We’re professional accountants but we do the environmental thing as a kind of, ‘here is an idea and something you can take forward’ (SMP8).

Despite this, and although the SME clients were often already engaged with environmental issues, the practitioner suggested that clients did not consult their accountants on environmental issues. Consequently, the SMP did not charge clients for the advice given.

So, in terms of income, it’s all accounting and not environment work. And then in terms of actual time spent working, it’s quite a small amount on the environmental issues (SMP8).

A second accounting practitioner operating at the time as a sole trader was actively seeking out heavy manufacturing clients with substantial potential to reduce their carbon consumption and costs. This SMP sought to position the business as an environmental consultancy. This work was however still in the development phase and the outcome of the initiative unclear. Although he initiated environmental sustainability discussions with clients, he suggested that this advice was limited because:

[It] became apparent very quickly that the notion of sustainability wasn’t a primary driver, it was ‘can I save money, can I save... you know... energy charges?’ (SMP7).

Past experiences with clients

Past experiences with other clients and in previous work situations provided SMPs with knowledge and information that they used in their conversations. For instance, one SMP learnt about the environmental regulations that transport companies faced from a previous job.

The transport industry’s been way ahead for years on sustainability, environmental issues. I mean, the company I worked for recycle 100%, it had no waste, and that didn’t come because the owner thought, “Well, I really need to be responsible to the environment,” it came because a letter came through the post and said, “Right, in three years you will have to do ABC”... (SMP1).

Past experiences with clients gave the SMPs ideas to share with their SME clients.

But yeah, water consumption is another topic I’ve really got to grips with to great extent with clients ... it in the context of the garden and telling them about my rainwater-harvesting tank. I can’t stop telling people about them, yeah, no, I’ve had those sort of conversations with a number of clients about harvesting rainwater to reduce their mains water consumption, but mainly for domestic purposes, not business (SMP4).

In another example, reference was made to the needs of construction firms. Knowledge about how to be environmentally sustainable was gleaned from working with a client who was building a house for personal use. Such information was useful for the informal conversations about environmental sustainability issues of commercial builders. It gave the SMPs some credibility as is discussed further below.

We’ve got several construction clients and that is an area where there is real scope but their problem is it’s tough to build a house and to sell it at a profit. And it’s all the cost up-front, isn’t it, in the design, in the construction of the house, to build into it additional systems or more sophisticated systems, which would have a real impact, but the moment isn’t there yet where the person on the street is prepared to pay for it (SMP5).

Trust, proven track record and the importance of credibility

A significant resource drawn upon in introducing new topics such as environmental sustainability, even in just a conversational way, was the well of trust between accountant and client. SMPs reported the feeling that the environment was a kind of 'alternative' topic, not necessarily a hard business one. However, credibility and opportunity to go beyond the 'financial services' remit was gained from the goodwill embedded in the commonly very long term relationship between SMP and SME, and the SMP proven track record as a sound financial service provider and trusted advisor.

Because we're the most trusted advisor. Because our clients listen to us, and again I'm speaking for the profession. Our clients listen to us, they really take heed of what we say, because they're seasoned business people, at the end of the day. (SMP2)

Since the SMPs usually provided a wider service than straight accountancy and financial services, SMPs were also able to draw on their multipurpose relationship with their clients.

Because, one, they trust us. Two, we're there for everything ...just everything. That's our real area of expertise and we provide a general practice service to them because the size of client we have are not big enough to have their own in-house qualified accountant, so they might have a book-keeper, they might do the books themselves but on the whole they will rely on us for everything, pretty much everything. So if they get anything to do with accountancy, tax, HR. Law, if they could get away with it, they'd have us sorting all their little problems out for them as well. But pretty much we are the one-stop shop as a business advisor to the small businesses. (SMP6).

SMPs sought to contrast this generalist multifaceted role to a specialist environmental advisor who would usually only have a single basis for a relationship with an SME and would be less likely to build up a working partnership over many years. As the trusted advisor, the SMP was well placed to provide environmental sustainability advice. This trust-based relationship and proven track record was positioned as a unique resource for the SMPs we interviewed.

I, personally would like to see Accountants take a lead in this, because I think they are well-placed to carry out these sort of [environmental] audits because of their close business relationship with clients and they are the trusted advisor, whereas 'Energy Consultants', if we lump them under that label, don't have the relationships and perhaps don't quite have the credibility because it's new and nobody knows whether they're any good or not (SMP4).

However, there were limits voiced. For example, one SMP noted the difficulty of appearing to preach to clients, who, after all, are paying for your services, and felt this would inhibit discussing environmental sustainability issues. Another SMP cautioned against being seen as experts on sustainability issues. SMPs remained generalist advisors.

I'm not entirely sure that we are the experts in certain parts of this, and I have reservations about whether we should be giving people advice, or what we should be doing is sharing information because we see other businesses do processes in very efficient manners, and maybe that's where we come in, we can just share experience or give them ideas but I think there's got to be some limitation to it. The carbon offsetting, you know the whole environment; we're definitely not the experts on that (SMP1).

A conversation rather than formal advice

The format of any environmental sustainability advice by SMPs to SMEs was almost entirely informal in nature, taking the format of an ad hoc conversation exchanged during a visit – usually annual - for the provision of regular financial services. Several of the accountants attested to the informality of the conversations, which they initiated.

It's something to talk about, when you go and see clients, sometimes there's not a lot to talk about so you need to find subjects to talk about and I often bring up sustainability issues as a topic of worthwhile conversation (SMP5)

Speaking personally, I'm not geared up for advising on this subject, okay, in terms of a formal report, etc., so it's conversations... (SMP4)

Again, just on the ad hoc basis, when we're talking about the numbers and talking about the results and talking about utility costs within that, talking about people that we know are putting solar panels up on their roofs and someone down the road has put a wind turbine up and the impact of that. It's that sort of discussion... (SMP2).

The environmental sustainability discussions were purposely informal and general because the SMPs felt that they were not providing expert advice. They could not charge clients for this type of advice. They were more comfortable with sharing information and personal experiences of environmental sustainability issues. The following comment was typical of the views expressed by most SMPs.

I'm not entirely sure that we are the experts in certain parts of this, and I have reservations about whether we should be giving people advice, or what we should be doing is sharing information because we see other businesses do processes in very efficient manners, and maybe that's where we come in, we can just share experience or give them ideas... (SMP1)

In only two cases did the accountants seek to impose rather more structure on the exchange. One SMP completed a spreadsheet assessment of carbon costs as an additional part of their regular financial accountancy service provision. This approach was to stimulate conversations about environment sustainability with clients. In most cases, despite the use of the spreadsheet, clients did not pursue the environmental discussions.

So, our idea is to help people with these things but it's to give an entry level approach ... the conversations with the client, it always has a lot of environmental talk as well as accounting talk and then we go away and do their accounts ...they [the SME clients] don't follow up anywhere near as much as we would like in terms of the actual carbon accounting and all of the impact work we're talking about (SMP8).

The other SMP compiled presentations and mini reports for clients as a way of focusing on the key messages and meeting the needs of busy clients. This SMP was particularly interested in developing his practice into an environmental consultancy firm and was therefore not typical of most SMPs in our sample.

I think businesses are much more eager now to get a very short focused PowerPoint presentation that says "this is what we've found, this is what you can do and this is what", you know they don't want to waste too much time looking at detailed reports (SMP7).

Thus, SMPs are able to draw on their role as a respected business peers in order to introduce new topics to the SME, but they need to ensure that they maintain their business credibility. There were mixed responses to the question of the credibility of accountants as advisors on environmental issues. Overall, we found very little evidence of the formal provision of advice on environmental sustainability, when understood as a chargeable component of the SMP service. Those already offering more substantive environmental advice felt that accountants were the ideal professionals to engage in this topic. Others acknowledged limited subject knowledge. Others felt that the special position of the most 'trusted advisor' role facilitated the giving of environmental sustainability advice.

Our data shows a lack of evidence for transactional mechanisms to promote sustainability among SMEs by their accountants, that is, there is no current precedence for the offering of concrete advice on sustainability which accountants can present in an invoice and make chargeable. Such evidence would take the form of formal reports, chargeable services in the provision of sustainability advice, environmental accounts and reports, yet none of these were evident among our accountants, even when the organization was specifically branded as taking an environmental perspective. Table Two summarizes the potential for provision of sustainability advice by SMPs. Clearly, according to our data, the exchanges are very much at the relational end of the continuum, yet the accountants themselves say that this lack of formalization limits the possibility for the influence of behaviour change around sustainability.

Table Two: Steering in the offering of sustainability advice by SMPs to SMEs

TRANSACTIONAL		RELATIONAL
Client relationship		Personal relationship
Regulation driven		Personal/client experience driven
Contractual basis of advice		Ad hoc, informal basis for advice
Transaction-by-transaction, relationship	incremental	Long-term, rolling/organic relationship
Contract		Trust
Power distance: Hierarchical		Power distance: Peer
Technological, formal		Conversational, informal
Motivation: financial reward		Motivation: holistic
Impact on lifeworld: concrete		Impact on lifeworld: negligible

SMPs are consistently noted in surveys as ‘the most trusted advisor’. Our research suggests that the nature of this role is however limited. We see a more accurate description of the relationship as being one of ‘a trusted peer’. The usual long-standing relationship between SMP and SME, the build up of trust and respect for the accounting and financial services offered is part of this, but so is the fact that SMPs are also SMEs. As such, they are peers to the SME client, albeit ones with financial acumen. The SME would be unlikely to be hiring the SMP if they could attend to their financial requirements in-house, thus the expertise is missing from the SME and this is likely to garner respect for the services offered, acting as the basis for the ‘trusted advisor’ status. Our research suggests a subtle shift in our understanding of the SMP/SME relationship, however. Rather than there being some kind of hierarchical affiliation, with the professional accountant as superior in their abilities and knowledge, we suggest a much more equitable relationship, with each having certain competencies which garner respect, but is more readily described – where it goes beyond the financial - as a relationship of peers rather than advisor and advised. This shift in perspective has wider implications in our understanding of the dynamics of the SMP/SME relationship. Rather than the popular notion of SMPs as a ‘one-stop-shop’ for SMEs, it suggests a more complex association relating especially to the aspect of trust in an equal partner, than trust in the quality of expertise given.

SMPs are qualified and trained in their role as providers of accountancy and financial services. Many accountants also have other qualifications – which may or may not be related to business - such as undergraduate degrees or postgraduate qualifications in other subjects. As such, each individual accountant has their own set of knowledge based capabilities from which to draw beyond the standard financial perspectives required for their professional status. We found in our research that the real basis of knowledge for environmental sustainability advice was experiential or in some cases based on observed experiences of other clients. SMPs used their own environmental sustainability experiences rather than any extended qualifications or formal toolkit or guidance. It should also be noted that environmental sustainability is an emerging, highly complex subject, requiring trade-offs and compromise, wherein even specialists fail to be certain about outcomes.

Conclusion

In this paper we have used Habermas’ concept of steering media to explore the provision of sustainability advice by small and medium sized accounting practices to their SME clients. We find evidence of relational mechanisms, embedded in the social conversations which take place around the core financial business of the SME/SMP exchange. Accountants in our sample drew on their own personal experiences and interest in sustainability, and sometimes relayed the experiences of other clients, in order to engage in conversation with their clients. According to this perspective steering is towards broad (rather than tightly defined) intentions to improve sustainability and “are the result of existing shared assumptions and values or from the process of deriving these through a relational discourse between stakeholders” (Broadbent *et al*, 2010: 508). Building on this work we argue that the trusted advisor role of the SMP enables the introduction of sustainability issues into informal discussion with SME clients based only on personal (rather than professional accounting) experience and personal knowledge. However, the practical change achieved in terms of influencing sustainability in organizations – the change in lifeworld to use Habermas’ terminology – is negligible as a result of these communicative processes. Substantive change, we suggest, would come only from the concrete implementation of accounting processes and technologies to embed change in the behaviour of the organization and its members. These would take the form of transactional steering.

There are barriers to shifting to transactional steering (i.e. formalized advice) due to a range of reasons including a lack of institutional trust by SMEs in the profession of accounting as environmental sustainability experts, as well as a personal lack of confidence and knowledge by SMPs themselves to transfer accounting skills to environmental accounting processes and developing this to the offering of environmental sustainability advice through formal transaction mechanisms. Future research should investigate further our claim that transactional steering is needed and will be critical in changing organizational practices around sustainability. Other theoretical perspectives might illuminate the research findings from different disciplinary and practical viewpoints which we would welcome. Indeed, since this research is exploratory in nature, a wider empirical study which seeks to test the findings more reliably internationally and across a range of SMP and SME types would also be of value.

This study does not take place in a policy vacuum. Environmental sustainability advice needs for SMEs are changing in a context of new regulatory frameworks, legislation, public interest and competitive demands. Research on the dynamic nature and projection of environmental sustainability requirements for SMEs would be advantageous for understanding this complex but important terrain. In-depth, longitudinal case studies would be suitable methods to develop an understanding of the dynamics of environmental sustainability in SMEs and the role, if any, of the accountant. Furthermore, the research was carried out during 2011/12, a time of economic crisis. This was consistently referred to by respondents as a major influence on attitudes to environmental sustainability. A comparable study in times or regions of economic prosperity would be very valuable, to illuminate the extent of the impact of the economic context.

Much has been written and claimed about the role of the accountant as the most 'trusted advisor'. This research does not undermine this position but has revealed a more nuanced understanding of the limits of this role. Our research indicates that when going beyond financial advice, the accountant is indeed a trusted business peer with useful experience, but may not be a suitable advisor on all topics. Further research could profitably explore in more detail the limits of the 'trusted advisor' status and the limits for the accounting profession.

Finally, this paper is founded on the notion that practices must change if sustainability is to be enhanced. We have sought to use Habermasian theory to better understand inter-organizational influences on practice in small and medium sized enterprises. We hope that this will ultimately better enable policy makers to set the environment for a sustainable future, and businesses to affect change both internally and externally.

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MEASUREMENT OF CONSUMERS' SOCIAL RESPONSIBILITY

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Summary

The problem of consumers' social responsibility (ConSR - Consumer Social Responsibility) has been presented in this article. The importance of a role of responsible consumption in shaping business strategies of socially responsible business has been indicated. The harmony of activities in both areas of responsibility may promote implementation of sustainable development. The aim of this study is to present the theoretical foundations of measuring corporate social responsibility of consumers. It has been indicated that the socially responsible consumer behavior can be measured in an objectified way. The justification of necessity of measurement and the concept of measurement methods of consumers' social responsibility have been presented in the text. The model presents the most important areas and proposals of ConSR metrics.

Keywords: Consumer social responsibility, corporate social responsibility, sustainable development, the method of measuring socially responsible consumption

Introduction

The main research problem in this work is the social responsibility of the consumer (ConSR - Consumer Social Responsibility) as a key determinant influencing the demand side on the possibility of implementing the principles of social responsibility to business organizations. The aim of the study is to identify the meaning of socially responsible consumption in management and to indicate the possibility of its objectified measurement.

Social responsibility of consumers is an attitude characterizing buyers who make informed choices about goods and services that are produced by organizations which use in their strategy the principles of corporate social responsibility. This procedure applies to all groups of goods. This attitude is fully aware of the consequences of such choices for all members of the community and for the future of the environment⁴⁵⁸.

This way of understanding of consumer' social responsibility is a key determinant of sustainable development⁴⁵⁹. As the implementation of corporate social responsibility (CSR) depends on the level of consumers' social responsibility. Balance between consumers' expectations and aspirations of business organization is therefore a prerequisite for sustainable development. The adapting of business organizations to the needs of consumers with responsible consumption is responsible production of goods, which requires the determination of the level of social responsibility of consumers.

Socially responsible consumer has different characteristics depending on the level of economic development of the society in which he lives. For example, in low-developed countries, where income per capita is very low, it is difficult to say about a high level of ConSR, in situations when most people are not able to meet their

⁴⁵⁸ Cyfert Sz., Hoppe G., Social and environmental responsibility as a determinant of consumers' effective implementation of CSR and ECSR, "Overview of the Organization", 8/2011, pp. 1,4.

⁴⁵⁹ Thomas P. L., Maxwell J. W., 2008, Corporate Social Responsibility and the Environment: A Theoretical Perspective, "Review of Environmental Economics and Policy", pp. 2-4.

basic needs. In developing societies, large importance for the continuation of sustainable development is the formation of a growing number of organizations that are guided by the principles of CSR. In effect, it should lead both to an increase in wealth of the society and to increase of social and ecological awareness of communities.

The paper presents the concept of objectified measurement method of ConSR based on an analysis of municipal waste. The justification of necessity of measurement and the concept of measurement methods of consumers' social responsibility have been presented.

What is the social consumers' responsibility and why it is important for the development of CSR concept?

ConSR – concerns the behavior of consumers making informed choices about services and products produced by these organizations which are guided by the principles of corporate social responsibility to implement both strategic and operational objectives. Socially responsible consumer behavior is related to their procurement processes for all categories of products, from products to meet basic physiological needs and ending with luxury goods to meet the needs of higher order. Achieving such state of affairs calls for the need to ensure high environmental and social consciousness of buyers, associated with full awareness of the consequences of the choices for all participants, both the communities in which they live, and for the ecological future of the environment⁴⁶⁰.

All purchased products and services become waste after their consumption, which means that the examination of the waste generated by a particular consumer or consumer group gives a picture of their buying preferences. Of course there is no information in the waste about products and services purchased and consumed outside the home of such consumers, but it seems that this fact has no significant effect on determining in an objective way the purchasing preferences of examined consumers.

According to the definition, socially responsible consumers select products and services which are prepared in organizations which observe the principles of CSR and are characterized by high sensitivity to the environmental issues, and they appreciate sustainable development too. This also means that customers act in a responsible manner with waste produced by them, that is appropriate for the community and according to the accepted principles. According to these rules, generated wastes undergo a process of sorting and eliminating from them the municipal waste stream such as hazardous waste. This specific waste is separated by them and are moved to a special places⁴⁶¹.

The starting point to formulate the assumptions of the research problem in the article is the theory of consumer behavior. Consumer decisions are a key influence on the market⁴⁶². In the conditions of capitalist system, because we have to do with market development in this direction in Poland, the consumer is the central axis of any changes. It may be noted that the power of consumers is increasing and becoming more and more a matter of importance as a market game. The concept of a positive accountability sets consumer perception of his responsibility that accompanies him during the operation on the market and it has a significant role. Consumers generally do not realize this kind of responsibility, but they should take it, to determine their correct direction of the market game⁴⁶³.

One of the consequences of consumer choices is the ability to influence the industry and trade. This deliberate emphasis, caused by consistent individual choices of consumers, may be the only way to shape the appropriate economic development of the world, giving the prospect of a better future⁴⁶⁴. Properly formed strategy of customer will force buyers and sellers to form the appropriate strategy to change the way we manage supply chains for favorable sustainable development.

The right strategy of the shoppers is formed at different rates, depending for example on the level of wealth of the society. However, on a global basis some signs of transformation of the expectations of social terms of business can be noticed. They are dictated by the increasing concern of the quality of living space in the local and global area as well, and present and future too^{465 466}.

⁴⁶⁰ Cyfert Sz., Hoppe G., op. cit., s. 4.

⁴⁶¹ Cyfert Sz., Hoppe G., op. cit., s. 4.

⁴⁶² Rutkowski K., Supply chain, the company's position in market networks, "Harvard Business Review Poland", February 2005, p 63-64.

⁴⁶³ Filek J., 1996, Ontologizacja responsibility, Published by Baran and Suszczyński, Cracow, pp. 31-33.

⁴⁶⁴ Goleman D., 2009, Ecological Intelligence, REBIS, Warsaw, p 7..

⁴⁶⁵ Karaszewski R., Karwacka M., Paluszek A. (ed.), 2011, Corporate Social Responsibility, the prospects and directions of development, Scientific Publisher of Nicolaus Copernicus University in Torun, Torun, p 12.

If the equation of sustainable development can be summarized as follows: responsible consumption + responsible business = sustainability development. Then the filling of the cognitive gap of the level and quality of customers' responsibility, which is actually measuring their expectations from the business, using the proposed method will materialize at least in some part sustainable development.

The issue of measuring socially responsible behavior of consumers has not achieved the status of the important problem related to the effectiveness of development of the concept of CSR yet. Attempts to measure consumers' social responsibility has so far been based on qualitative research, which does not reflect in an objective and comparable way the issue of this phenomenon. Therefore it lacks a more objectified and standardized measurement methods and tools, too.

Among the conditions to address the problem of measurement ConSR, as key determinants of CSR, is a growing importance and interest in the idea of CSR in Poland and abroad. Some of examples are establishment of Respect Index in a project undertaken by the Stock Exchange (GPW), and the appointment by the Prime Minister in 2009 the inter-group (Team for Corporate Social Responsibility) coordinating the development of CSR in Poland. References to the importance of CSR, which plays an important role in shaping a new economic order, are located in strategy of Europe 2020 and the Country Strategy Papers⁴⁶⁷.

Social responsibility in business

The first and central issue in the discussion on corporate social responsibility (CSR) is an economic aspect and it has to be discussed at the outset to dispel any myths and misconceptions. Many of entrepreneurs and representatives of scientific circles equate CSR with philanthropy, sponsorship or pay close attention to environmental aspects. Very often on corporate websites in tabs showing the performance of organizations in the area of CSR we can find thanks from the recipients of aid activities, diplomas and awards, pictures of social action, etc. What is more, representatives of small and medium enterprises answering to the question of their CSR policies say that "it is the expense, which only the corporate business can afford"⁴⁶⁸. On the other hand, representatives of science, culture or art commonly believe that companies are simply required to finance projects implemented by them, and any refusal of support is treated as a personal affront. To some extent such a selective point of view can not be regarded as unquestionably wrong. When we discuss issues of social responsibility without clarifying the economic issues there is a high risk that, precisely in the manner described above, we lose the sense of the idea's assumptions.

We must realize, that the fundamental condition for corporate responsibility, is the implementation of the most important goal, that is to generate profit pursued by every business organization^{469, 470}. Companies are not created in order to solve social problems, to finance sport or science, or to deal with saving the environment. The main goal of business was, is and will be money^{471, 472}. However, the competitive mechanism is based on the responsible consumption and the strength of consumers' decisions, which may limit the actions of unethical businesses, and empower socially responsible companies. In this way, CSR is attractive for both businesses and consumers. Consumer needs are met in an ethical manner and the companies do not seek only to reach profit, and in addition at any price. But it does not mean that firms lose the imperatives of profit and they do not resign their overriding goals⁴⁷³. Moreover, the only for-profit attitude brings results just in the short run nowadays⁴⁷⁴. The positive effect of the implementation of CSR in business does not preclude the pursuit of profit, and even assists in the operations of companies.

We need to carefully consider these assumptions to be able to understand many aspects of accountability. If we agree that the firm's goal is to generate a profit, then we create in the economy area a platform to reflect on the responsible approach to firms management. Is the payment of the total earnings of dividend an expression of accountability to investors or investment funds in further development of the organization will be more responsible?

⁴⁶⁶ Gasparski W., 2007, Lectures on business ethics, Publisher of College of Business and Management of Leon Koźmiński, Warsaw, p 39.

⁴⁶⁷ Report on the activities of consultative and deliberative group for Prime Minister, the Panel on Corporate Social Responsibility, July 4, 2011 Warsaw, pp. 1-6.

⁴⁶⁸ Goleman D., 2009, Ecological Intelligence, REBIS, Warsaw, p 17.

⁴⁶⁹ Gustafson J., 2007, What is the social responsibility of business?, Business, Volume 1, Business Management, Part 1, PWN, Warsaw, pp. 190-193.

⁴⁷⁰ Freeman R. E., Phillips R. A., 2002, Stakeholder Theory: A Liberian Defense, "Business Ethics Quarterly", vol 12, No. 3, pp. 331-350.

⁴⁷¹ Jurek M., Kornacka D., Timeliness theory of corporate social responsibility, "Overview of the Organization", 5/2000, pp. 18-20.

⁴⁷² Noga A., 2009, Theories of business, PWE, Warsaw, pp. 112-120.

⁴⁷³ Fromm E., 1989, To have or to be, Colloquia Communia, Warsaw. In: Lewicka-Strzańska A., About consumer responsibility, "Praxeology", 2002, No. 142, p 165.

⁴⁷⁴ Karwacka M., Chickens M., Gądecki J., 2008, Corporate Responsibility, CSR research in Kujawsko-Pomorskim in 2008, Kujawsko-Pomorski Support Centre of NGO Initiatives Piston, p 8.

So, are the above considerations an attempt to undermine the idea of corporate social responsibility? Of course not, just the opposite. Efforts were made to all available means to support the promotion of CSR as it is believed that the proper understanding and correct implementation of CSR concept can not only strengthen the company, but also give it the ability to create competitive advantage.

What is the phenomenon of corporate social responsibility principles? The answer is trivially simple - it is manifested as the ability to a wider, multi-faceted and long-term perception of the world around us and in understanding that business is not playing poker, in which one winner wins the whole pot. Regardless of whether we do business on a self-employment or we stand at the head of a large company our actions affect the environment, which in turn affects us. Lack of accountability towards informed stakeholders sooner or later develops into the bill, which we will have to settle. What's more when we think about the business, we must realize that the condition for success increasingly will become the principle of win-win (double victory). Today, more measurable indicator of success is often how much we could earn. Each of us has encountered the bitter voice of entrepreneurs who complains that has earned X, while he could "draw" from the client 2 times more. However, this is an example of pathological myopia in business. Modern measure of success must take into account short-and long-term customer satisfaction and no adverse effects for other stakeholders.

Perhaps one could say that in the above assumptions, there is nothing new. Even in the environment of scientist which deal with the quality there are well-known rules which were promoted over a half a century ago by Deming, Juran, and Crosby, emphasizing the role of customer satisfaction, long-term collaboration, continuous improvement, supporting education - ideally corresponding with the assumptions of CSR. Indeed, corporate social responsibility combines the assumptions used in the previously known concepts and methods of management. However, its advantages and possibilities of application to a large extent are determined by social development. Simply, we are now dealing with a situation in which a very important problem - the corporate social responsibility has been recognized by both the business environment, financial markets, government structures, international organizations, mass media and most importantly, this common interest is not due to political decisions but to the evolution of attitudes and social expectations.

Coming back to the merits of the case – what does corporate social responsibility mean in practice? This concept is designed to draw attention to the fact that in conditions of the current social development, firm must take into account many more variables than was the case in their activities in the past. Today, it is not enough to move only within the limits of applicable law and customary rules⁴⁷⁵. The growing awareness of the principles of sustainable development, weakening confidence in business circles due to numerous bankruptcies of giant corporations, a need to redefine the ideals of a consumer life approach and a weakening role of inefficient state structures, all lead to the need to develop a new base for business. Therefore, the concept of CSR draws attention to the legal, ethical, ecological, social, philanthropic, and of course the already mentioned above, the economic aspects⁴⁷⁶.

Areas of CSR

Each of the above items could be the subject of extensive discussion. But they are discussed in this paper in a few sentences.

The problem of ethics. It is often stated that the term "business ethics" is a kind of an oxymoron. After all, it is a well known phrase in our country that: "the first million you need to steal." Probably, there is also a bit of truth in it. If we study the names of the richest Polish people 20 years ago, we see that most of them are the customers of the penitentiary then members of the prestigious Business Centre Club. But we must remember that the rules of the Wild West are the domain of time of the conquest of the new reality and lose the advantages of application in an established environment. Therefore, it is still important to work on developing a responsible culture, which must be based on clearly defined values, objectives and assumptions. Work on continuous improvement of ethical standards which determine the quality of the promoted within the organization values is thus a kind of frame of responsible company. If we reread the last two sentences we can think with skepticism and treat the above suggestions as utopias. Values, ethics - for example in a construction company or the restaurant, that might seem unthinkable. But why not - work on shaping the organizational culture in construction company or in a restaurant can be as useful and profitable as in the well-known consulting company. How to require of workers fair accounting with the materials if the business owner

⁴⁷⁵ Nidumolu R., Prahalad C. K., Rangaswami M. R., Sustainable development: the main engine of innovation today, "Harvard Business Review Poland", March 2010, p. 63..

⁴⁷⁶ Crane A., McWilliams A., Matten D., Moon J., Stegel D., 2009, The Oxford Handbook of Corporate Social Responsibility, OXFORD University Press, New York, pp. 3-5.

pushes cheaper, inferior replacements as much as he can, cheating investor's at the same time? "If the rich boss steals I'd be a fool, if I also did not take the opportunity" thinks the worker.

Responsibility in the legal area involves the development of policies, in which there is no place for such trendy activities as: "exploit loopholes", "balancing on the edge", "bending the law", but there is the space for using transparent methods and fair lobbying in many developed countries. Entering the CSR does not imply a passive attitude towards the activities of authority structures. On the contrary - a socially responsible company is committed to shaping a favorable legal regulations using the available instruments of impact. The possibility of real influence on legislative solutions does not necessarily remain exclusively the domain of large business organizations, small businesses as well by actively participating in the activities of chambers of commerce, industry associations are able to monitor and correct ideas of policy makers.

It is needless to mention the environmental issues in the era of the fight against plastic commercials and universal promoting of eco attitudes. However, we must refer to one thing. Often when we think about environmental issues in business we visualize the image of smoking chimneys of Power Station Bełchatów, and then somehow automatically, in the face of a size of the pathology, we grant ourselves absolution for our tiny sins, which seem to be almost insignificant. This is a mistake. Every dripping tap, mindlessly open window during the heating season, electric charger left in the socket or a flashy roar of the fuel-consuming engine which soothes complexes those of low libido in this way, is not only diminishing natural resources, but also detrimental to our wallet.

At the end of the considerations the last two matters - philanthropy and sociological issues. If in the remaining four issues, it is clear that considered engagement of organizations influences the improvement of quality of their functioning and develops their potential, but at this case it may seem that we can talk only about the load. But this is not true. Even supporting education can bring valuable results in terms of access to trained and prepared staff. The sponsorship of cultural or humanitarian activities can contribute to solving many difficult social problems and at the same time gives us a measurable effect in improving the image or helps as reach new customers. Many skeptics may protest again indicating that such action is only cold public relations and not a true "gift of the heart". But we must remember that the issue raised here is corporate social responsibility and not the philanthropic attitudes of business owners. Responsibility of business organization is the ability to create synergies effects flowing from taking actions favorable to more than one group of stakeholders. Unfortunately, in practice, these actions are extremely complex.

How to navigate in a world filled with pressing issues? How having only limited resources make the right choice of whom we can help at the same time contributing to the development of our organization? How not to have adverse effect on the environment? Or is it better to concentrate on making money and leave solving problems to others? These are the questions which today's managers will have to ask increasingly often⁴⁷⁷. Even the most prominent specialists cannot cope with so many issues if they do not find a reference point in the vision, mission and precisely formulated values, and if they do not understand that CSR is a coherent strategy, not just the position in the budget of promotional activities.

This is where equally important issue of measuring consumers' social responsibility occurs, which may prove useful in considering the many issues related to the clarification of the company's strategy which is based on the concept of CSR.

The importance of research on consumer responsibility

The postulate of analysis the ConSR problem is the result of authors' researches on the concept of determinants of corporate social responsibility (CSR). The problem of social responsibility of consumers (Consumer Social Responsibility - ConSR) is closely related to CSR, as responsible consumption is one of the key determinants of the implementation of the principles of this concept in business organizations^{478, 479}.

One of the most difficult problems of modern organizations is their attitude to social environment. Failure to comply with social expectations for the organization may bring the negative consequences such as loss of

⁴⁷⁷ Gustafson J., 2007, What is the social responsibility of business?, Business, Volume 1, Business Management, Part 1, PWN, Warsaw, pp. 190-193.

⁴⁷⁸ Goleman D., 2009, Ecological Intelligence, REBIS, Warsaw, p. 7.

⁴⁷⁹ Karaszewski R., Karwacka M., Paluszek A. (ed.), 2011, Corporate Social Responsibility, the prospects and directions of development, Scientific Publisher of Nicolaus Copernicus University in Torun, Torun, p 12.

market, brand degradation and even legal and financial sanctions. Organizations as open systems that interact with various stakeholders, must be managed ethically in order to avoid these negative consequences.

This raises the need for ethical decision making, taking into account the interests of the communities in which the organization operates⁴⁸⁰. Today, many organizations in different industries and different sizes and for various reasons, say they are willing to commit to meet purposes for the society⁴⁸¹.

The areas of corporate social responsibility can be determined on the basis of the types of organization's environment. Among the major areas of corporate social responsibility, distinguished by subject, must be mentioned: the "electorate" of enterprises, natural environment and social welfare in general.

The requirements of society in CSR are noticeably bigger than ever. This is due to increase public awareness, among other things because of the rising level of educating. Therefore, the planning of social responsibility has an important place in the management of business organizations, especially on strategic level.

State of knowledge on CSR and many of its conditions can be defined as unsatisfactory. This follows from the fact that although from about a dozen years it is talking more often on CSR, and many types of organizations are dealing with the issues, but is a too short time for the canons of new knowledge creation. Previous views on social responsibility have been partly devalued as a result of permanently changing environment. Many of the definitions up of CSR has not been agreed. It not been achieved yet consensus on the basic issue, namely whether CSR is "good", or maybe "bad" for business. Many paths, therefore, remains still undiscovered, in this one concerning the meaning and measurement of consumer social responsibility for the development of CSR.

Most multinational corporations is well aware of the importance of social activities, they have been implemented, and they are bringing the ongoing activities of the organizations financial benefits. W in the Polish reality, especially in small-scale enterprises, the problem is often unrecognized. Even if CSR is used in business practices but often the idea is shallowing and actions are not systemic. The longer a company in Poland are left behind by its competitors, the gap that separates them is becoming deeper and more difficult to catch up.

Implementation of the principles of CSR into the business encounters a problem to accept suitable shape and dimension in organizations. It is associated with an incorrect understanding of the essence of the concept. Until now it was too shallow and narrow. Companies are not aware of costs and revenues related to the implementation of the concept, so they are not able to measure the effectiveness of these actions. There are so many gaps of information both in theory and practice of CSR, which must be filled in order to increase the success of the idea of social responsibility. One is the lack of information on consumer expectations towards business organizations using the principles of social responsibility and the willingness of this group of stakeholders for the adoption of these rules.

The dynamic development of the concept of CSR is observed In Polish conditions, but it is still the initial phase. There is an imbalance in the distribution of the effective implementation of this concept into practice. The smallest difficulty have great units with foreign capital, as both the cultural conditions and the direction of propagation of the idea of CSR conducive these firms. Companies not falling in the aforementioned elite should be assisted in the effective action for the society. The effectiveness of their activities is likely to increase if managers receive the tools and through them knowledge of consumers' readiness to adopt the practice of CSR in Polish realities of business.

In summary it should be noted that the issue of measuring socially responsible behavior of consumers do not yet achieved the status of the important issue in the development effectiveness of CSR. Implementation of research on this topic would enable expansion of knowledge of ConSR. Until now, attempts to measure consumers' social responsibility were based on qualitative research, which does not reflect in an objective and comparable this phenomenon. Therefore lacks a more objectified and standardized measurement methods and tools.

Currently, CSR as a concept of management is undergoing a renaissance. The main reason is the return of society, including business and, in the direction of respect for the essential values. Proposed solutions for the development of a business model focused on the observance of ethical principles for all, including external

⁴⁸⁰ Gryffin R. W., Principles of management, PWN, 1996, pp. 135-144.

⁴⁸¹ Report on the activities of consultative and deliberative group for Prime Minister, the Panel on Corporate Social Responsibility, July 4, 2011 Warsaw, pp. 1-6.

stakeholder of organizations. All this is due to changes not only in business but in world with around the business. These substitutions can be observed in many areas such as the social sphere (including demographics), economic and environmental spheres.

Changes in the further environment affect businesses indirectly through the closer environment, such as competitors, consumers, suppliers, etc. The impact of buyers is associated with the formation and changes their preferences and needs. Consumers on a global basis are becoming more aware in making choices on the market. The important role in consumer choices are non-price factors⁴⁸². This forces the concrete actions of business in the field of production, marketing, competitive strategies, etc. Adaptation measures are implemented in enterprises from always, without this there could have been talking for example of the successful strategy of marketing. However, to properly construct a product, marketing, or strategy of the company in accordance with the principles of CSR, managers must understand consumers' expectations and opportunities in this area. So, be determined with a high degree of objectivity the level and quality of social responsibility of consumers.

In conditions of globalization and the leveling of the level of firms' equipment in productive, technological and financial resources, there are explored solutions in the sphere of competition. "Soft" resources gain in importance, such as knowledge, human capital, relational capital, organizational culture, leadership. These resources allow the use of innovations in management and to build competitive the original strategy. It results the increasing of value for business. Organization's development is a good thing not only for participants in these organizations, but also for other stakeholders, particularly if it is sustainable development, and such is proposed in the concept of CSR. So the consideration of determinants of effective implementation the concept of CSR into the business (one of them is ConSR), including its measurement, reflects the trend of development not only of management science, but it is also important for the development of civilization.

There is no doubt that the study should include the issue of CSR in ever wider and more detailed scale, because social responsibility is gaining importance. It is in the field of interest of business, society, and governments in a global context.

The research problem is particularly relevant in the context of the ongoing changes of business model, which are forced by changes and expectations of the environment. Managing Polish companies are under increasing competitive pressure. The supply is increasing significantly, while demand is growing with a slower dynamics due to stagnation of consumers' income and difficult situation in the labor market. Strong competition from countries such as China and India makes it difficult to compete by adopting strategies low price based on low costs because these costs are not low. That's why the demand for innovative new strategies increases. More and more frequently, as research indicates, the changes in strategy won't rely on existing procedures involving cost reduction, improved operational efficiency and restructuring of the company⁴⁸³. They are looking for new developments. One of the possibilities is to adopt a business model based on social responsibility, which in turn requires the knowledge of consumer expectations and opportunities to express their sense of duty towards society.

The relevance of the concept of CSR is so great that this subjects has been permanently inscribed in the range of activities at EU level. Since 2000 have lasted the concrete actions to reinforce the competitiveness of the economic and social the Union in accordance with mainstream of sustainable development. These activities are called the Lisbon process and the associated document issued by the European Commission to: Green Paper on Corporate Social Responsibility. There was initiated a public debate on corporate responsibility, which was attended the EU institutions: Directorates-General of Commission for employment, social affairs, enterprise and information society, trade, environmental protection, industry, trade unions, media, experts, NGOs and institutions scientific. The result of the action taken is the strategy of implementation and dissemination of responsible business practices in the European Union called the White Paper: Communication on CSR. The concept of corporate responsibility has become one of the key themes of the EU economic policy. There were set up appropriate institutions, in the national parliaments began the legislative processes, research programs have been launched.

Proposed concept of measurement of consumers' social responsibility - methodological assumptions

⁴⁸² Roslan M., The importance of the place of manufacture of products in consumer choices, Implementation research: TNS on behalf of brands Zywiec, p.2.

⁴⁸³ Ignaczewska H., Łokaj A., Time to escape to the front, „Business Harward Review Polska”, July/August 2005, p. 13.

The research problem is to define the essence of social responsibility of consumers, its definition and identification of areas of its implementation that can be objectively measured using the existing methods of quantitative and qualitative analysis of municipal waste.

Based on existing studies and analysis of the literature it is assumed that:

- consumers can take a positive attitude of social responsibility,
- behavior (attitudes) consumers in the market for goods and services can be reflected through the formation of morphology of municipal waste produced by them. These variables can be measured, and it is possible to create one comprehensive measure of the quality and level of social responsibility of consumers.

In view of the mentioned above assumptions, analysis of selected qualitative and quantitative variables describing the household waste, should allow objectified assessment of the relative level of social responsibility of consumers and resulting from it expectations towards the enterprises engaged in pro-social activities. There will also be possible to characterize the social responsibility of the selected groups of consumers based on the identification and description of the core areas of implementation of their attitudes.

It is important for the purposes of this study to determine the essential features of the socially responsible consumer in developed societies. The height of the ConSR for such societies is determined by the amount of knowingly bought goods from CSR organizations and by responsible attitude to the environment future. We can notice such behavior in the treatment of municipal waste and its morphological composition and it can be described by the characteristics of the waste, which also determine the most important areas of consumers' social responsibility, as following:

1. Sorting of waste in accordance with the obligatory rules in the society.
2. Management of hazardous wastes.
3. The amount of waste that is easily recyclable.
4. Number of packaging products, produced by organizations using the principles of CSR in relation to other waste.

Conclusions

In view of the high importance of the implementation of corporate social responsibility to Polish companies, the measurement of consumers' social responsibility as a factor facilitating the effective acceptance of this concept, is becoming necessary. Equally important is the issue of new trends shaping consumer behavior, such as:

- multifactorial purchasing decisions, with emphasis on beyond price factors,
- increase in the awareness of consumers who feel more responsible for their decisions in a positive dimension,
- hardly positive attitudes to the economic condition in global terms which limit trends of excessive consumerism,
- lack of confidence towards brands as a result of unethical behavior on the markets and bursting speculative bubbles, which bring about changes in consumer habits.

To know the effects of these changes accurately it should be initiated to prepare and develop a method to measure objectified social responsibility of customers. The study will be important for the development of management theory. The knowledge gained could significantly complement the cognitive gap in the science of management regarding the social responsibility of consumers and the possibility of its measurement. The developed method can be used in the development of both science and business practice in the future it. Guidelines relating the possibility of adapting the method to conditions other than those of Polish society will be developed. Measuring and determining the level of social responsibility of consumers will enable researchers and consumer organizations to obtain knowledge and guidance for further research on the evolution of responsible behavior of consumers. The ability to measure ConSR, achieved through a more objective method, will be useful to obtain information necessary to raise the efficiency of management processes in Polish enterprises, which is important for the dissemination of innovative solutions and will enable making real the idea of the sustainable development promoted in international politics.

The solution of the original research problem is postulated, as it is resolved in a small degree. The problem deserves recognition and examination in the Polish and global realities. It is evidenced by the current scientific

achievements in this area. There is a lack of studies which run consumers' social responsibility issues, its importance for the development of CSR and the economy and ways to measure ConSR. A crucial problem is to gain new knowledge about the objective measurement of qualitative phenomenon as is the social responsibility of the consumers.

Development of methods for measuring consumers' social responsibility will allow to use it for further more detailed study at first in theory and then in management practice. Measuring and determination of the level consumers' social responsibility, will enable researchers and consumer organizations to gain knowledge and suggestions for further research into the evolution of responsible behavior of consumers. the possibility achieved through an objective measurement method of ConSR can be useful to obtain information necessary for improving the efficiency of Polish enterprises management processes, which is important for the dissemination of innovative solutions and allow for making real the idea of sustainable development promoted in international politics recently.

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EVALUATION OF THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON COMPANY'S REPUTATION

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Summary

Corporate social responsibility is the form of advisable activity which is made by organizations to integrate social and environmental concerns in their activity and in their interaction with the strategic stakeholders (consumers, partners, employees, local community, public institutions). Despite of significant difficulties in the development of socially responsible management in Ukraine, we have identified the possible prospects of socially responsible business. The results of researches allowed defining key characteristics of socially oriented enterprises. These characteristics can be used in the process of identifying the levels of social orientation of enterprises. We identified a set of quantitative and qualitative indicators which can estimate the state of socially oriented business management. The results of the integral indicators calculating of socially oriented management allowed defining the coefficients which show the level of company's reputation. The most important activities which impact on the corporate reputation are good business practice in relation to suppliers and other business partners, competency management system, charity, sponsorship activities and regional employment rate.

Keywords: corporate social responsibility, company's reputation, socially responsible management, socially oriented enterprises.

Introduction

The dominant tendencies in development of the global business community cause the importance of corporate social responsibility (CSR). The discussions about the content and significance of social responsibility have been passing in leading academic and business circles since the 1960s. The stages of formation and development of term 'corporate social responsibility' are represented in surveys of the famous foreign scientists such as Carroll, Schwartz, Steurer, Van Marrewijk, Velasquez, Wood and others. Modern literature uses the CSR concept 'as the base point, building block, or point-of-departure for other related concepts and themes, many of which embraced CSR-thinking and were quite compatible with it. CSP, stakeholder-theory, business ethics theory, and corporate citizenship were the major themes that took center stage...' (Carroll 1999). Corporate social responsibility is not the same as ethical behaviour, but it is 'an important component of such action' (Gail & Nowak, 2006). The European Commission has put forward a new, simpler definition of corporate social responsibility as 'the responsibility of enterprises for their impacts on society' (The European Commission, 2011).

CSR is one of the key factors for creating an effective dialogue between the government, business and civil society. The development of CSR displays the level of partnership between companies, governments and main persons of civil society in solving social problems and accelerating the quality development of society.

The majority of companies in Ukraine is not aware of their role and responsibility in the social-economic development of the country. The social partnership between companies, business, government and community of Ukraine is characterized by fragmentariness and lack of systematicness. Nevertheless, the most successful enterprises start to pay attention to aspects such as company's reputation, corporate brand, corporate loyalty of staff, sustainable development. Ukrainian businessmen suggest that social activity can improve the company's reputation but deny the necessity of realization of CSR programs on a voluntary basis.

It should be noted that fundamental researches of development in social responsibility haven't been held in Ukraine. The majority of researches were initiated by community organizations. The results of these

researches are characterized by declaritiveness and lack of practical orientation. That's why, the display of social activity by enterprises is not the part of their strategy for improving the company's business reputation. The main reason of that is misunderstanding by top-managers of the impact of corporate social responsibility on company's business reputation. Therefore, it is important to measure companies' social responsibility and convince how their performance can be improved.

1. Problem definition.

Evaluation of the impact of corporate social responsibility on company's reputation can be divided into three parts, and each of them can be treated as hypothesis:

- *Hypothesis 1*: "The integration of social responsibility into corporate practices can play a major role in improving long-term company's reputation.
- *Hypothesis 2*: "Strategy of corporate social responsibility aims to create conditions favourable to sustainable growth and employment generation in the medium and long term".
- *Hypothesis 3*: "The impact of CSR programs on company's business reputation should be evaluated with the using of economic-mathematical methods of fuzzy sets".

Our aim was to adjust existing economic-mathematical methods of analysis for evaluation of the impact of corporate social responsibility on company's reputation and testing mentioned hypotheses.

First of all, a subject of study should be defined. Term 'corporate social responsibility' has many various definitions which are a topic for many social science disputes. To be correct, let's note that under 'corporate social responsibility' we understand the form of purposeful activity, which is made by organizations to integrate social and environmental concerns in their activity and in their interaction with the strategic stakeholders (consumers, partners, employees, local community, public institutions). The main task of this cooperative activity is to provide legislative implementation of organization mission and vision by voluntary and targeted social investments to solve social problems in the long-term perspective.

Taking into account the complexity of social-economical researches of corporate social responsibility, it is important to make economical measuring the impact of corporate social responsibility on company's reputation with adjusting of economic-mathematical methods for this evaluation.

Given paper represents the research focused on development of methodology for investigation of the corporate social responsibility concept with the use of economic-mathematical methods of analysis.

2. Challenges and Opportunities for Company's Reputation in Ukraine.

2.1. Components of Corporate Social Responsibility.

The development of modern economics science is aimed at providing the sustainable economic growth by achieving social, economic and environmental priorities of society. The interaction of social and economic components requires to achieve fairness (equal distribution of wealth among groups or individuals) and legal assistance for poor people. The integration of ecological and economic components requires assessing the anthropogenic impact on the environment. These components contribute to human welfare, both directly and indirectly, and therefore represent part of the total economic value of the society. Integration of science and business seeks to integrate the economic, environmental and societal aspects to achieve sustained financial success, safeguard the environment and develop the company's reputation as a respected corporate citizen.

Corporate reputation is the concept that focuses on held company's profit based on its effective partnership with internal and external stakeholders. Corporate reputation is formed by the company's various publics on the basis of information and experience. The company may have a slightly different reputation with each stakeholder according to their experiences in dealing with the organization or in what they have heard about it from others. Many companies put the importance of a good reputation to the back of their minds while they attend to more hard-edged, day-to-day urgencies. On the other hand, many organizations consider their greatest asset to be their good name or reputation. This is especially true in knowledge-based organizations such as professional services firms in the consulting, legal, medical and financial sectors. They work actively to build their good reputation, to develop their core competencies.

The approaches to the interpretation of term 'corporate social responsibility' by managers of different organization levels were analyzed in this paper. This study is based on results of activities of 57 industrial enterprises in four areas of engineering (heavy engineering industry, chemical engineering, electrical

engineering, mechanical engineering) in three regions of Ukraine (Eastern, Western, Central). The results of researches are based on surveys and questionnaires of managers. 175 people were involved in the process of the research, 75 of whom worked as managers in big companies, 46 in medium enterprises and 54 in small firms.

Table 1

The features of social responsibility perception by managers in Ukrainian companies

The components of social responsibility	Companies (%)		
	Small (till 50 persons)	Medium (50-250 persons)	Big (over 250 persons)
Concordance with social standards in the sphere of employee payment and personnel safety	70,5	66,5	63,1
Training and staff development	68,4	50,8	56,2
Meeting the needs of customers for product quality	58,7	43,5	47,8
Payment of taxes and fees to the state budget in time	40,9	38,6	36,9
Creating new jobs	9,5	16,8	34,8
Reliability in relations with partners and customers	26,5	19,9	34,7
Openness and transparency of activities	26,5	18,6	20,4
The implementation of environmental programs	3,4	11,8	15,4
Charity	3,2	8,9	12,6
Meeting the demands of shareholders and investors	10,4	28,5	29,6
The development of social infrastructure	1,2	19,5	26,7

The results of top managers' questioning displayed that 8,7 % of top managers defined the social responsibility as a way to increase the competitiveness of enterprises. Also 56,5 % of the respondents considered the social responsibility as the approach to implementing the social programs to improve working conditions; 50,8 % of people emphasized the importance of human resources development; 43,5 % of the respondents noted the importance of socially oriented policies towards customers; 28,6 % of people declared the obligatory to pay taxes and other duties to the budget in time. Thus, the majority of companies perceive the social responsibility as the direction of internal social programs. Such social programs aim to meet the needs of staff for providing decent wages, health and safety personnel, training and development of human resources.

Each company tries to achieve success in business. However, not all the companies are successful. Each of the successful companies has own success secret. One of the most important things in business success is the organization philosophy, mission, vision, credo, clear goals and objectives which would display the forming of core competencies of organization. In this research we analyzed the approaches to understanding the mission and CSR goals of enterprises by top managers (Figure 1 about here).

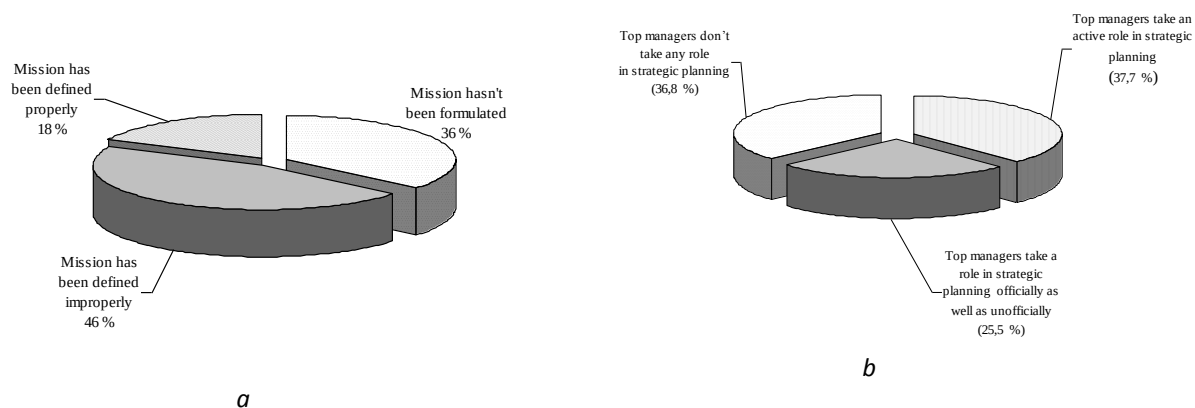


Figure. 1. The approaches to understanding the mission and CSR goals of enterprises by top managers:

a - the forming of mission with regard to the CSR principles; *б* – the forms of taking part of managers in CSR strategic planning

The results of analysis allowed defining some tendencies in understanding of the importance of mission by the top managers of surveyed enterprises. Due to the research, 18 % of respondents identified the mission of enterprise as CSR program in regard to its strategic stakeholders; 46% of persons formulated the mission as the strategy to get a profit in short period; 36% of respondents couldn't define the sense of enterprise' mission. In addition, the role of top-managers in CSR strategic planning was analyzed. According to results of survey, 37,7 % of top managers are actively involved in CSR strategic planning of companies; 25,5 % of respondents thought that they took part in the process of forming mission informally; 36,8 % of persons declared that they have never been involved in CSR planning.

2.2. Challenges and Incentive Measures for Promoting Business Social Responsibility in Ukraine.

Key factors which limit the development of social responsible management in Ukrainian enterprises were analyzed in this research. According to survey, we have found out that the main obstacles for the development of social responsibility industry are lack of financial resources, absence of the acceptable legislation and low level of motivation in business (Figure 2 about here). In addition, the lack of appropriate tax incentives in state leads to loss of interest in Ukrainian enterprises to implement the social responsible programs.

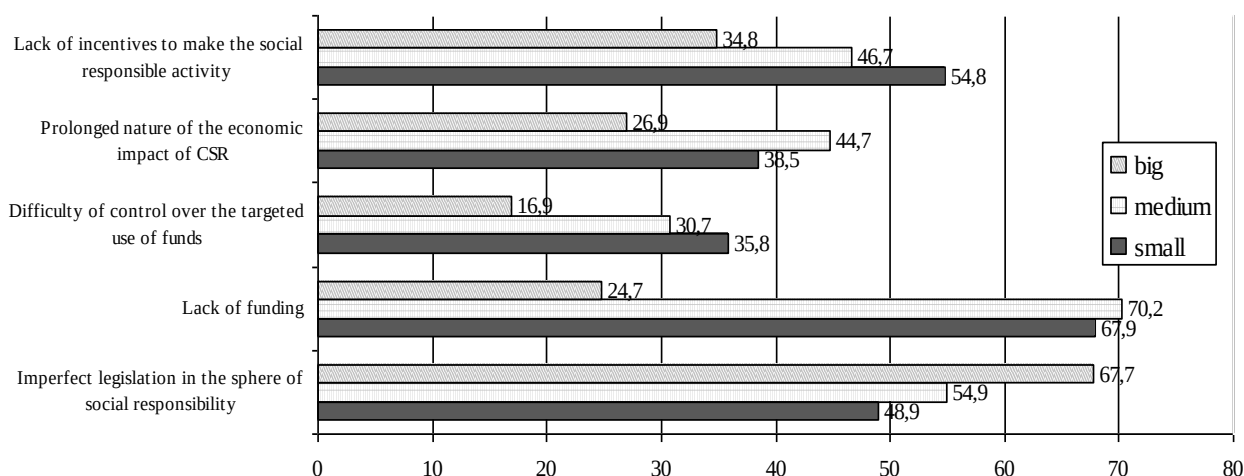


Figure 2. The factors which limit the development of business social responsibility in Ukraine
(percentage of companies)

Despite of the significant difficulties in the development of socially responsible management in Ukrainian enterprises, we have identified the possible prospects of socially responsible business in Ukraine. These results showed that tax optimization, reduce of regulatory and administrative pressure are the most important incentives to develop the social responsible business in Ukraine (Figure 3 about here).

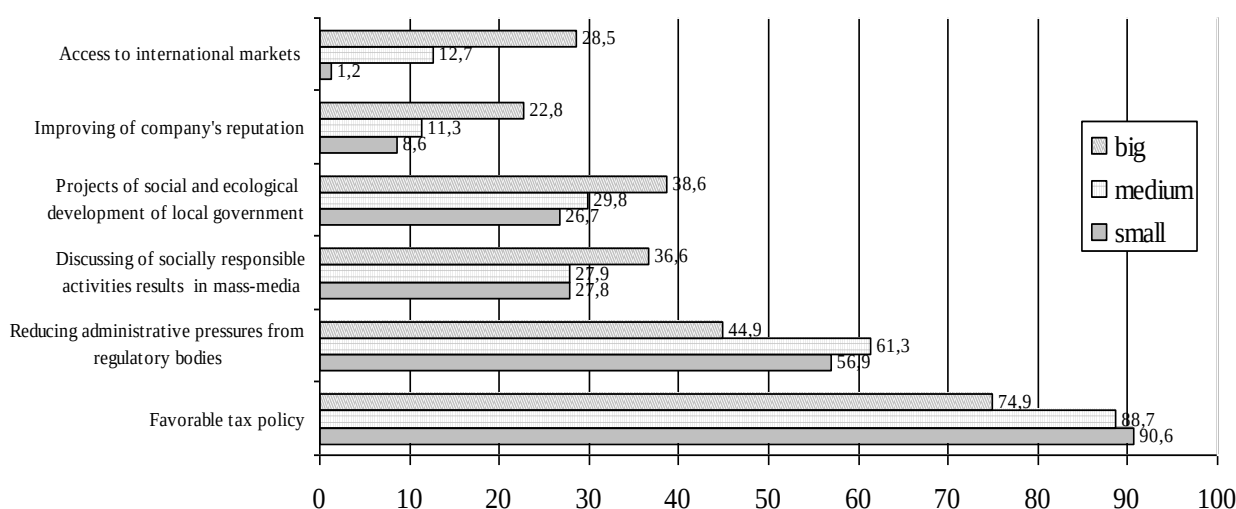


Figure 3. Incentive measures to promote business social responsibility in Ukraine (percentage of companies)

The results of researches allow making a conclusion that the implementation of CSR principles in business practice in Ukraine is a privilege of big diversified industrial enterprises. Thus, the majority of top managers consider that social problems must be resolved by government structures. Furthermore, the main goal of business is to provide a profit and pay the taxes in budget. Despite of the dominance of certain negative tendencies in CSR development in Ukraine, the representatives of big companies emphasize the advisability of participation in companies for solving social problems in society.

3. Basic Characteristics of Socially Oriented Companies.

According to the researches, socially oriented enterprise can implement the principles of sustainable development in its activities to ensure the harmonization of social, economic and environmental priorities with the stakeholders' interests. Evaluation of social orientation can be made on the basis of bringing into proper correlation between the harmonization of organization's goals and the expectations of managers, staff, investors and other strategic stakeholders. We analyzed the kinds of the obligatory social activity of enterprises and forms of social activity on a voluntary basis.

In Ukraine the obligatory social activity of enterprises includes such social payments: social payments for mandatory state social insurance; social payments for mandatory state pension insurance and social payments for pension insurance on a voluntary basis; social payments for obligatory state social insurance for unemployment cases.

The additional social costs refer to the costs that are linked with a particular social mission. In social enterprises with an employment mission, these costs are often related to providing the extra training, supervision and support those enable individuals with significant barriers to employment to become successful employees. In social enterprises with an environmental mission, the social costs might be related to materials or technologies that are not yet mass-produced.

The results of researches allowed defining and systematizing the core characteristics of socially oriented enterprises:

1. The harmonized management system which includes values and strategic goals of social responsible activity. This statement characterizes the capabilities of enterprise to harmonize its activity with the strategic interests of stakeholders. The harmonization should assess the needs of staff, owners and investors.
2. The positive dynamics of key financial and economic performance of companies must take place over the past 3 years. It should be noted that the quantity of unprofitable enterprises increased in Ukraine for 2009-2011 (total level of unprofitability was 15% of GDP in 2009).
3. Implementation of social responsible policy in development of enterprises. Such policy must be aimed to the providing of mandatory social benefits and the additional social payments.
4. Meeting social needs of workers by improvement of life-limiting conditions, benefits of long-term housing loans, payment of financial assistance, getting health insurance, medical care and many other needs.
5. Development of infrastructure for charities and social enterprises. The social infrastructure of enterprise must support training, advice, information, mentoring and support-services that address needs in the areas of strategy development; general management (human resources, operations, financial and accounting, information and communications technologies, and other management areas), regulation; fundraising and funding. The social infrastructure can include medical centres, recreation and health centres, kindergartens, cultural institutions, housing and other social centres. In Ukraine only big comprehensive companies with employees more than 500 persons have modern social infrastructure.
6. Effectiveness of corporate policy in health and safety personnel, including comprehensive technical and organizational measures, appraisal jobs, training and testing of employees, reducing the number of accidents and fatalities and so on.
7. Training and staff development through a variety of training activities, including training as individual learning, training of various categories of staff, coaching, mentoring and other forms of training.
8. The financing of social projects related to the charity, sponsorship and patronage. Implementation of this component describes the development of philanthropic responsibility of the enterprise in regard to internal and external stakeholders.
9. Effective environmental policy of the company. The policy must be aimed to reduce its carbon footprint, improve recycling, reduce reliance on packaging, minimizing waste and improve efficiencies on finite natural resources in all of the company's operations and all departments.

These characteristics can be used in the process of identifying the levels of social orientation of enterprises. We used the A. Shyhverdiyeva and A. Seryakova's approach to determine the quality index of social investments. Thus, the quality index of social orientation of an enterprise (SOI_i) can be calculated by formula (1):

$$SOI_i = \left(\frac{1}{m} \cdot \sum_{i=1}^m X_{ij} \right) \cdot 100\% \quad (1)$$

where X_{ij} – a boolean variable, which can be used to estimate the availability of any characteristics ($X_{ij} = 0$ if a characteristic is available; $X_{ij} = 1$ if a characteristic is not available);

m – number of characteristics of social orientation of enterprise.

The calculation of degree of availability j -th characteristic in the statistical sample of companies can be made by formula (2):

$$SOI_j = \left(\frac{1}{n} \cdot \sum_{i=1}^n X_{ij} \right) \cdot 100\% \quad (2)$$

The calculation of these indexes allows determining the appropriate level of social orientation of enterprise. As set out in the table 2, we propose three levels of social orientation of enterprises.

Table 2

Levels of social orientation of enterprises

Levels	The level of social orientation development	The characteristics of level of socially orientated enterprise
1	<i>Unsatisfactory</i> SO_i [1–30], (%)	- Companies do not have the value priorities during the introduction of socially responsible activities; - Unsatisfactory financial and economic performance of company; - Ineffective social policy; - Reducing the incentive role of wages; - The ineffectiveness of social infrastructure; - Low efficiency of health and safety staff strategy; - Low quality of educational programs; - Low level of funding for social programs and projects; - Lack of the clearly formulated environmental policy in regard to reducing destructive environmental impact.
2	<i>Acceptable</i> SO_i [31–60], (%)	- The formalized approach for defining the value priorities during the introduction of socially responsible activities; - Financial and economic stagnation of business development; - Lack of institutional support for social policy of company; - The functioning of company's social infrastructure; - Periodic attestation of workplaces, enforcement of the safety requirements; - Periodic training of human resources; - One-time financing of social projects, the lack of an effective system of long-term social programs and projects.
3	<i>Optimal</i> SO_i [61–100], (%)	- Development and implementation of value priorities of socially responsible activities to ensure the harmonization of interests with the interests of stakeholders; - Positive dynamics of key financial and economic indicators; - Effective institutional provision of social policy; - An effective system of remuneration and compensation; - Development of social infrastructure; - Implementation of monitoring safety and health systems; - Implementation of competency models in the system of knowledge management; - Active participation of company in the financing of social projects which aim to meet the expectations of consumers, community development, environmental protection and others.

Thus, the process of development of values and principles in socially responsible management takes place in the Ukrainian enterprises. However, the formation of socially responsible management system is the privilege of big diversified companies. The characteristics of socially orientated enterprises which are proposed in this research display the methodological basis of impact of corporate social responsibility on company's reputation.

4. The simulation of the impact of corporate social responsibility on company's reputation.

The creation of conditions for socially-oriented management in the enterprises requires the researches of measuring the CSR impact on business reputation. Due to the fundamental scientific researches in the area of social responsibility, the business reputation is a valuable treasure. Some people make the argument that company's profit is one of the factors that gives a company a positive reputation. However, a company's reputation is often one of the factors that contributes to its ability to make profits on the first place. When companies are known to be reputable, customers feel more comfortable doing business with them. Consequently, shareholder value rises along with a company's bottom line. Companies who invest in social projects, such as development local communities, can expect a very positive return on this investment.

CSR evaluation process is one of the main conditions in effective simulation of impact of social indicators on business reputation's level. In economics, a model is a theoretical construct that represents economic processes by a set of variables and a set of logical and/or quantitative relationships. We identified a set of

quantitative and qualitative indicators which can estimate the level of socially-oriented business management (Table 3 about here).

Table 3

The quantitative and qualitative indicators of CSR evaluation process

<i>Quantitative indicators</i>		<i>Qualitative indicators</i>	
Marking	Indicator	Marking	Indicator
x_1	Net profit	y_1	Social policy of enterprise
x_2	Net income	y_2	Quality of corporate management system
x_3	Net Assets	y_3	Level of top management competence
x_4	Share ratio of assets	y_4	System of training and staff development
x_5	Share of fixed assets in total assets	y_5	Level of employees' social protection
x_6	Return on assets	y_6	Corporate Culture
x_7	Return on equity	y_7	Business practices in relation to consumers
x_8	Profitability	y_8	Business practices in relation to suppliers and other business partners
x_9	Value Debt and equity	y_9	Correspondence with legislation of Ukraine
x_{10}	Gross profit margin	y_{10}	Regularly compilation of social accounting
x_{11}	Liquidity	y_{11}	Regional employment rate
x_{12}	Number of employees	y_{12}	Implementation of environmental programs
x_{13}	Labour productivity	y_{13}	Participation in regional social development programs
x_{14}	Labour costs	y_{14}	Charity and sponsorship
x_{15}	Salary	y_{15}	Informatization of social programs implementation
x_{16}	Net revenue per employee		
x_{17}	The share of voluntary social costs in net income		
x_{18}	The share of social costs in total costs		

The description of quality indicators is represented in Table 4.

We have analyzed key performance indicators of industrial enterprises in four areas of engineering (heavy engineering industry, chemical engineering, electrical engineering, mechanical engineering) in Eastern, Western and Central regions of Ukraine for 2004-2009. The complex and ambiguous dependency between different groups of quantitative and qualitative indicators was defined. In such way, we decided to use the methodology of fuzzy sets in the analysis of parameters that have indirect statistical relationships among the indicators of measuring of corporate social responsibility. In fact, the fuzzy set theory allows for approximate values and inferences as well as incomplete or ambiguous data (fuzzy data) as opposed to only relying on crisp data (binary yes/no choices). Fuzzy logic is able to process incomplete data and provide approximate solutions to problems other methods find difficult to solve.

To evaluate the impact of quantitative and qualitative indicators of CSR on company's reputation it is worth applying the correlation analysis to the evaluation of mutual influence of quantitative and qualitative indicators. Let us suppose that $x_i, i=1, \dots, n$; are the quantitative indicators and $y_j, j=1, \dots, m$ are the qualitative indicators. In addition, the input data have the set of autocorrelation relationships. It should be noted that some coefficients in the matrix of pair correlations are linearly depended. In this way the determinant of matrix is equal to zero.

Thus, it is necessary to make a rejection of input data for the level of pair correlation parameter $k \geq 0,7-0,8$ for groups of variables x_i and y_j , which are the elements of correlation matrix $K = \| k_{x_p, x_q} \|$:

$$k_{x_p, x_q} = \text{cov}(x_p, x_q) / (D[x_p^2] * D[x_q^2]), \quad (3)$$

where $\text{cov}(x_p, x_q)$ – the covariance between the sets of variables x_p, x_q ;

$D[x_p^2], D[x_q^2]$ – the variance of variables.

Furthermore, the correlation between data which is less than level k , can be united in groups to determine the indicators by fuzzy sets method. If the correlation between the data is more than level k , then these data should be analyzed to find out the linear statistical relationship. In addition, these data are characterised by approximating linear dependence in the form: $x_p = a * x_q + b$, also $y_p = c * y_q + d$.

Table 4

Setting thresholds for quality indicators of socially-oriented management

Indicators	Levels of qualitative values of indicators				
	Very low	Low	Middle	High	Very high
Social policy of enterprise	Limited <-0,5	Restrained -0,5-0	Supported 0-0,5	Motivated 0,5-0,8	Dynamical >0,8
Quality of corporate management system	Unsatisfactory <-0,5	Low -0,5-0	Middle 0-0,5	Satisfactory 0,5-0,8	High >0,8
Level of top management competence	<-0,5	-0,5-0	0-0,5	0,5-0,8	>0,8
System of training and staff development	Unsatisfactory <0	Satisfactory 0-0,5		Effective >0,5	
Level of employees' social protection	Unsatisfactory <-0,5	Low -0,5-0	Middle 0-0,5	Satisfactory 0,5-0,8	High >0,8
Corporate Culture	Unsatisfactory <-0,5	Low -0,5-0	Middle 0-0,5	Satisfactory 0,5-0,8	Optimal >0,8
Correspondence with legislation of Ukraine	Economical, social and environmental law violations <-0,5	Law violations take place, however there are strategies which aim to avoid risk and reduce harm to stakeholders			The company aims to make business on ethical basis >0,8
		The measures have been identified but their implementation is not made -0,5-0	The measures have been identified but their implementation is made slowly 0-0,5	The measures are being implemented 0,5-0,8	
Regularly compilation of social accounting	Social accounting hasn't been drawn up <-0,5	Social accounting was being drawn up without international requirements -0,5-0	Social accounting was being drawn up once in three years 0-0,5	Social accounting was being drawn up once in two years 0,5-0,8	Social accounting was being drawn up every year >0,8
Business practices in relation to consumers	Unsatisfactory <-0,5	Unethical -0,5-0	Satisfactory 0-0,5	Honest 0,5-0,8	Ethical >0,8
Business practices in relation to suppliers and other business partners	Unsatisfactory <-0,5	Unethical -0,5-0	Satisfactory 0-0,5	Honest 0,5-0,8	Ethical >0,8
Regional employment rate	<-0,5	-0,5-0	0-0,5	0,5-0,8	>0,8
Implementation of environmental programs	<-0,5	-0,5-0	0-0,5	0,5-0,8	>0,8
Charity and sponsorship	The enterprise haven't been involved in charity	Charity programs aim to short-term	Implementation of charity and sponsorship	Implementation of strategic philanthropy	Facilitating the active participation of citizens and civil

	and sponsorship <-0,5	development 0,5-0	programs 0-0,5	projects 0,5-0,8	society organisations in building a better Ukraine >0,8
Informatization of social programs implementation	<-0,5	-0,5-0	0-0,5	0,5-0,8	>0,8
Participation in regional social development programs	The enterprise doesn't taken part in these programs (<0)	Participation depends on the purposes of regional programs 0-0,8			Permanent participation in regional programs (>0,8)

Thus, the results of correlation analysis allow defining the pair of functions:

$$X \rightarrow f \in \{d_1, \dots, d_l\} \quad (4)$$

$$Y \rightarrow g \in \{h_1, \dots, h_k\}, \quad (5)$$

where $\{d_1, \dots, d_l\}$, $\{h_1, \dots, h_k\}$ – sets of l and k elements which are created due to the correlation characteristics.

It is important to define the fuzzy scale of features classification and select the type of fuzzy number. Let us choose the 5-interval scale classification of fuzzy sets, namely: «VL» - a very low level of indicator (30%), «L» - low level of indicator (50%), «M» - satisfactory level of indicator (70%), «H» - high level of indicator (80%), «VH» - very high level of indicator (90%).

In addition, the trapezoidal fuzzy numbers (T number) with variable threshold data $0,3 \pm a$; $0,7 \pm b$ must be defined. The factor model will be based on indicators which can be represented by 20-bit fuzzy number.

Determining the membership function $\mu \in \{0;1\}$ is based on histogram which characterises the entering of input data in the observed interval fuzzy scale.

The membership function can be described as:

$$\mu_i^j(X, Y, Z), \quad (6)$$

where X , Y - input variables; Z –output variable, i – input indicator, j – term of 5-interval scale.

Moreover, the method of multiple regressions was applied to define the influence coefficients. The quantitative and qualitative indicators of socially oriented management in the 16 enterprises were defined in different regions of Ukraine. The data for analysis of level of social orientation which were used in the process of social orientation defining are represented in Tables 5-6.

Due to the results of researches, four groups of variable sets: $x_2 = f_1(x_3, x_{11})$, $x_{13} = f_2(x_3, x_{11})$, $y_1 = f_3(y_5)$, $y_2 = f_4(y_8)$ and two levels of tab model were designed and demonstrated the correlation matrix and linear approximation between the dependences of variables: first level of tab model: $x_2 = f_1(x_3, x_{11})$, $x_{13} = f_2(x_3, x_{11})$, $y_1 = f_3(y_5)$, $y_2 = f_4(y_8)$; second level of tab model: $z_1 = f_5(x_2, x_{13}, y_1, y_2)$, where z_1 - company's reputation. Furthermore, according to the levels of tab model, impact coefficients of social responsibility on company's reputation were simulated (Figure 4).

Table 5
Quantitative indicators of socially oriented management
(mechanical engineering enterprise, central region of Ukraine)

Indicators	Years				
	2006	2007	2008	2009	2010
Net profit	15,616.0	22, 662.0	23,866.0	17, 291.0	8,279.0
Net income	389.00	237.00	252.0	178.0	-11.0
Net Assets	4,171.00	4,312.00	4,475.00	4,645.00	4,602.00

Share ratio of assets	52.00	42.00	43.00	42.00	47.00
Share of fixed assets in total assets	6.00	10.00	11.00	9.00	7.00
Return on assets	7.20	2.75	3,42	2,27	0,14
Return on equity	9,33	5,49	5,84	3,98	-0,24
Profitability	2.00	1.00	1.00	1.00	0.00
Value Debt and equity	107.00	71.00	75.00	72.00	89.00
Gross profit margin	8.00	8.00	8.00	8.00	12.00
Liquidity	176.00	202.00	187	204	186
The number of employees	173	179	166	165	143
Labour productivity	90,26	126,38	143,77	104,79	57,89
Labour costs	2,343.00	3,678.00	4,608.0	4,311.0	3,152.0
Salary	1,128.61	1,712.29	2,400.00	2,245.31	1,641.67
Net revenue per employee	90.27	126.60	149.16	108.07	51.74
The share of voluntary social costs on social programs in net income	0,21	0,29	0,49	0,36	0,31
The share of social costs in total costs	3,98	4,02	5,07	4,96	3,85

Table 6

**Qualitative indicators of socially oriented management
(mechanical engineering enterprise, central region of Ukraine)**

Indicators	Years				
	2006	2007	2008	2009	2010
Social policy of enterprise	0,4	0,5	0,7	0,6	0,6
Quality of corporate management system	0,45	0,3	0,6	0,7	0,8
Level of top management competence	0,5	0,8	0,7	0,7	0,6
System of training and staff development	0,6	0,4	0,6	0,5	0,5
Level of employees' social protection	0,5	0,3	0,2	0,2	0,3
Corporate Culture	0,2	-0,2	0,4	-0,3	0,1
Business practices in relation to consumers	0,7	0,6	0,6	0,5	0,5
Business practices in relation to suppliers and other business partners	0,5	0,7	0,8	0,2	0,4
Correspondence with legislation of Ukraine	0,5	0,4	0,4	0,2	0,3
Regularly compilation of social accounting	-0,5	-0,5	-0,5	-0,4	-0,1
Regional employment rate	0,008	0,056	0,015	0,02	0,025
Implementation of environmental programs	0,7	0,5	0,6	0,2	-0,2
Participation in regional social development programs	0,2	0,2	0,2	0,4	0,3
Charity and sponsorship	0,2	0,3	0,4	0,2	0,25
Informatization of social programs implementation	0,1	0,3	0,2	-0,1	-0,2

As shown in Figure 4, the most influential factors which cause the improving of corporate reputation are business practices in relation to suppliers and other business partners (y_8), level of top management competence (y_3), charity and sponsorship (y_{14}), participation in regional social development programs (y_{11}).

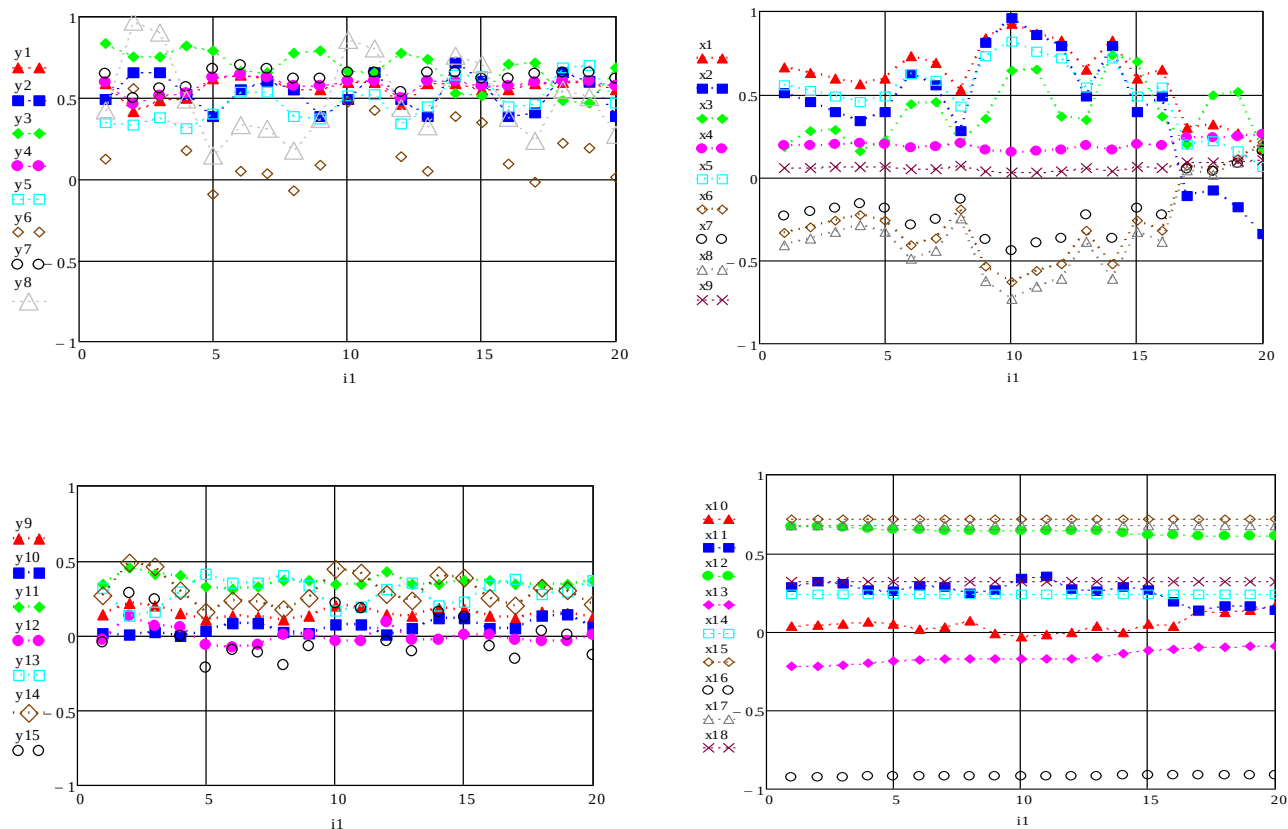


Figure 4. Impact coefficients of social responsibility on company's reputation
(mechanical engineering enterprise, central region of Ukraine)

The levels of companies' reputation are represented in Table 7.

Table 7
The levels of companies' reputation

Region of Ukraine	Scope of activity	Level of reputation
Central	mechanical engineering enterprise	0.85
	electrical engineering enterprise	0.53
	chemical engineering enterprise	0.73
	mechanical engineering enterprise	0.54
	mechanical engineering enterprise	0.57
South-Eastern	heavy engineering industry enterprise	0.97
	heavy engineering industry enterprise	0.92
	mechanical engineering enterprise	0.30
	heavy engineering industry enterprise	0.40
	heavy engineering industry enterprise	0.96
	mechanical engineering enterprise	0.31
	mechanical engineering enterprise	-0.62
	electrical engineering enterprise	0.52
Western	electrical engineering enterprise	-0.56
	chemical engineering enterprise	0.97
	heavy engineering industry enterprise	0.37

It should be noted that there are only two enterprises of all which have the highest level of company's reputation. Such results are conditioned by high share of social costs in total costs, active participation in regional social development programs, high level of top management competence, development of corporate culture, business practices in relation to consumers and other measures.

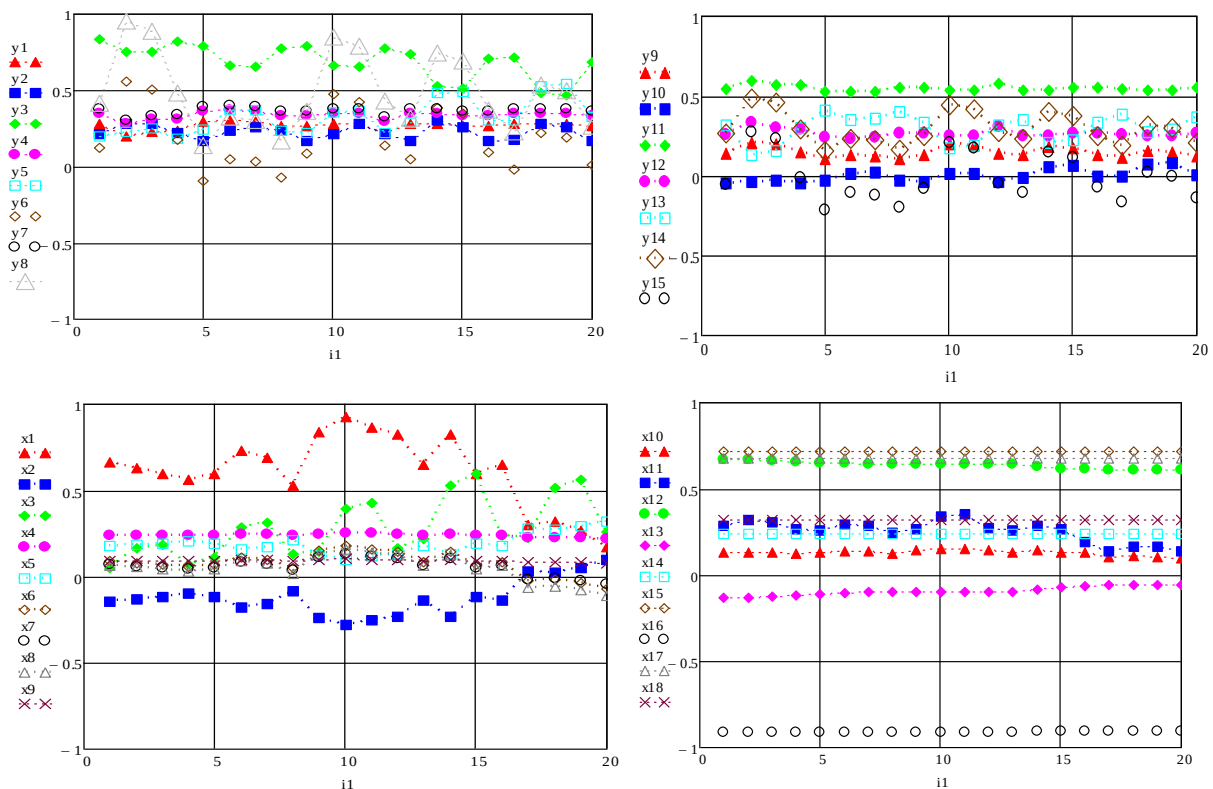


Figure 5. Forecasting of satisfactory level of company's reputation based on the rising scenario

(mechanical engineering enterprise, central region of Ukraine)

In addition, the forecasting of the company's reputation change was made. The methods of Bartlett and Thompson were used in forecasting process of the company's reputation. The stabilization, falling and rising scenarios were offered for 2013-2015. Moreover, we proposed three levels of company's reputation: high level ($z \in (0,7 - 1]$); satisfactory level ($z \in [0,4 - 0,7]$); critical level ($-0,3 < z < 0,4$). The results of forecasting were corrected by using the methodology of cointegration analysis with the Dickey–Fuller test. The results of forecasting of satisfactory level of company's reputation based on the rising scenario for the mechanical engineering enterprise are represented in Figure 5. The implementation of economic forecasting with mathematical methods allowed defining the strategies of socially-oriented development in mechanical engineering companies in the long-term period.

All things considered, there are key factors which make the significant impact for the company's reputation: quality of corporate management system, level of top management competence, business practices in relation to consumers, business practices in relation to suppliers and other business partners, implementation of environmental programs, participation in regional social development programs, charity projects and so on. However, these social factors must not deny the priority of economical interests of an enterprise. In this way the results of our researches confirmed our hypothesis that impact of CSR programs on company's business reputation should be evaluated with the use of economic-mathematical methods of fuzzy sets. Thus, the features of socially oriented enterprises are characterised by validity and trustworthiness.

Conclusions

In Ukraine, social responsibility business develops and requires the adoption of civilization Legislative Acts. Ukrainian legislation provides the mandatory levy of social payments in budget, however, this process is accompanied by the lack of business motivation to realize social and ecological programs on a voluntary basis. In fact, the share of mandatory social payments is nearly 41,7% of enterprise' net. By doing this, the majority of employerstry to implement the 'shadow' wages. In addition, Ukrainian legislation provides the minimum set of preferences which can increase business motivation to implement the socially oriented projects.

Despite of significant difficulties in the development of socially responsible management in Ukraine, we have identified the possible prospects of socially responsible business. The results of researches allowed defining key characteristics of socially oriented enterprises. These characteristics can be used in the process of identifying the levels of social orientation of enterprises. We identified a set of quantitative and qualitative indicators which can estimate the state of socially oriented business management. The results of the integral indicators calculating of socially oriented management allowed defining the coefficients which show the level of company's reputation.

The most important activities which impact on the corporate reputation are quality of corporate management system, level of top management competence, business practices in relation to consumers, business practices in relation to suppliers and other business partners, implementation of environmental programs, participation in regional social development programs, charity projects and so on. However, these social factors must not deny the priority of economical interests of an enterprise. In this way the results of our researches confirmed our hypothesis that impact of CSR programs on company's business reputation should

be evaluated with the use of economic-mathematical methods of fuzzy sets. In addition, the forecasting of the company's reputation change was made. The implementation of economic forecasting with mathematical methods allowed defining the strategies of socially-oriented development in mechanical engineering companies in the long-term period.

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EVALUATION OF CSR ACTIVITIES, AND FACTOR ANALYSIS

ON CSR AND FINANCIAL PERFORMANCE

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Summary

It is desirable to clarify a priority and performance for the contents of CSR activities as global standard. We carried out a questionnaire survey on measures for CSR activities, and obtained responses from 271 companies in Europe and North America. Based on factor analysis, we extracted 17 characteristics from CSR activities like corporate governance, employee management, environmental protection and community commitment. Among these characteristics, it was shown that there were significant mutual relationships between acceptance of employee proposals and stakeholder engagement or philanthropic organization, etc. Finally, this paper pointed out that there were some cause and effect relationships between these 17 CSR characteristics and indicators of corporate performance, such as ROA, Tobin's q, growth rate, and profit stability.

KEY WORDS: CSR, ISO26000, corporate governance, environmental protection, social contribution and corporate performance

1.Introduction

Following the increasing awareness of global environmental issues, the issuance of standards for social responsibility by the International Organization for Standardization (ISO), the frequent occurrence of scandals at business organizations and the popularization of socially responsible investing, the interest in CSR (Corporate Social Responsibility), including management ethics, has been growing. On the other hand, concern that the promotion of CSR, including the review of community contribution, will become stagnant has begun to emerge as corporate activities have been forced to shrink due to the global financial crisis. The discussion of CSR should not be limited to an introduction of the examples of its implementation at advanced companies or to a study of the guidelines; it should step forward to clarify of the contents and priorities of CSR as an international standard as well as the compliance therein, based on a postulation of its effectiveness. In this article, endeavors will be made to organize the concepts of CSR that are attracting attention today, theoretically review their significance, look into the operations at a sample of multinational companies in Europe and North America in terms of their concrete efforts to address the issues of CSR and to clarify how the promotion of CSR affects these financial performance.

2. Significance of CSR and Financial performance

2.1. CSR and Financial Performance

CSR includes compliance, management ethics, community contribution and other diversified concepts on levels varying from the normal responsibility of observing laws and regulations to the active improvement of society through the use of the company's management resources. With respect to the promotion of CSR, Friedman (1970) insisted that the primary objective of a company is to optimize its shareholders' interest and that increasing this interest is its social responsibility. This is still the most controversial point in the promotion of CSR even today. In the doctrine that CSR negatively impacts financial performance, community contribution and ethical responsibility. Furthermore, the levels of such responsibilities are interpreted in a limited perspective, and the promotion of CSR is consequently deemed to be an additional cost. For example, actions such as charitable donations, development of the local area, expanding operations to economically depressed areas with an aim to create jobs in those areas and adopting strict environmental standards are all classified as costs because they do not lead to the maintenance or improvement of financial performance. McGuire, Sundgren and Schneeweis (1988) pointed out that consideration of social responsibility may narrow the range of management strategies and eventually decrease financial performance.

On the other hand, there is an assertion that promoting CSR will have a positive impact on financial performance. Drucker (1993) advances a theory to take 1) marketing, 2) productivity, 3) innovation, 4) improved morale, 5) profitability, 6) physical and financial resources, 7) management and 8) public responsibility as subordinate objectives and to thereby achieve the "creation of customers" needed to ensure the company's existence (The Business Existence Theory). Following this theory, a practical view of the corporate objective that has become popular recently is to pursue long-term profit while remaining conscious of the various stakeholders. In order to build a sound civil society, the companies should place significance on coordinating their community contribution with long-term profits. Drucker insists that a company's community contribution needs to be made only when it leads to a "Enlightened Self-interest" in the management of the company and not for the purpose of acceding to various requests. In other words, assistance to a volunteer-vacation system for the employees may reduce short-term profits, but in the long-term, it will lead to the invigoration of the company and employees, an improved corporate image and other aspects advantageous to the future management of the company. By clarifying the significance of a company's community contribution, it will become possible for the company to fulfill its responsibility to its shareholders, investors and other stakeholders.

Theoretically, CSR activities, particularly the promotion of the community contribution, and ethical responsibilities, such as addressing environmental issues, are considered to have completely opposite and negative impacts on financial performance in the short-term. Although the promotion of CSR affects the way the company is managed, it is not necessarily clear how community contributions and other responsibilities should be positioned in CSR, which is very much diversified in its meaning, and how they will eventually affect the performance of the company. Accordingly, the mutual relationship between legal responsibility, economic responsibility, ethical responsibility and community commitment while considering the various stakeholders should be clarified through experimental analysis.

Pave and Krausz (1996) surveyed twenty-one cases of experimental studies to analyze the relationship between CSR and financial performance from the 1970s to the early 1990s. According to their results, nine cases (the largest number) out of twenty-one used one or more environmental indicators as a CSR index. This is followed by six cases that selected the Reputational Index of the Fortune as a CSR index. This indicates that an adequate analysis of the essential CSR while considering the various stakeholders has not necessarily been made, yet. They report that out of the twenty-one cases analyzed regarding the relationship between CSR and financial performance, twelve cases show a significant positive relationship while eight cases show a significant negative relationship.

Later, Wright and Ferris (1997) showed that with respect to the U.S. companies they surveyed in a period from 1984 to 1990, the share price of companies that announced the suspension of operations in South Africa decreased. This means that there exists a negative relationship between the CSR activities and the financial performance. They also point out that the companies' CSR activities are governed by political pressure, not from the economic reasons. Waddock and Graves (1997) report that with respect to the 469 U.S. companies they surveyed in 1990, there exists a positive mutual relationship between the CSR indexes presented by KLD Research & Analytics, Inc. and the companies' financial performance in the following year. After analyzing 524 U.S. companies in terms of their relationships between their CSR activities and performance using the indexes presented by KLD and the companies' corporate data from 1991 through 1996 in the same manner as Waddock and Graves (1997), McWilliams and Siegel (2000) showed that there exists no significant relationship between the two and that R & D investment which is not directly related to CSR has a positive impact on financial performance. As shown above, the ambiguous relationship between CSR and financial performance has not been clarified, even in the studies done in recent years.

2.2. ISO26000 and CSR

In 2004, the International Organization for Standardization (ISO) received a proposal from the European countries at an international conference held in Stockholm, and decided to establish ISO 26000 as a Social Responsibility (SR) standard for a diverse range of organizations, not just corporations. ISO 26000, guidance on SR was issued in November 2010, and dialog and engagement with an awareness of a diverse range of stakeholders is expected to become an important issue for all organizations. ISO 26000 lists the following 7 principles of SR: (1) Accountability, (2) Transparency, (3) Ethical conduct, (4) Respect for the interests of stakeholders, (5) Respect for the rule of law, (6) Respect for international standards of conduct, and (7) Respect for human rights. At the same time, seven core subjects of SR were determined as noted above, including human rights, environment and consumer issues which are key elements of SR. This shows the importance of response to environment problems in promoting SR.

Due to increasing social interest in SRI (Socially Responsible Investment), in 1999 Dow Jones & Company announced the Dow Jones Sustainability Index (DJSI) which evaluates companies in terms of sustainable development. This DJSI evaluates major companies throughout the world who are grappling with sustainability, with a focus on three specific areas: economy, environment and society. The NPO Business in the Community (BITC), which was established in the UK in 1982, has announced the BITC index which evaluates CSR through a scoring system based on questionnaire surveys in four areas: *workplace environment, market, environment, and social contribution*. At Veolia Water, a British water services company which scores at the top level on the BITC index, their ultimate objective in practicing CSR is sustainable

development, placing communication, corporate ethics and corporate governance are placed at the very center of their management system. In practicing CSR, Veolia Water is aware of its dealings with stakeholders, who fall into four areas: (1) Business (products/services, customers/suppliers, partners, and investors), (2) Workplace (health/safety, diversity, discrimination, unions, and human rights), (3) Society (government, local community, and economy), (4) Environment (ecology, biodiversity, pollution, resources, and energy). Deloitte LLP, a UK member firm of Deloitte Touche Tohmatsu, also established the following four key focuses for the promotion of CSR: *Talent Agenda*, *Quality Agenda*, *Green Agenda*, and *Community & Social Agenda*. Furthermore, Newsweek (2008) announces a list of 500 excellent companies each year who are “protecting society while earning profits.” Here the rankings are based on an overall score out of 120 possible points. Scoring is based on “finances” (comprised of profitability, growth, and safety) and “CSR” (comprised of corporate governance, employees, society, and environment).

According to Mizuo, Tanaka, Shimizu, and Ariu (2007), CSR is defined as “responsibility for a combination of institutional measures and proactive efforts promoted through multi-stakeholder engagement, to prevent misconduct before it happens, and actively contribute to the triple bottom line of ‘people, planet, and profit,’ with the objective of promoting sustainable development of the company and society.” As is evident from this definition, the CSR which is attracting attention today has three distinguishing features: (1) Its objective is the sustainable development of the corporation; (2) It is promoted through dialogue with a diverse range of stakeholders; and (3) It involves going beyond responsibilities which are a matter of course, such as legal and economic responsibilities, and strategically dealing with broader issues such as environmental problems and activities to contribute to society.

In examining CSR, if the above seven core subjects of ISO 26000 and the content of the diverse range of CSR-related indices are taken into account, then there is a need to focus on four areas: (1) “Corporate governance” which includes the CSR promotion system, information disclosure and compliance; (2) “Response to employees” which includes benefits and employee welfare etc.; (3) “Response to environmental problems”; and (4) “Activities to contribute to society.”

3. CSR in Europe and North America

3.1. Survey of European/American corporations and CSR promotion systems

There is almost no uniform information disclosure regarding the four areas of CSR: corporate governance, response to employees, response to environmental problems, and activities to contribute to society.

Table 3-1: Overview of CSR survey in Europe and North America

Schedule: October and November, 2008
Areas: Europe (UK, Germany, France and Italy, etc.) and North America (the US and Canada)
Targets: Department of CSR or Public Relations, etc.
Sampling: Compustat Global database
Respondents:

Europe: 150 companies

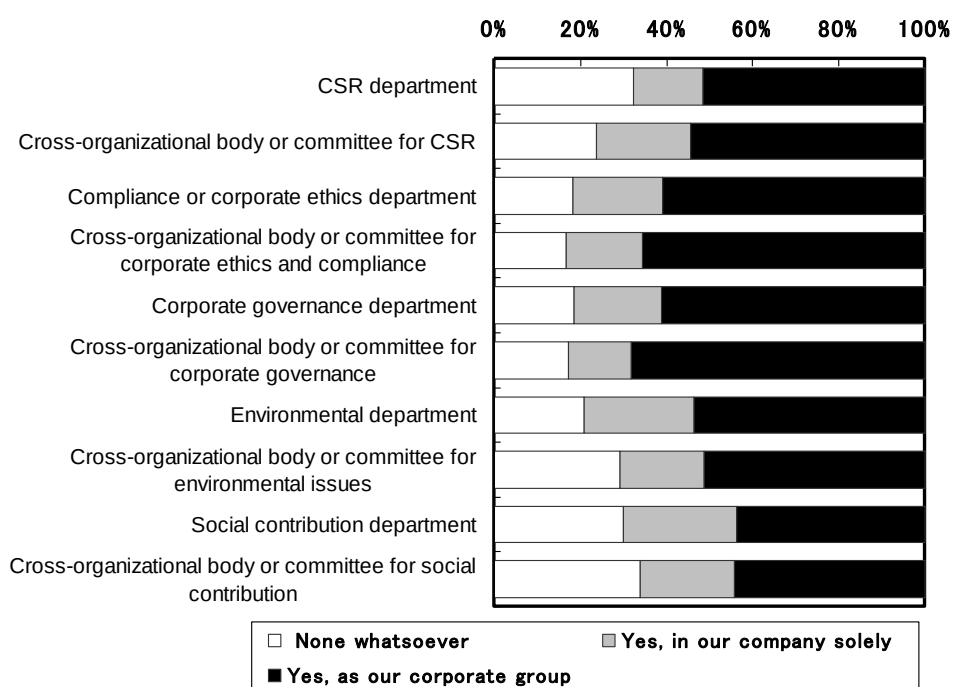
North America: 121 companies

Therefore, an independent telephone survey was conducted as shown in Table 3-1. For this survey, it was assumed that larger companies were more likely to be making active efforts toward CSR, and thus companies in the COMPUSTAT corporation data base were selected for high annual sales. Telephone interviews were conducted with the managers in charge of CSR at these companies regarding their companies' efforts in corporate governance, response to employees, response to environmental problems, and activities to contribute to society. A total of 271 responses were obtained as a result, 150 from 16 countries in Europe including England, Germany and France, and 121 from the US and Canada (Table 3-2). This report briefly discusses the results of this questionnaire survey, with a focus on response to environmental problems.

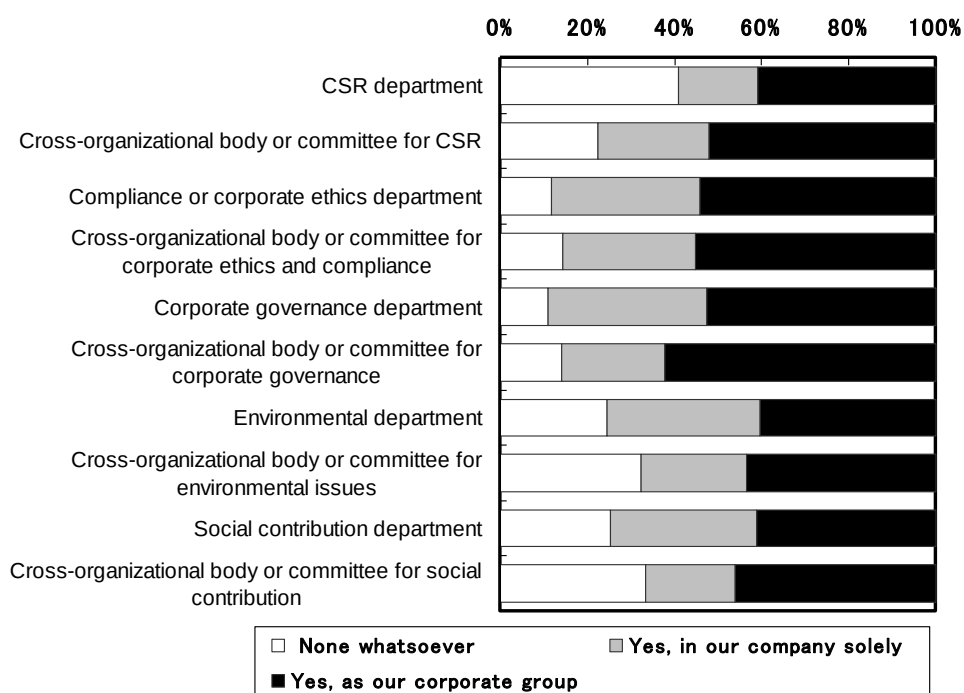
Figure 3-1 shows the results of asking about the CSR promotion systems at the respondent companies, i.e., whether the companies had a special department/manager, or lateral organization/ committee. In the case of Europe, "CSR department" existed in a total of 68% of respondents at the group or company level.

Table 3-2: Countries of respondents

Area	Country	No.	%	Area	Country	No.	%
Europe	Austria	6	2.2	Europe	Netherlands	10	3.7
	Belgium	7	2.6		Norway	7	2.6
	Denmark	5	1.8		Poland	1	0.4
	Finland	6	2.2		Portugal	4	1.5
	France	10	3.7		Spain	8	3
	Germany	17	6.3		Switzerland	13	4.8
	Greece	4	1.5		United Kingdom	40	14.8
	Ireland	3	1.1	North America	Canada	15	5.5
	Italy	9	3.3		United States	106	39.1



(a) Europe



(b) North America

Figure3-1: CSR Organization of respondents

In Europe, there is a strong trend toward prioritizing employees and environmental problems, as a response to EU market integration, and partly due to their leadership role in formulating ISO 26000. Thus it is likely that Europe is working more actively on CSR than North America. For example, the German company E.ON established a Corporate Responsibility (CR) committee and created a CR report in 2005 under the direction of top management. In doing so, they positioned CSR and developed its content in accordance with their vision of being “the No. 1 energy company in the world.” Later, in 2006, established CR departments, and in 2007 they established a CR department at the E.ON holding company level. In promoting CSR, E.ON defines “taking long-term, balanced responsibility for economic performance, environmental protection engagement with society.”

In addition to E.ON, many other European companies such as Deloitte and British Petroleum have established CSR or CR departments to deal specifically with CSR in recent years. The role of CSR (CR) departments is to promote CSR in the company or group as a whole, and they publish CSR reports, and report on CSR-related activities to the CEO and other directors.

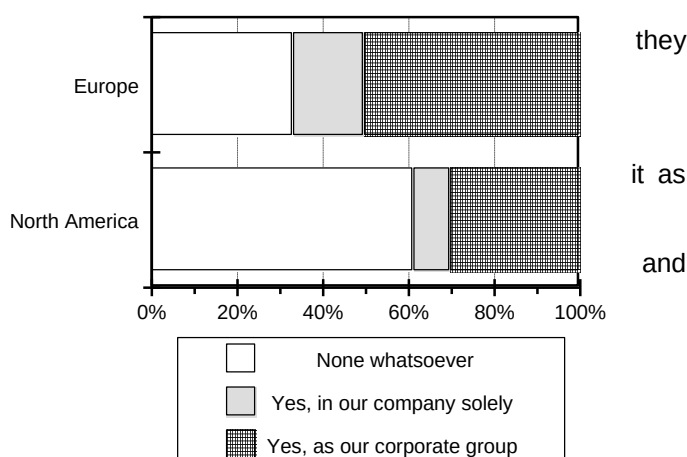
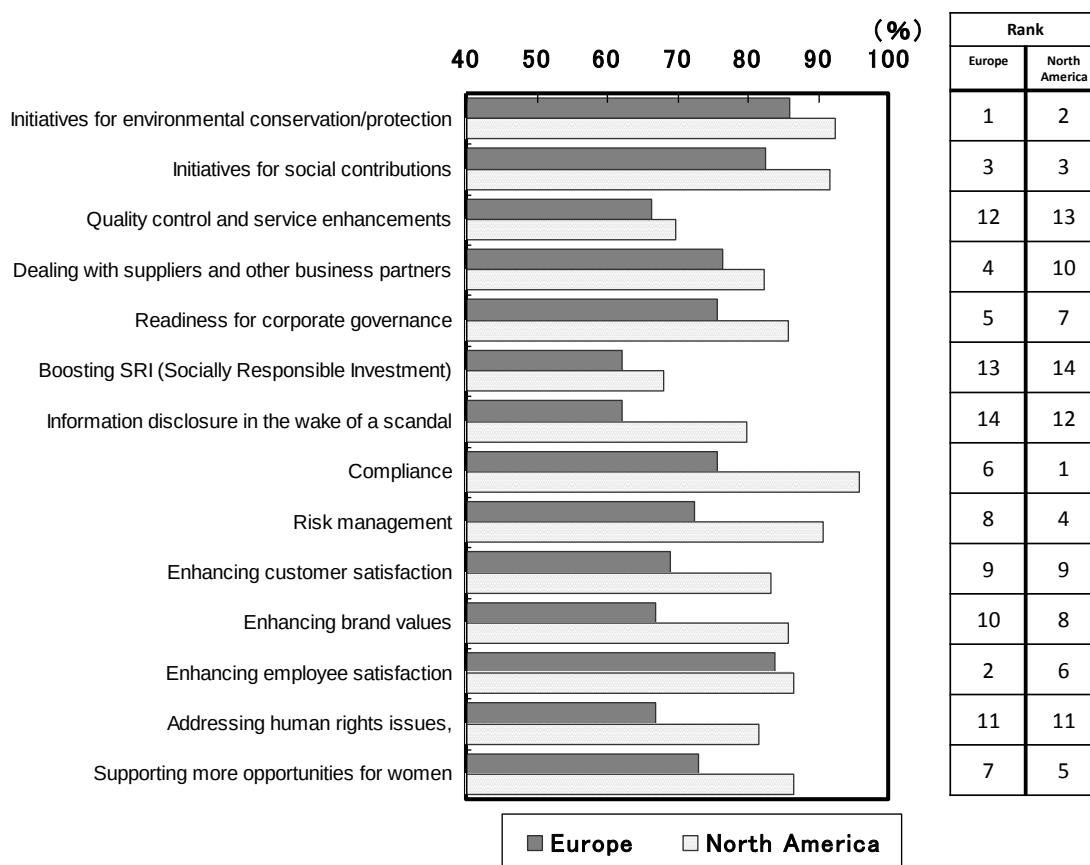


Figure 3-2 shows that, while 70% of companies in Europe publish CSR reports, only 40% do so in North America. There is a striking difference between the two in issuing CSR reports. This difference may be attributable to differences in the approach to CSR in Europe and North America. According to Maignan and Ferrell (2003), European (German, French) consumers focus more on CSR issues such as corporate charity projects and response to employees than American consumers. These differences in consumer awareness are thought to be the reason for the high percentage of European companies which issue CSR reports.

Figure 3-2: CSR report of respondents

Figure 3-3 shows the results of surveying recognition of CSR by respondents in contrast to the SR which is attracting attention today, as noted above. As can be seen in the figure, there are many items having significant commonality, with at least 80% of both European and North American companies indicating applicability of "Initiatives for environmental conservation/protection," "Initiatives for social contributions," and "Enhancing employee satisfaction," and at least 75% indicating applicability of "Compliance", "Readiness for corporate governance," and "Dealing with suppliers and other business partners." These agree with the four areas of CSR in this research: corporate governance, response to employees, response to environmental problems, and activities to contribute to society.



Note: sum of "very much" and "somewhat."

Figure 3-3: CSR awareness of respondents

An ordering by the percentage for each item for both Europe and North America is also shown (at right in Figure 3-3). According to this, Europe places greater emphasis than North America on “Initiatives for environmental conservation/protection,” “Enhancing employee satisfaction,” “Initiatives for social contributions,” “Dealing with suppliers and other business partners” and “Quality control and service enhancements” etc. On the other hand, North America places priority on items such as “Compliance,” “Risk management,” and “Enhancing brand values.” As can be seen in Figure 3-1, Europe has a stronger tendency than North America to deal with CSR at the organization level, and emphasize factors such as response to employees, response to environmental problems, and activities to contribute to society. As described above, this coincides with the establishment in recent years of new CSR departments, in line with ISO’s review of standards. On the other hand, America has not achieved Europe’s level of compliance with the most recent definition of CSR, and this is thought to reflect a situation where CSR is addressed on a case-by-case basis rather than by creating a new organization.

3.2. Response to environmental problems by companies in Europe and North America

Figure 3-4 shows the results of specifically investigating efforts to respond to environmental problems as part of CSR by European and American companies. This part of the survey investigated the adoption of 11 items such as “ISO 14001 EMS certification has been obtained.” A quick look at the survey results in Figure 3-4 shows that, except for some items such as “Utilization of environmental impact assessment techniques (e.g., life-cycle assessment),” European companies are making strong efforts to deal with environmental problems.

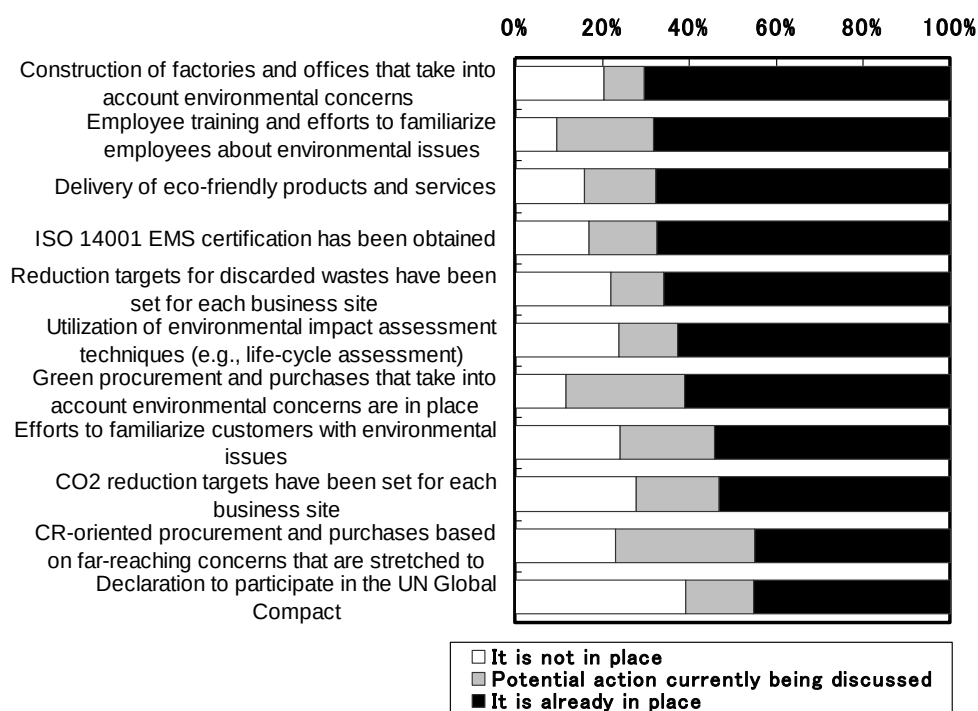
In Europe, about 70% of respondent companies have adopted measures such as “Employee training and efforts to familiarize employees about environmental issues,” “Green procurement and purchases that take into account environmental concerns are in place,” “Delivery of eco-friendly products and services,” and “ISO 14001 EMS certification has been obtained.” About half of the companies in Europe have adopted measures such as “CO₂ reduction targets have been set for each business site,” “CSR-oriented procurement and purchases based on far-reaching concerns that are stretched to cover social contributions,” and “Declaration to participate in the UN Global Compact.” Furthermore, about 30% of companies are considering adoption of measures with a comparatively low adoption rate in this survey such as “CSR-oriented procurement and purchases based on far-reaching concerns that are stretched to cover social contributions” and “Green procurement and purchases that take into account environmental concerns are in place.” For example, in 2005 the Cimpor corporation headquartered in Portugal, which manufactures and sells cement in 14 countries including Portugal, Spain, India, and Brazil, set a goal, as part of an industry which consumes large amounts of electric power, of reducing CO₂ emissions by 15% by 2015, and the company is promoting the use of renewable energy and actively working to conserve energy in order to reduce CO₂ emissions.

At present in North America, in contrast, 70% of companies had adopted “Delivery of eco-friendly products and services,” “Construction of factories and offices that take into account environmental concerns,” and “Employee training and efforts to familiarize employees about environmental issues,” but less than 20% had

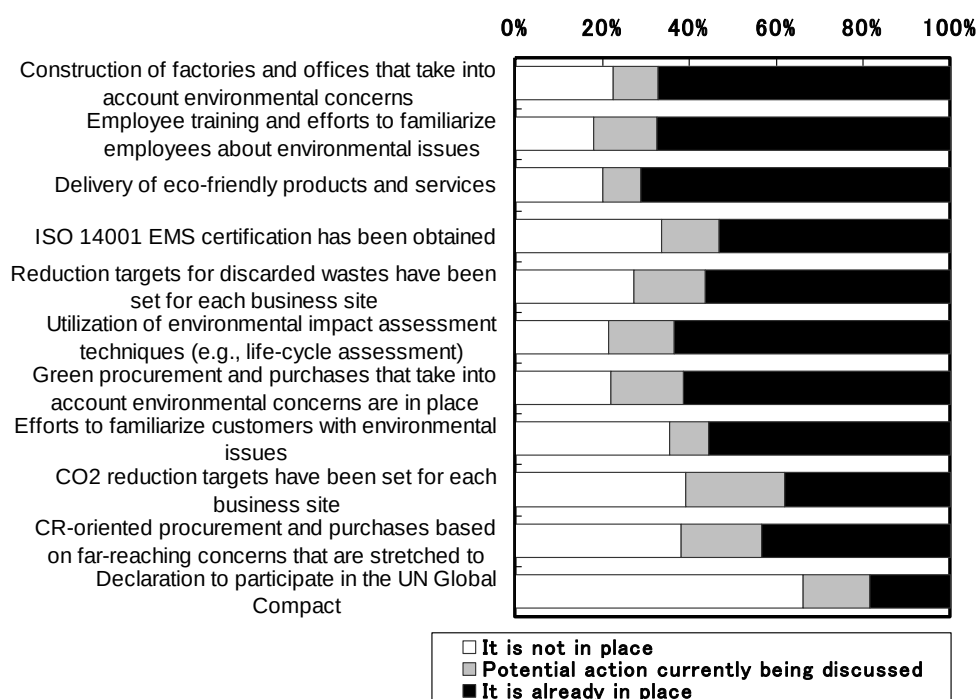
adopted “Declaration to participate in the UN Global Compact” and less than 40% had adopted “CO₂ reduction targets have been set for each business site.”

In North America, companies tend to shy away from global compacts, or measures which aim for specific standards or values for CO₂ emissions. The actual number of participating organizations for “Declaration to participate in the UN Global Compact” is shown in Figure 3-4. As can be seen, there are many participating European companies in countries such as Spain and France, and this agrees with the results of this survey. Although this survey gives results for only some companies based on a telephone survey, it can be regarded as realistic to a certain extent.

As indicated above, there are major differences in systems for promoting CSR between European and North American companies, and there are also differences in the significance of recognizing CSR, and trends in efforts being made.



(a) Europe



(b) North America

Figure 3-4: Present state of environmental protection

4. Factor Analysis on CSR and Financial Performance

4.1. Areas of CSR Activities and Survey of European and North American Companies

As described in Section 2.2, in the ISO26000, the seven subjects like organizational governance, human rights, labor practices and the environment, etc. have been set forth as the fundamental elements of social responsibility. And the DJSI is used to track and evaluate the major companies in the world that are primarily addressing sustainability in the areas of the economy, environment and society. The following three characteristics of CSR are attracting a great deal of interest today: aiming at the sustainable development of the company, promoting dialogue between diversified stakeholders, and addressing ethical responsibility and community commitment broadly in a strategic manner while fulfilling the necessary legal and economic responsibilities. In view of the seven core subjects of ISO26000 and the diversified contents of the indexes related to CSR, it seems significant when reviewing CSR to implement corporate governance as a part of the legal responsibility and to then address the issues of employees, environment and the community contribution. In this study, an experimental analysis of a sample of companies located in Europe and North America will be made in regards to the following five areas: 1) financial performance in terms of management results, 2) corporate governance, including disclosures and compliance, 3) employee management, including welfare, 4) environmental protection, and 5) community commitment.

Regarding the financial performance on which this experimental analysis conducted in this paper, the COMPUSTAT, which is provided by Standard & Poor's and covers the financial market and attribute data for over 50,000 business enterprises worldwide as well as the major indexes and macro-economic data, will be used. As there is almost no uniform information published with regard to corporate governance, employee relations, response to environmental issues and the community commitment, an independent telephone survey was done in October/November, 2008. A total of 271 responses were received from sixteen countries in Europe, the U.S. and Canada.

4.2. Model

The relationship between CSR and a financial performance can be clarified through regression analysis utilizing the following formula.

$$\text{Financial performance} = f(\text{CSR, Corporate Scale, Debt Ratio, Country Dummy})$$

Regarding the variables used, the rate of sales growth is used for the growth potential, Tobin's q is used for the market valuation and the 5-year standard deviation of the ROA is used for the stability. In past studies, profitability indexes, such as operating profit to total asset ratio, were often used with an aim to evaluate the various aspects of financial performance. It is unlikely that the effect of the CSR activities performed by a company will be immediately reflected in its financial performance. Rather, it is expected that the effects to the financial performance will take a long time before they become noticeable. Accordingly, the average performance figures from the 7-year period from 2001 to 2007 are used to determine the long-term impacts of the CSR activities on financial performance.

For the explaining variables, the corporate scale, debt ratio, industry dummy and CSR are used. The corporate scale is the value of the total assets, and it is used to control the impact of the corporate scale on performance. Debt, in general, has a positive effect on financial performance, such as the reduction of free cash flow (Jensen 1986) and the regularization of the management through the threat of corporate reorganization (Aghion and Bolton 1992). It can also negatively affect performance in that excessive debt will make additional fund procurement difficult as well as restrain the ability to make promising investments (Myers 1977). The debt ratio is used to control such positive and negative impacts that debt may have. Furthermore, the country dummy is used to control the differences in the national systems and business practices among the countries in which the sample companies are located.

Regarding CSR as an explaining variable, it is anticipated that there is a risk of multicollinearity resulting from strong correlations among the various variables when the answers obtained in the survey are used in their original forms. In order to mitigate this risk, the factor analysis method, one of the techniques used in multivariable analysis, was applied to the responses given to the respective items related to corporate governance, employee management, environmental protection, and community commitment. Specifically, three points were given to "Introduced on a Group Level", two points to "Introduced on a Company Level" and one point to "Not introduced" for the answers related to the promotion of the respective items. Similarly, three points were given to "Already introduced", two points to "Introduction under study" and one point to "Not introduced" for the answers related to the degree to which the policies and systems of the respective items

have been introduced. The factor loadings obtained by applying the factor analyses to the four respective areas are shown in Table 4-1. From these results, the following six characteristics were extracted as shown in the interpretation of the factors in Table 4-1: 1) "Systems for promoting CSR" that are supported by the publication of CSR reports and the existence of organizations and staff members specifically assigned to CSR activities, 2) "Disclosures" supported by the disclosure of information on the wages of top management and by guidelines on governance, 3) "Stakeholder dialogue" supported by listening to the opinions of specific customers, registered monitors, shareholders and investors, 4) "Systems for promoting corporate governance" that is supported by cross-sectional organizations and committees that study corporate governance, 5) "Size of upper management", reflecting a large number of directors and outside board members, and 6) "Degree of upper management age" based on the age of the CEO. Similarly, as shown in Table 4-1, the following seven characteristics have been extracted concerning employee management: 1) "Flexible recruitment", 2) "Internal communication" within the company, 3) "Acceptance of employee proposals", 4) "Flexible work environment", 5) "Merit system", 6) "Female-oriented activities", and 7) "Corresponding to mental stress". The following two characteristics were extracted in regards to environmental protection: 1) "Degree of environmental protection activities", and 2) "Systems for environmental protection". Finally, the following two characteristics were extracted in regards to community commitment: 1) "Systems for community commitment", and 2) "Management for community commitment." In order to mitigate the aforementioned risk, it is advantageous to use these seventeen CSR characteristics as the explaining variables.

4.3. Results and Discussion

The estimated results are shown in Table 4-2.

Regarding the impact of corporate governance on performance, the corporate governance system has been revealed to have a significant negative impact on the ROA on the level of 1% and a significant positive impact on the standard variation of the ROA on the level of 10%. These results indicate that the fuller the corporate governance systems become, the more the ROA tends to decrease and the more the ROA variation tends to increase (profits becomes increasingly unstable). This variable incorporates the element of whether or not committees and specific sections set up to study governance exist. Judging from the results of this study, it can be suggested that the mere establishment of a system to handle corporate governance does not result in the improvement of financial performance. Regarding disclosures that are deemed significant in the context of corporate governance, they have been found to only be significantly positive to the rate of sales growth on the level of 10%. This result means that the further a company goes in making disclosures, the higher the rate of sales growth becomes. In general, increased disclosures are believed to improve the way the company is evaluated by its various stakeholders. From the results of this study, it can be said that a company's approach to the voluntary disclosure of company information has an enduring and positive impact, especially on the product market. Stakeholder dialogue has also been shown to have a significant positive impact on the Tobin's q on the level of 10%. Stakeholder dialogue essentially includes the processes from listening to the opinions of the stakeholders to actually reflecting the opinions in general operations. These interactions between the company and its stakeholders lead to a favorable evaluation by the market over the long term.

Regarding the impact of employee management on performance, it has been found that the internal communication within a company has a significant positive effect on the ROA on the level of 10%. This result indicates that the more the communications among employees within a company are enhanced, the higher the profitability of the company becomes. Increased communications within the company create a sense of solidarity among the employees and raise the level of communication among them. This may improve the employees' capabilities and lead to the improved profitability. The acceptance of employee proposals has also been found to have a significant positive effect on the rate of sales growth on the level of 5%. This variable indicates the degree to which the employees are able to participate in running the company through the submission of proposals. Companies with higher degrees of this kind of employee participation have been found to have improved financial performance and higher rates of sales growth. On the other hand, flexibility in the work place has been found to have a significant negative impact on the ROA on the level of 10% and a significant positive impact on the standard variation of the ROA on the level of 10%. These results indicate that flexibility among the employees, such as business casual and discretionary labor systems, do not contribute to profitability; they rather damage the stability of profits.

Regarding the effects of the environmental protection on performance, only the systems for environmental protection has been found to have a significant impact on a financial performance. The systems for environmental protection have been found to have a significant positive effect on the rate of sales growth on the level of 10%. This indicates that the establishment of a system to address environmental issues has a positive impact, particularly on the product market. It has been pointed out in a large number of previous studies that the variables related to the environment have a positive impact on financial performance (Pave and Krausz 1996). The results of this study are consistent with such findings. This means that companies should proactively respond to environmental issues and that they should not regard such responses to be a cost.

Table 4-1: Results of factor analysis (factor loading) for CSR activities

Corporate governance	First factor	Second factor	Third factor	Fourth factor	Fifth factor	Sixth factor	
Report on CSR and sustainability	0.701	-0.182	0.171	0.087	0.094	0.011	
Report on corporate governance	0.325	-0.083	0.130	0.305	0.076	-0.058	
Number of Board of Directors	0.134	0.007	0.152	0.095	0.605	0.165	
Number of independent directors	-0.045	0.112	-0.081	-0.074	0.623	-0.180	
Age of CEO	0.046	-0.029	0.080	-0.007	-0.003	0.597	
Frequency of financial report	-0.246	0.292	-0.052	-0.163	0.137	-0.070	
General principles or internal rules for corporate governance like the independence of the Board of Directors and methods of electing the CEO are in place	-0.154	0.434	0.188	0.107	-0.016	-0.027	
Information regarding management compensation has been disclosed to the public	0.002	0.802	0.048	0.078	0.007	0.110	
Stock options in the compensation packages are offered to management	0.096	0.692	0.041	-0.092	0.112	-0.095	
Informal gatherings, such as lunch or breakfast meetings, where the CEO and directors can freely express and exchange their opinions are held at least once a week	0.210	-0.067	0.103	0.145	-0.186	-0.106	
Periodic surveys to measure the satisfaction of the overall customer base	0.110	-0.038	0.491	0.125	0.086	0.009	
Periodic surveys to measure the satisfaction of specific customers and registered test users	-0.010	0.021	0.603	-0.062	0.058	0.085	
Periodic surveys to measure the satisfaction of opinion makers	0.173	0.152	0.618	0.075	-0.003	0.004	
Periodic surveys to measure the satisfaction of shareholders and investors	0.101	0.092	0.440	0.060	-0.128	0.027	
Department dedicated to CSR, or a person dedicated to CSR	0.663	-0.004	0.145	0.165	-0.026	0.181	
Cross-organizational body or committee, in which management participates, that discusses CSR	0.504	0.126	0.028	0.223	0.013	-0.025	
Department dedicated to corporate governance issues, or a person dedicated to these matters	0.195	-0.004	0.115	0.668	0.064	0.084	
Cross-organizational body or committee, in which management participates, that discusses corporate governance issues	0.234	0.075	0.004	0.643	-0.119	-0.062	
Interpretation of factors	System for promoting CSR	Disclosure	Stakeholder dialogue	Systems for promoting corporate governance	Size of upper management	Degree of upper management age	
Employee management	First factor	Second factor	Third factor	Fourth factor	Fifth factor	Sixth factor	Seventh factor
Code of conduct / code of ethics	0.008	0.116	-0.017	0.101	0.105	0.086	-0.181
Recruitment of new graduates and mid-career people throughout the year	0.550	0.102	0.114	0.048	0.317	0.108	0.014
In-house announcement of job opportunities	0.420	0.096	0.054	0.031	-0.026	0.017	0.323
Internal transfers of employees based on each employee's request	0.723	0.023	0.124	0.083	0.012	-0.012	-0.022
Early retirement incentives	0.065	0.382	0.371	0.067	0.132	-0.322	-0.013
Both domestic and overseas study programs and assignment to other organizations for full-time employees with at least one year of service	0.258	0.291	0.270	0.068	0.013	-0.090	-0.155
Job rotation program	0.050	0.548	0.322	-0.004	0.206	-0.203	0.117

Promotions that reflect individual accomplishments and qualifications	0.087	0.001	0.107	0.046	0.554	0.044	0.114
Target oriented management system based on self-declarations	0.032	0.045	0.522	0.127	0.196	0.047	0.025
Internal proposal program	0.215	0.122	0.579	-0.024	-0.049	0.079	0.098
On-site dialogue between senior management and employees that occurs at least once per year	0.020	-0.006	0.008	0.045	0.133	0.041	0.368
Off-site meetings held at least once a month in which employees of various departments can participate	0.088	0.621	0.029	0.018	-0.081	0.162	0.012
Program for promoting mental health	0.059	0.228	0.100	0.311	0.022	0.069	0.406
Casual dress code like casual Friday	-0.013	-0.145	0.011	0.593	-0.061	0.142	0.067
Flextime / Discretionary labor system	0.122	0.158	0.003	0.448	0.043	-0.217	0.129
A section/desk offering consultation regarding corporate ethics and compliance matters	0.084	0.094	0.161	0.430	0.223	0.070	-0.102
percentage of female managers among the total number of managers	0.055	0.041	0.062	0.063	0.083	0.561	0.044
Interpretation of factors	Flexibl e recruit ment	Intern al comm unicati on	Accep tance of emplo yee propo sals	Flexibl e work enviro nment	Merit syste m	Femal e-orient ed activiti es	Corresp onding to mental stress
Environmental protection	Firstfa ctor	Secon dfactor					
Department dedicated to environmental issues, or a person dedicated to these matters	0.217	0.693					
Cross-organizational body or committee, in which management participates, that discusses environmental issues	0.275	0.637					
ISO 14001 EMS certification has been obtained	0.204	0.501					
Declaration to participate in the UN Global Compact	0.176	0.499					
CO2 reduction targets have been set for each business site	0.461	0.400					
Reduction targets for discarded wastes have been set for each business site	0.401	0.525					
Green procurement and purchases that take into account environmental concerns are in place	0.511	0.295					
CSR-oriented procurement and purchases based on far-reaching concerns that are stretched to cover social contributions and the like are in place	0.471	0.390					
Construction of factories and offices that take into account environmental concerns	0.623	0.201					
Delivery of eco-friendly products and services	0.613	0.172					
Utilization of environmental impact assessment techniques	0.557	0.291					
Employee training and efforts to familiarize employees about environmental issues	0.632	0.216					
Efforts to familiarize customers with environmental issues	0.579	0.285					
Interpretation of factors	Degre e of enviro nment al protec tion activiti es	Syste ms for enviro nment al protec tion					

Community commitment	First factor	Second factor
Department or organization dedicated to social contributions, or a person dedicated to such matters	0.597	0.100
Cross-organizational body or committee, in which management participates, that discusses social contribution issues	0.657	0.049
A corporate group-wide structure designed to promote social contributions is in place	0.602	0.271
Clearly documented fundamental principles of initiatives for social contributions	0.566	0.452
Disclosure of guidelines concerning charitable contributions for social contributions	0.359	0.526
Quantitative assessment of the effectiveness of the initiatives for social contributions	0.566	0.424
Information disclosure of the cost of running social contribution initiatives	0.568	0.335
Inclusion of social contribution-related budget	0.568	0.452
Volunteer leaves program	0.115	0.559
Matching gift program, which matches charitable contributions made by employees	0.107	0.610
Interpretation of factors	Systems for community commitment	Management for community commitment

	ROA		sales growth rate	Tobin's q	ROA standard deviation
Variable	Coefficient		Coefficient	Coefficient	Coefficient
Corporate governance					
Systems for promoting CSR	-0.37 (0.54)		-0.05 (1.34)	-0.10 (1.06)	0.63 (0.66)
Disclosure	-0.22 (0.43)		0.04 (1.87)	-0.03 (0.44)	0.26 (0.37)
Stakeholder dialogue	-0.37 (0.559)		-0.06 (1.36)	0.22 (1.90)	0.76 (1.31)
Systems for promoting corporate governance	-1.71 (3.18)	***	0.01 (0.45)	-0.07 (0.72)	1.55 (1.89)
Size of upper management	-0.46 (1.01)		0.01 (0.36)	0.06 (0.50)	0.02 (0.03)
Degree of upper management age	-1.29 (2.01)	**	-0.02 (1.13)	-0.07 (0.51)	1.37 (1.52)
Employee management					
Flexible recruitment	-0.21 (0.30)		-0.01 (0.36)	0.02 (0.23)	-0.87 (0.76)
Internal communication	0.99 (1.76)	*	0.00 (0.07)	0.13 (1.14)	-0.73 (1.40)
Acceptance of employee proposals	0.50 (0.65)		0.10 (2.49)	-0.01 (0.12)	0.23 (0.26)

Flexible work environment	-1.01 (1.86)	*	0.02 (0.55)	0.15 (1.54)	1.08 (1.68)	*
Merit system	-0.37 (0.74)		-0.01 (0.51)	0.06 (0.70)	-0.55 (0.78)	
Female-oriented activities	-0.99 (1.50)		0.00 (0.13)	-0.21 (1.64)	0.98 (1.49)	
Corresponding to mental stress	-0.04 (0.05)		0.04 (0.95)	0.01 (0.13)	0.24 (0.24)	
Environmental protection						
Degree of environmental protection activities	0.79 (1.41)		-0.03 (0.79)	0.03 (0.20)	-0.03 (0.06)	
Systems for environmental protection	-0.48 (0.81)		0.05 (1.82)	* (0.91)	-0.10 (0.28)	
Community commitment						
Systems for community commitment	0.85 (1.02)		0.02 (0.58)	-0.17 (1.50)	-2.69 (2.05)	**
Management for community commitment	-0.35 (0.61)		-0.01 (0.22)	-0.16 (1.70)	* (1.19)	
Corporate scale	0.15 (0.70)		-0.02 (1.63)	-0.07 (0.95)	-0.26 (1.26)	
Debt ratio	-8.20 (2.90)	***	-0.05 (0.33)	-2.03 (4.20)	*** (0.14)	
Intercept	8.48 (4.52)	***	0.29 (2.67)	*** (6.45)	** (2.13)	**
Adj. R2	0.18		0.05	0.26	0.05	

Table 4-2: Results of regression analysis

(note) (): t value.

Significant level: ***1% , **5% , and *10%.

Regarding the impacts of the community commitment variables on performance, a large number of economists insist that a company's community contribution, particularly by making donations to charities and NGOs, damage its performance. The estimated results of this study have revealed that the management of community commitment has a significantly negative impact on Tobin's q and that the systems for community commitment is one of the factors that negatively impacts how a company is evaluated by the market. However, the establishment of systems for community commitment has been found to have a significant negative impact on the standard variation of the ROA, indicating that there are some positive effects on performance in that the profitability of companies promoting a community commitment tends to be more stable. The existence of these contradictory impacts suggests a difficulty in improving financial performance through a community commitment.

5. Conclusion

It is desirable to clarify a priority and performance for the contents of CSR activities as global standard. We carried out a questionnaire survey on measures for CSR activities, and obtained responses from 271 companies in Europe and North America. Based on factor analysis, we extracted 17 characteristics from CSR activities like corporate governance, employee management, environmental protection and community commitment. Among these characteristics, it was shown that there were significant mutual relationships between acceptance of employee proposals and stakeholder engagement or philanthropic organization, etc. Finally, this paper pointed out that there were some cause and effect relationships between these 17 CSR characteristics and indicators of corporate performance, such as ROA, Tobin's q, growth rate, and profit stability.

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NGO'S- PARTNER, SUPPORT OR BALL AND CHAIN? THE PERCEPTION OF COOPERATION WITH NON-GOVERNMENT ORGANIZATIONS BY ENTERPRISES FUNCTIONING WITHIN THE POLISH MARKET

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Summary

In recent years, the companies and NGO which so far have been on the two opposing sides, have begun to understand their dependence and see the benefits coming from strengthening the relations. Cooperation between those parties are still poorly recognized phenomenon. In Poland, this phenomenon is a relatively new one, thus establishing this kind of collaboration on a broad scale is not yet the question; however, it is worth observing it, hoping this trend will develop. This paper presents the findings of research on the collaboration of enterprises operating on the Polish market with NGOs. The author tries to recognize whether the Polish enterprises establish collaboration with NGOs, and if yes, then what its scope is, what motivations for strengthening relations with them are and what, in their opinion, the factors promoting the establishment of long-term and strategic collaborations are.

Keywords: cross-sector collaboration, Business-NGOs partnerships, CSR.

In the face of the economic crisis the world has been facing for the last couple of years, business has been forced to redefine their role in modern economy. It should be noted that at the moment the crisis started spreading to new markets, various circles would express doubt concerning the concept of corporate social responsibility, which in case of many companies turned out to be superficial. It is hardly surprising, since the public opinion was fed with news which demonstrated greed and lack of moral standards of many leaders of global corporations. The pedestal CSR had been put on was questioned and requires corrections at present. It seems that along with the declining trust towards business and deteriorating social bonds, consumers are becoming increasingly appreciative of social values and pay close attention to how companies communicate with their environment, how they engage in social development and whether their 'responsibility' is not merely limited to actions associated rather with public relations, instead of being manifested by their actions. At present, increasing significance is awarded to those undertakings during which companies fulfill their mission, at the same time generating value within society.

It seems that during the economic crisis the role of social capital has been noticed as important, not only for social, but economic development as well. Entrepreneurs, just like numerous theoreticians, have realized that its large amount may have positive influence on, for instance, the duration of negotiations, lowering the costs of transaction, shortening the investment process, limiting corruption, increasing reliability of business partners, facilitating long-term investments and transfer of knowledge, limiting the abuse of common property and increasing solidarity between groups⁴⁸⁴. According to the vision of Robert Putnam, one of the classics of social capital, what constitutes a civic character of a society is willing cooperation between various parties, and in this context social capital is defined as a set of characteristics which facilitate such cooperation. The factors which can be mentioned here are, for instance "trust, norms and relations which can enhance a society's efficiency, facilitating coordinated actions"⁴⁸⁵. In the literature on the subject three types of social capital are frequently mentioned, namely bonding social capital, bridging social capital and linking social capital⁴⁸⁶. The first of them concerns the internal dimension of interpersonal bonds, which make individuals become a homogenous social group, like a family, neighborhood; it concerns local context and involves high commitment. Bridging social capital concerns bonds and relations between individuals belonging to different social groups and communities. It is aimed at developing the skills and resources which would be difficult to obtain otherwise. The last kind of social capital- the linking one- concerns building relationships between people who are not of equal status, and between parties which are characterized by different levels of authority, influence or power⁴⁸⁷. When referring to the bridging and linking kinds of social capital, one can say that they are the foundation of the new business model, based on generating shared value, which is contemporarily promoted (for example, in Harvard Business Review by Michael E. Porter and Mark R. Kramer). As mentioned earlier, at present it is necessary to redefine the role of business in a society, as well as restore the bonds between business and society, as it is the only way to restore consumers' trust for companies. According to Michael E. Porter and Mark R. Kramer, creating shared value „will also bring about

⁴⁸⁴ J. Czapiński, Raport. Diagnoza społeczna 2011. Warunki i jakość życia Polaków, (red.) J. Czapiński, T. Panek, Rada Monitoringu Społecznego, Warszawa 2011, p. 284

⁴⁸⁵ M. Theiss, Krewni-znajomi-obywatele. Kapitał społeczny a lokalna polityka społeczna, Wydawnictwo Adam Marszałek, Toruń 2007, pp. 16-17

⁴⁸⁶ K. Sierocińska, Kapitał społeczny, definiowanie, pomiar i typy, „Studia ekonomiczne”, no 1/2011, p. 74

⁴⁸⁷ J. Macke, E. K. Dilly, Social Capital Dimensions in Collaborative Networks: The Role Of Linking Social Capital, „International Journal of Social Inquiry”, 3/2010 (2), p. 127

new face of capitalism and its relations with the society". Perhaps the most important, however, is the fact that learning how to generate shared value is our biggest chance for restoring business' legitimacy in the eyes of the society (...) The concept of shared value, unlike others, is based on the assumption that markets are shaped by social needs, and not just conventional economic requirements"⁴⁸⁸.

The changes occurring in contemporary economy cause that more and more companies decide to engage in cooperation with different parties from their environment. In the literature concerning the matter, the aspect which is becoming increasingly popular is the cooperation paradigm, which emphasizes that companies should be aware of being a part of a certain network of relationships between various parties when drawing up their strategies. "According to this paradigm, modern companies (...) can strengthen their position and achieve better economic results primarily by means of the strategy of cooperation "⁴⁸⁹. In the context of corporate social responsibility and the stakeholders theory associated with it, we can talk about cooperation with parties who can have an influence on the functioning of particular companies, regardless of the fact whether they belong to the same, or different sectors. On the other hand, when analyzing the cooperation of parties which concerns social problems and issues, it is worth referring to the term of cross sector social partnerships (CSSP), which involves cooperation between parties from two or three sectors. According to the definition by Sandra Waddock, social partnership is "an declaration of a company or a group of companies to cooperate with an organization from another sector (public or private). It involves using own resources- time and energy- by the employees of each party, who cooperate between each other in order to solve problems which affect everybody. The problem is only partially defined as a social one, since its solution is beneficial for each party involved. Social partnership concerns problems beyond traditional goals and possibilities of one organization, but is within the domain of public policy (its social aspect) "⁴⁹⁰. In this context, companies can be associated with the subjects from public and social sector.

The author of this paper is particularly interested in cooperation between the subjects from social and private sector for two reasons. Firstly, unlike the social-private partnership, the cooperation between companies and public institutions has been given a relatively great deal of attention. Secondly, non-government organizations are subjects which, on one hand, have seemingly little to do with business and functioning on the market, on the other however, they possess valuable resources which, in the light of increasing significance of CSR and corporate involvement in social projects, can be of crucial importance. Another reason why we should take a look at their role in generating social and economic value is the fact that NGOs are the foundation of civil society, and thus seem indispensable in shaping social capital, facilitating economic development.

A number of questions can thus be set: What is the role of non-government organizations in „reconstructing” the role of business in contemporary society? Can corporate social involvement be carried out with organizations from the third sector? Can they act as subjects which support business and cooperate with companies on equal level? Are the subjects from the third sector still treated as necessary evil and inconvenient companion in the period of changes, despite the growing need for corporate social involvement? The subject of this study is an attempt to look at the changing environment of business, relations between private and social sector connected with it, as well as presenting the results of empirical study on the perception of cooperation with NGOs among the Polish managers in charge of CSR.

Relations between the subjects of economic and social sector

Non- government organizations, as subjects from the third sector, which in civilized countries is a complementary part of socio-economic system, play various roles in relations with business. In the simplest sense, we can say that there are (1) NGOs which are hostile towards business, (2) the ones neutral towards it and (3) those which perceive cooperation with business as a potential development opportunity. In the literature on the topic, the most frequently encountered typology of non-government organizations in the context of relations with business is the one created in 1998 by John Ellington and Shelly Fennell. The authors present four types of NGOs⁴⁹¹:

1. Sharks- organizations which, due to low creativity and lack of intelligence, are not demanding opponents. Their code of conduct is to carry out the strategy of a simple, one-time attack on corporations. They do not focus their attention on particular branches, issues or companies, thus making every company a potential target. One can say that the "sin" of a company is its very existence and influence on the environment. The shark's make use of rather simple arguments and imprecisely stated problems (like, for

⁴⁸⁸ M. R. Kramer, M.E Porter, Tworzenie wartości dla biznesu i społeczeństwa, „Harvard Business Review”, May 2011, online edition

⁴⁸⁹ A. Sudolska, Znaczenie potencjału relacyjnego w procesach współpracy międzyorganizacyjnej, „Przegląd organizacji”, 12/2011, p. 10

⁴⁹⁰ M. M. Saitanidi, Critical Review of Forms of Corporate Community Involvement: From Philanthropy to Partnerships, „International Journal of Nonprofit Voluntary Sector Marketing”, 12/2007, p. 257

⁴⁹¹ See: J. Ellington, S. Fennell, Partners for sustainability, „Greener Management International”, no. 24, 1998, pp. 54-58

example, allegations which concern causing environment pollution, in a general sense). The companies which decide to cooperate with them should assume high risk, as firstly it is hard to expect loyalty from them, and secondly it is hard to set common goals.

2. Orcas- also hostile towards business but, unlike sharks, they make a selection of the companies they attack. Orcas carefully prepare for an attack, collecting detailed knowledge about companies and making analyses of their level of development, in relation to the actions they undertake. For that reason, relations with orcas may be very dangerous.

3. Sea lions- they are peaceful and friendly, which results in their engagement in interaction with every company possible. They are not demanding when it comes to selecting a business partner. Virtually any incentive, like a donation, is sufficient motivation to undertake joint projects and be a loyal partner. Despite the fact that cooperation with them is in all respects safe and cordial (especially when an organization expects even greater profits resulting from relationships with a company), the most effective conduct seems to be simple relationship, involving rather short-term actions (for example, involving PR), rather than long-term commitment to projects relevant for the company. Sea lions are often attacked by sharks and orcas, as well as subjected to public criticism due to their involvement in all sorts of companies, regardless of the environmental and social costs they may have caused. In such cases the value of cooperation deteriorates and all joint undertakings have little credibility according to the public opinion.

4. Dolphins- they are organizations which are the most effective in terms of cooperation with business. Their intelligence, creativity and positive attitude towards business make them ideal potential partners for companies interested in involving stakeholders in their activities. Dolphins are open to new challenges and understand that business also has objectives to be met. Unlike sea lions, they are not interested in shallow relations- on the contrary, as they are aware of their value, they look for partners who are able to offer participation in sophisticated and interesting projects.

It is hard to deny that there are non-government organizations which are hostile towards business, especially bearing in mind the fact that since the 60's and 70's of the 20th century, when numerous NGOs appeared with combating unethical practices in business as their goal, we have been used to rather conflicting relations between the social and private sector. It is worth emphasizing, however, that along with the growing significance of corporate social responsibility and changing conditions in which both companies and NGOs operate, their mutual relations tend to switch from confrontation to cooperation, which can be confirmed by more and more numerous complex projects carried out as a result of cooperation between those subjects. Both parties, which not long ago stood on the opposing sides of the barricade, have started to realize their mutual dependence and notice the potential benefits of tightening their relations. Companies more often perceive NGOs as subjects which may help them more effectively realize their goals involving social commitment, whereas NGOs admit that, apart from financial resources they still wish to achieve, companies are also in possession of other valuable assets, which facilitates their willingness to engage in close cooperation with business and to seek compromise⁴⁹². Involvement in developing cooperation is in accordance with the contemporary belief that along with the changing social expectations and market needs, it is the time for business to become more involved in shaping relations with stakeholders, acknowledge them as partners and engage in actual cooperation with them. Such an approach is very close to the concept presented by Ann Svendsen⁴⁹³, according to whom it is not enough to merely manage the stakeholders, concentrating only on one's own- company's- perspective, but aim at creating shared value and innovative solutions by building up the atmosphere of cooperation and heading towards partner relations.

The space between private and social sector has a large potential for development for organizations from the private sector, who are referred to by James Austin and Ezequiel Reficco as social business entrepreneurs. According to the authors, social business entrepreneurship allows for strengthening a company's position on the market thanks to shifting its goals from maximizing profit of the investors to optimizing the profit of stakeholders (...). It is based on the assumption that serving such broadly defined recipients will contribute to the company's durability. The reinforced goal means that a company generates both economic and social value, often referred to as double or - if one distinguishes economic value as a

⁴⁹²See: D. Arenas, J.M. Lozano, L. Albareda, The Role of NGO's in CSR: Mutual Perceptions Among Stakeholders, „Journal of Business Ethics”, Nr 88/2009, p. 189

⁴⁹³A. Svendsen, The stakeholder strategy: profiting from collaborative business relationships, Berret-Koehler Publications Inc., San Francisco 1998

separate category- triple bottom, or blended value"⁴⁹⁴. If we perceive social business entrepreneurship in this context, we should thus understand it as seeking new ways to increase a company's value, pursuing innovative solutions, which in contemporary world should be sought in the areas associated with social issues.

The author of this paper believes that economic organizations can play a crucial role in the process of creating conditions which would facilitate the emergence of civil society, which is why companies should devote more attention to joint projects with stakeholders from their environment, including NGOs which are often in possession of unique resources and which can be extremely valuable towards building up a company's competitive advantage. What are then the NGOs' assets which business might be interested in? Apart from the obvious asset they possess, namely social trust and credibility (which at present many business organizations lack), it is worth emphasizing their other assets, such as competence and expert knowledge on solving social problems, or a network of contacts within the social sector, which may influence the efficiency of a given undertaking. A significant feature of NGOs is their readiness to confront business organizations. It appears that cooperation with NGOs may radically minimize the risk of operating on a market. The need to form alliances of this kind is growing not only due to the complexity of contemporary social problems and the inability of public institutions to tackle them, but also due to the changing market. It is the consumers who mostly cause the business to discover the benefits of implementing a business model based on generating socio-economic value. The market need of making use of responsible business practices has caused that companies have intuitively started to seek partners among non-government organizations, allowing for the implementation of new and often innovative solutions⁴⁹⁵.

James Austin and May Saitanidi emphasize that while attempting to generate socio-economic value, it is necessary to combine the assets of business and social organizations. The value, however, will not emerge if the matter concerns random participants. That is why, when making a decision concerning cooperation, it is worth taking into account the sources of value which is generated as a result of cooperation. According to the authors, there are four sources of this value to be considered: complementarity of assets, type of assets, appropriate use of assets and joint interest⁴⁹⁶. The essence of generating value is also confirmed by research, according to which "over 75% of opinion leaders would like companies to create value in accordance with public interest, even if it means decreasing benefits for shareholders"⁴⁹⁷. The first of the sources mentioned- complementarity of assets- concerns organizational coordination, without which the subjects may, first of all, find it difficult to cooperate and, second of all, reach the sources of generating value. What is crucial in this respect is attracting organizations which search their environment for resources they do not possess themselves. Coalitions of complimentary subjects are characterized by easy cooperation, with the potential for generating value growing along with the level of complementarity of assets and organizational adjustment. The type of assets refers to the kind of assets which are used in cooperation between subjects. When its simplest form is applied, it is usually funds (from the business side) and reputation (on the NGO's side) which are used. In case of more complex projects, more specific resources are applied, like expert knowledge, experience, infrastructure. According to James Austin and May Saitanidi, the more specific resources both sides apply, the bigger their chance for generating value. The way of using resources is another source of generating value. Apart from applying various resources for the cooperation, it is crucial how they are used and to what extent. In relations between the subjects of the private and social sector the flow of assets may take various directions, i.e. it can be one-way (coming from only one of the parties involved), two-way and involve bilateral exchange of assets, as well as combining and overlapping of the assets possessed by each participant. According to the authors of this classification, parallel, but still separate flows of assets allow for creating value for each side, but only with overlapping and integrating the resources is it possible to generate new socio-economic value. Good use of this source means integrating the key assets of cooperating parties and combining them in a unique way, in order to allow for creating a socio-economic innovation. Joint interests- the authors emphasize that in cooperation it is crucial to understand what both sides perceive as value, how they estimate it and how they want to achieve it. Partners need to be convinced that the exchange of value is fair, otherwise the cooperation can be threatened. The higher the extent to which one's interest is identified with the value which is generated during cooperation and for the common good, and the greater fairness is applied when sharing the value between participants, the bigger the chances for creating synergic socio-economic value.

⁴⁹⁴ J. Austin, E. Reficco, Społeczna przedsiębiorczość biznesu, in: Wymiary Użyteczności Społecznej. Biznes, administracja i organizacje pozarządowe a społeczeństwo obywatelskie, red. G. Makowski, M. Koziarek, Instytut Spraw Publicznych, Warsaw 2009, p. 37

⁴⁹⁵ C. Damlamian, Corporate-NGO Partnerships for Sustainable Development, College Undergraduate Research Electronic Journal, University of Pennsylvania, 2006, p.7

⁴⁹⁶ J. Austin, M. Saitanidi, Social Enterprise series No. 32: Value Creation in Business - Nonprofit Collaborations, Harvard Business School, Working Paper, September/2011, p. 2

⁴⁹⁷ Edelman Trust Barometer 2011, <http://www.egospodarka.pl/61591,Edelman-Trust-Barometer-2011,1,39,1.html>

Levels of cooperation

Cooperation between companies and non-government organizations may take various forms, which are usually related to the degree to which both parties are involved in an undertaking. Ann Svendsen emphasizes the significance of diverse character of cooperation. In order to better describe the thesis, the author uses the term cooperation continuum, where at one end she places "low level of integration", characterized by low level of the participants' involvement in a joint project and relatively narrow range of joint actions, with "high level of integration" at the other end, reflecting high level of participation of participants, as well as constant flow of information and knowledge. "The companies who engage in a dialogue with their stakeholders in order to better recognize and understand their goals, interests and needs are positioned closer to the low level of integration"⁴⁹⁸. On the other hand, Ann Svenson identifies high level of integration with companies who, for example, have well-developed volunteer work among employees, where employees eagerly engage in social projects or themselves show initiative to organize them.

At the beginning of the 21st century James Austin presented a slightly different cooperation continuum for companies and non-government organizations, distinguishing three levels of cooperation: philanthropic, transactional and integrative.

Table 1. Features of cooperation levels

	Philanthropic	Transactional	Integrative
Collaboration Mindset	1. Gratefulness and charity syndromes	(5) Partnering mindset (6) Increased understanding and trust	17. „WE“ mentality replaces „US versus THEM“
Strategic Alignment	• Minimal fit required, beyond a shared interest in a particular issue area	(5) Overlap in mission and values	• Relationship as strategic tool • High „mission mash“ • Shared values
Collaboration Value	• Generic resource transfer • Typically unequal exchange of resource	• Core competency transfer • More equal exchange of resources	• Joint value creation • Need for value renewal

⁴⁹⁸ A. Svendsen, The stakeholder strategy: profiting from collaborative business relationships, Berret-Koehler Publications Inc., San Francisco 1998, s. 65

	Philanthropic	Transactional	Integrative
Relationship Management	• Corporate contact usually in community affairs of foundation; nonprofit contact usually in development • Minimal personal connection to cause • Project progress typically communicated via paper status report	• Expanded personal relationships throughout the organization • Strong personal connection at leadership level • Emerging infrastructure, including relationship managers, communication channels/vehicles	• Expanded opportunities for direct employee involvement in relationship • Deep personal relationships across organizations • Culture of each organization influenced by the other • Partner Relationship Managers • Explicit internal and external communication strategies and processes
Collaboration Definition and Performance	• Minimal collaboration in defining activities • Foundation guidelines often determine types of projects or corporations respond to specific requests from nonprofits • Minimal performance expectations	• Shared visioning at top of organization • Projects of limited scope and risk that demonstrate success • Explicit performance expectations • Informal learning	• Projects identified and developed at all levels within the organization, with leadership support • Broad scope of activities of strategic significance • Organizational integration in execution including shared resources • Incentive systems encourage partnerships • Active learning process • High mutual expectations and accountability

Source: J. Austin, Marketing's Role in Cross-Sector Collaboration, [za:] J. Austin, The Collaboration Challenge, San Francisco, 2000, [w:] Non-Profit and Business Sector Collaboration, (red.) W.W. Wymer Jr., Sridhar Samu, Best Business Books, New York 2009, p. 26

The philanthropic level is one of the most frequently encountered relations between organizations from those two sectors and mostly involves financial donations made to a given non-government organization. Financial support is a response to a written request made by social organizations and such relations are basically characterized by the lowest level of involvement on both sides. In such cases the donor is perceived as thoughtful and involved in solving social problems, with a non-government organization taking the role of a

'poor relative'. In such relations both parties are interested solely in their own good and act independently. The benefit for the company may in this case be the building up of the image of a caring and responsible organization. However, it is not evident, as some consumers are increasingly skeptical about the one-dimensional and purely financial support of the social sector. Due to the fact that, in the eyes of many consumers, this type of relations is perceived as simply 'buying' good image by the company, the companies which actually realize CSR-based strategies resign from so called dispersed philanthropy and replace it with strategic philanthropy.

Transactional level increasingly popular among companies. It does not merely involve making financial donations, but requires a much greater involvement both on the side of non-government organizations and the companies. Cooperation on the transactional level involves making use of resources of both participants and engagement in a variety of actions, but results in bilateral exchange of value and achieving common benefits. Each of the parties can gain something, but only in the course of the process of generating value for the partner. With time, the possibilities resulting from cooperation are bigger and 'partnership becomes more and more important for both sides, which is expressed in their strategies and mission statements. (...) The level encompasses such actions as socially-engaged marketing, sponsoring events, special projects and programs of employee voluntary work'⁴⁹⁹.

The integrative level is for now limited to few companies, but their number is growing. The cooperation on the highest level involves pursuing the biggest possible integrity between a company and a non-government organization, which is expressed by combining the values, missions and strategies of the company and the NGO. An important factor here is being well-matched in terms of organization, and being involved in joint projects deepens the relations and increases mutual trust between partners. On this level of cooperation, the employees of both organizations become increasingly involved in joint actions as parts of various projects. The competences of both parties are not just used for given purposes, but creatively combined in order to create unique value. Such an effect can be achieved in some joint venture projects and in case of creating new, jointly managed body, which is an executive body of mutual cooperation.

Each of the above mentioned types of cooperation is a kind of ideal, which does not have to be reflected by reality. It is difficult to characterize any relationship basing on strictly defined features of each level. The relations between companies and non-government organizations take various forms, change over time and are flexible. Each cooperation is characterized by a number of features- one can, for instance, be more similar to philanthropic level, another to a transactional or integrative one. In addition, not all relations between partners must go along the subsequent stages of cooperation mentioned in the continuum, and can also start at any level. The figure 1 demonstrates the dynamic nature of cooperation between organizations from the public and social sector, and allows to understand the complex character of the relation.

Figure 1. Cross-Sector Collaboration Continuum according to James Austin

⁴⁹⁹ J. Austin, Connecting with Nonprofits, Harvard Business School, 2001, available at: <http://hbswk.hbs.edu/item/2489.html>

Cross-Sector Collaboration Continuum

[illegible]

Source: J Austin, M.M. Seitanidi, Value Creation in Business - Nonprofit Collaborations, [w:] Social Enterprise Series no. 32, Working Paper, 2011, p. 15

In 2011 James Austin, in cooperation with May Saitanidi, re-analyzed the cooperation continuum between companies and non-government organizations and, taking into account the joint creation of value and the ongoing changes in the contemporary world nowadays, extended Austin's cooperation continuum by another level- transformational⁵⁰⁰. As the authors themselves admit, the concept of cooperation at this level is based rather on theoretical assumptions than practical experience. Its characteristic is going beyond the integrative level and creating such relations between partners, and causing such a creative compilation of the partners' resources, which would allow to generate value on the higher, broadly understood, social level. The transformational level characterizes the cooperation which is in fact social entrepreneurship, whose aim is to tackle various social problems. The more complex the problems, the greater the need to involve various organizations, often from different sectors, in solving them. The effects of such cooperation are not limited only to economic, social and political ones, but bring about changes in partners and their employees.

In Poland, the examples of cooperation between companies and NGOs are still relatively scarce, yet it is a phenomena which is becoming noticeable on the Polish market. The initial stage of its development probably stems from the fact that, firstly, the Polish third sector still has a number of weaknesses, although it should be noted that it is becoming increasingly professional, and secondly, the companies are just starting to realize the benefits of cooperation with NGOs. However, recognizing the high potential of those relations it is worth studying how managers in charge of CSR perceive cooperation with organizations from the third sector.

Polish managers' perception of cooperation with non-government organizations

The objective set when planning the study was the most thorough analysis of the conditions of cooperation between companies and non-government organizations, as well as its evaluation from the point of view of the companies operating on the Polish market. The study was carried out between May 2011 and April

⁵⁰⁰ J. Austin, M. Saitanidi, Value Creation in Business - Nonprofit Collaborations, Social Enterprise series No. 32: Harvard Business School, Working Paper, September/2011, p. 24

2012 by the Centre of Leadership and Corporate Social Responsibility at Nicolaus Copernicus University and GoodBrand&Company Polska⁵⁰¹. Due to the fact that private-social partnership is still at an early stage of development, and that since the deep analyses on the topic are scarce, it was decided that the companies studied will be only those which are perceived in Poland as socially responsible and have documented experience in the matter. It was thus assumed that the first potential candidates for the study will be the companies which were honored in the "Responsible Business in Poland. Good Practices 2010" Report, published by Responsible Business Forum⁵⁰². Thanks to this, the study focused only on those companies which, in the opinion of the leading Polish organization promoting corporate social responsibility, deserve to be praised for their actions in this respect. It can thus be said that the study was conducted on a deliberately selected group of companies, which were distinguished on the Polish market for operating in accordance with the rules of corporate social responsibility. The study was carried out by means of qualitative⁵⁰³ and quantitative method. In total, 151 companies have been analyzed by means of questionnaires sent to them via the Internet. As a result, 51 correctly filled questionnaires have been obtained, which is almost 34% return rate. The deliberate selection of the sample group does not allow to extend the findings over the whole population of companies operating in Poland, which is why the study is demonstrative and diagnostic in its nature.

All the companies which took part in the study have experience in cooperation with NGO's. The overwhelming majority of 98% declared that they were cooperating with external non-government organizations⁵⁰⁴, with only 2% admitting that although they were not involved in any cooperation of such kind at that moment, they had such experience from the past. What can seem surprising is the fact that, given such a large number of companies cooperating with non-government organizations, almost 63% at the same time admit to see the risk associated with engaging in cooperation with organizations from the third sector. Most frequently, the fears concern potential problems, such as damaging the company's image (almost 42% of respondents), or being burdened with most of the tasks involved in the project (29%). For 12,9% of the companies, the risk is also connected with potential lack of settling the accounts by the NGOs. Engaging in cooperation, despite companies' clear fears, points to large potential for development of cooperation between organizations from private and social sector. The companies take the risk and decide to cooperate with NGOs, which means that from their perspective joint projects with organizations from the third sector is profitable.

The evidence for that is, among others, the fact that it is the companies who themselves search for partners for cooperation. The findings show that companies are most frequently interested in cooperation with organizations from the third sector when they plan to carry out their own social project. 68,8% of companies did so often, 29,2 did so occasionally, and only 2% never. Almost 70% activity in this field shows the significance of well-planned projects which generate specific benefits for companies, rather than 'giving away' money to a number of organizations in need. Carrying out own social projects is not the only way companies get socially involved, as companies also decide to subsidize projects and ideas of non-government organizations. However, it has nothing to do with dispersed philanthropy, as it is the companies who decide which projects they want to be associated with and some of them often (39% of respondents), and some occasionally (53,7%) organize competitions for NGOs who are willing to gain financial support for carrying out their ideas. Naturally, many NGOs still initiate contacts with companies, counting on cooperation. According to 93,7% of managers, such situations occur mainly when the representatives of the third sector need funds for carrying out their own projects or need material support- that is the opinion expressed by 59,4% of respondents. It seems, however, that NGOs are starting to notice the retreat of business from traditional 'giving away' money. It is proven by the fact that more and more frequently they put forward proposals to carry out a joint social project. In 52,9% of cases it was defined as occasional, with 37,3% of respondents describing it as frequent, which allows us to draw the conclusion that an increasing number of NGOs can adjust to the changing conditions and retreats from the demanding nature of relations, towards actual partnership.

A question can thus be asked why companies engage in such risky-as respondents themselves have admitted, cooperation and why they aim at carrying out social projects in cooperation with partners from the third sector. What motivates the managers who try to develop their environment in cooperation with NGOs? When asked about their reasons, the respondents had the possibility to point out three factors influencing the

⁵⁰¹ The study entitled: „Business-NGOs cooperation as a symptom of corporate social responsibility" realized under the grant no. 305-E, received from the Faculty of Economics and Management at Nicolaus Copernicus University in Toruń.

⁵⁰² Responsible Business Forum is a leading Polish non-government organization promoting corporate social responsibility, which has published reports of the best business practices for ten years.

⁵⁰³ Six interviews with managers in charge of CSR from Poland's top companies, with a medium level of standardizing, have been carried out, thanks to which the questionnaire used in the quantitative study was perfected.

⁵⁰⁴ Skipped the cooperation of a corporate foundation established by the respondent's company and acting on its behalf.

decision to engage in relations which they believed to be the most important. According to 70,7% of respondents, Polish companies cooperate with non-government organizations because they wish to improve their image. For 64,7% of respondents, another important reason why business engaged in cooperation with NGOs are the competences and experience of their workers in terms of social aspects, which employees of the private sector lack. Such a high number of respondents pointing to those reasons confirms the trust organizations from the third sector enjoy, which is especially important in the period of economic crisis and breakdown of trust towards business. Apart from the abovementioned reasons, the respondents also pointed to a number of different ones, declaring, for instance, that they cooperated with the third sector because NGOs approach them (27,5%). 9,8% of respondents declared that they engaged in joint actions with NGOs as this was what their key stakeholders expected. Only 2% of the respondents explained their decisions to start cooperation with the fashion for CSR and following the actions of their business rivals.

The experience of Polish companies in terms of cooperation with NGOs also allows them to define what profits they actually gain from it. The study shows that the motivation to engage in cooperation is mostly in accordance with the benefits obtained. The respondents were asked to point out the maximum of three benefits resulting from cooperation with NGOs. According to the respondents, 58% of companies reinforced their positive image and 54% built up social recognition of their brand. 48% of respondents admitted that joint projects are a learning and development opportunity for their employees, and 44% declared that they used the competences of NGOs' workers in order to carry out social projects. 36% of the respondents claimed that by cooperation with NGOs the company established good relations with the local community, with 22% expressing belief that it also influences the satisfaction of employees involved in social projects. 14% of companies gained positive image with customers due to cooperation with the third sector, and 10% believe that cooperation with NGOs increases their chances of investing their money in a proper way, whereas 8% admits it has improved their conditions for running business. It is worth noting, however, that among 68,6% of respondents who pointed to building up social recognition of the brand as the most important benefit gained from cooperation with organization from the third sector- this was the response of 40% of them. 17,1% defined improving the company's positive image and making use of the NGO's employees' competences when carrying out social projects as the main benefit. Other responses pointed to building up good relations with the local community (8,6%) and development and gaining new competences (8,6%).

Due to the differences between organizations from two or three different sectors, during cooperation of this sort various difficulties need to be overcome. The cooperation between companies and NGOs is no exception in this respect. The experience of Polish companies in this matter shows that the biggest barrier which inhibits cooperation with organizations from the third sector is the lack of understanding for the goals each party has (62,5% of respondents) and the demanding attitude of non-government organizations (58,3% of respondents). It can be assumed that it is the result of many years of experience in relations between companies and NGOs, where organizations from the third sector often received support from companies, who at the same time had no expectations and demands concerning them. Nowadays, Polish NGOs need to learn a new way of cooperation, which often requires initiating actions and making compromises. According to 35,4% of managers, a serious barrier in cooperating with NGOs are the differences ways of managing an organization and a company, for 33,3% the barrier was lack of NGOs' employees' competences to manage a project, and 31,3% pointed to difficulties in devising a common language of cooperation. In this case, the factor clearly emphasized are the differences between both parties, who operate with a language which is incomprehensible for the other side (the language of business vs. the language of NGOs). A relatively large number of respondents-27,1%- pointed to a different sense of time and lack of willingness to devise common solutions. The responses probably refer to those NGOs who have not yet noticed the changing conditions of functioning in space shared with business. What is interesting, relatively low significance is given to sector-based prejudice and stereotypes concerning business employees and NGOs employees. They were declared as an obstacle in cooperation for only 14,6% of managers. The barrier least frequently mentioned by respondents is the disproportion between parties in terms of size and resources possessed.

It seems, however, that the barriers noticed by managers do not prevent them from carrying out joint projects with NGOs. What is more, the results the companies carry out most of their social projects in cooperation with non-government organizations. The answers given by respondents who were asked whether they carried out social projects on their own, or with other parties (i.e. other companies, NGOs, other parties, such as schools, universities, administration) clearly show that in all actions of this type non-government organizations play the most important role as partners.

In the course of operations involving the promotion of CSR, 52,9% of companies cooperates with NGOs, 2% with other organizations, with 11,8% doing it on their own. The actions aimed at solving particular social problems: poverty- 51% cooperated with NGOs, 2% with other organizations, 3,9% acted on their own; unemployment- 17,6% cooperated with NGOs, 17,6 with other organizations (schools, universities,

administration), 2% acted on their own; homelessness- 5,9% cooperated with NGOs; addictions- 7,8% cooperated with NGOs, 2% with other organizations; other actions aimed at tackling social problems- 39% cooperated with NGOs, 5,9% acted on their own. 51% of companies carried out actions related to environment protection in cooperation with NGOs, with 15,7% doing so on their own. The situation is similar in case of projects related to culture, as 43,1% of managers admitted to cooperation with NGOs, with only 2% cooperating with other companies and a further 2% cooperating with other organizations. 11,8% declared to be acting independently. Also in the field of education non-government organizations strongly support business, since as many as 58,8% of companies were involved in joint educational projects with organizations from the third sector, 11,8% did so in cooperation with other organizations and only 3,9% did so on their own. 35,3% of companies carried out joint social projects involving sport in cooperation with NGOs, 2% with other companies, and 5,9% did so on their own.

Such a common involvement in cooperation with non-government organizations when realizing social projects makes organizations from the third sectors important players not only in social life, but economy as well. The respondents confirm it themselves, 98% of whom admit that they perceive non-government organizations as important stakeholders. It should be noted, however, that although 38,8% of them claim that NGOs are an important stakeholder and their significance is growing, 32,7% claim that despite being a major stakeholder, NGOs could still improve their position, which means that they are still failing to use the full potential they possess, and are thus not professional and strong enough for companies to treat them more seriously. A very small minority of only 2% of the respondents claim that although NGOs are a major stakeholder, their significance is diminishing. Only 2% of the respondents do not perceive NGOs as an important stakeholder.

The fact that NGOs are a major stakeholder for the companies which, in Poland, are considered socially responsible is confirmed also by the fact that Polish companies are willing to treat organizations from the third sector as partners and engage in long-term cooperation with them. In 96% of cases, the managers declare that their companies have experience of at least two-year long cooperation with NGOs, but 65,3% admit that a non-government organization is their strategic partner. It probably means that companies carry out a long-term, strategic cooperation with particular and reliable NGOs. It is also worth noting that a vast majority of respondents-96,9%- believes that a non-government organization can be treated as an equal partner by economic organizations (72%- definitely yes; 24%- rather yes).

It seems relevant to ask the question about what it means to treat a given party as a partner. According to Partnering Initiative, the basic rules of constructing a successful partnership concern: equal rights (each party has an equal vote, regardless of their power, resources and influence); mutual benefits (apart from gaining shared profits, cooperation allows both partners to benefit individually); transparency (openness and honesty in cooperation). The respondents were asked about the importance of each of those rules. Despite four possible choices, none of the respondents defined the rule referring to mutual benefits and transparency as 'of little importance' or 'not important'. All the respondents valued highly mutual benefits- 58,3% declared that the rule is very important, and 41,7% viewed it as important. 68,8% of the respondents claim that the rule of transparency is very important in partnership, whereas 31,2% treat it as important. The only rule which was given less recognition than others was the one referring to equal rights. Only 31,5% believed that the rule was very important, 56% claimed that it was important, and 6,3% of respondents declared that the rule is of little importance. It is worth emphasizing that for Polish managers the most important rule, the foundation of successful cooperation is transparency, with mutual benefits and equal rights coming second and third, respectively. When interpreting the data, it seems relevant to draw attention to the slightly, but nevertheless visible, skeptical attitude to the rule concerning equal rights of the partners. Bearing in mind the fact that the respondents were mostly large and powerful companies, it could be concluded that companies are still reluctant to resign from making final decisions and agree to compromises to a limited extent.

It seems, however, that along with the evolution from short- to long-term cooperation, as well as the growing awareness of the value of cooperation, companies are more and more willing to perceive NGOs as equal partners. The study results confirm that Polish managers, despite still engaging in occasional and short-term cooperation, value long-term actions more highly. The study compared the forms of cooperation most valued by the respondents in the long- and short-term perspective (the answers 'very important' and 'important' were combined). It turned out that most kinds of cooperation were evaluated similarly. It is, however, worth emphasizing that all long-term actions were evaluated more highly than short-term ones. The biggest discrepancies in evaluating the forms of long- and short-term cooperation concern the projects based on the idea of socially engaged marketing, which were considered the most valuable in the long-term perspective by 81,3% of respondents, whereas in the short-term perspective the belief was shared by only 54,3% of them. There is also a noticeable difference concerning competitions for grants, which were highly

valued by 79,2% of respondents in the long-term perspective, with 54,3% perceiving them as such in the context of short-term or occasional actions. Material and financial support was evaluated similarly- 75% of respondents in the long-term perspective, and 56,2% in the short-term one. Other forms of cooperation are valued highly, but at a comparable level, which means, for example, that involvement in social campaigns is highly valued both in long- (93,3%) and short-term perspective (81,6%); the projects associated with employees' voluntary work- 91,8% point to long-term actions and 79,6% to short-term ones. 84,7% of respondents considers long-term research as valuable, with 71,7% believing them to be valuable in the context of short-term actions. Other forms of cooperation were evaluated almost identically, regardless of their long- or short-term character. It is the case with, for instance, content-related consultations, which are highly valued both in long-, 87%, and short-term context- 84,4%. Less valued, yet still at similar level, is cooperation in organizing seminars and conferences- 70,8% in the long-term context, 68,1% in the short-term context.

Taking into consideration the growing importance of cooperation with non-government organizations in long-term perspective, it is also worthwhile to analyze which features of NGOs can result in changing the nature of cooperation from short- to long-term one. In other words, what can convince a company to engage in strategic cooperation with an NGO. As many as 78% declares that in such cases an important factor is an organization's willingness to aim at common goals, 66% believe that the decision to engage in long-term cooperation depends on whether a non-government organization has a precisely defined vision and strategy. A bit fewer, yet still many (65,3% each) respondents paid attention to whether a non-government organization is trustworthy and has competent employees. For 62% of the respondents transparency of the non-government organization is also important. 55,1% of respondents believe that both clear stating of one's goals and professionalism in preparing documentation is very important. Among the things respondents view as less important there is NGOs' willingness to invest in self-development (65,3%)- only 18,4% of the respondents claimed that this characteristic is very important. It is one of the two characteristics concerning which was more often viewed as 'important' than as 'very important'- the other one is meeting deadlines by NGOs; the answer 'important'-49%, whereas 'very important'- 44,9%.

Final conclusions

There are few NGOs in Poland which confront with business. In most cases they are organizations which search for ways to tighten their relations with companies, mainly due to lack of funds for carrying out their statutory goals. Using the terminology by John Ellington and Shelly Fennel, we can say that the companies operating in Poland deal with 'sea lions' and 'dolphins'. It is obviously a rather convenient situation, as there is a relatively low risk of an attack from NGOs on the Polish market. How then the Polish companies perceive the organizations from the third sector?

When trying to answer the question set in the title of this article, it must be emphasized that despite the fact that Polish NGOs usually address companies when they are in need of financial or material support, in the face of growing interest in social engagement, they are not a „ball and chain” for Polish companies. The role of non-government organizations in relations with business is increasing, as Polish managers realize that despite their weaknesses, organizations from the third sector have a number of advantages. Combining resources in the course of cooperation with NGOs facilitates running a business, which is why companies show great awareness when building up relations with organizations from the third sector. The study shows, however, that the majority of Polish companies treat NGOs rather as organizations which are supposed to support their pro-social actions, although it should be noted that a substantial group of companies declares readiness to treat NGOs as equal partners. By making use of the organizations' employees, they appreciate their experience and knowledge, but they mostly decide to implement their own projects and concentrate on business benefits.

Naturally, as noted above, the relations between companies and non-government organizations are flexible and dynamic, which is why it is difficult to point with absolute certainty which level of cooperation- in reference to the ones presented by J. Austin- characterizes the Polish socio-economic space. Basing on the research results, however, it can be said that although Polish companies are still involved in actions at the philanthropic level, many of them are inclined towards actions characteristic for the transactional level. This type of actions is still developing in Poland and gain in importance. It is, on the other hand, hard to talk about integrative level, which concerns only individual cases, if it exists at all. In conclusion, it is worth noting, however, that the relations between companies and NGOs in Poland are becoming relatively important for companies, which are involved in socially-oriented actions and evolve towards close relations and partnership. It must be added, however, that reaching the integrative and/or transformational level of cooperation still requires much time, getting to know each other, learning and realizing the advantages of generating social value at a large scale.

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