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Christian Ethics and Corporate Culture

A Critical View on Corporate Responsibilities

Springer

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Bartholomew Okonkwo
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A Critical View on Corporate Responsibilities

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Editor
Bartholomew Okonkwo
St. Bonaventure's Center for Catholic Studies
Onitsha-ana
Nigeria

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The business of business should not be
about money, it should be about responsibility.
It should be about public good,
not private greed.

—Dame Anita Roddick

Preface

We live in a troubled world besieged with numerous social and environmental problems. Some of these problems are local in that they affect people in a particular location or community while others are global in scale. Does the belief in an automatic link between economic development and the general interests of a globalising world not now fall within naivety or blindness?

The internationalisation of business has added further to these problems. Today's heightened interest in the proper role of businesses in society has been promoted by increased sensitivity to environmental and ethical issues. Issues like environmental damage, improper treatment of workers, and faulty production leading to customer's inconvenience or danger are highlighted in the media.

We often refer to the economic or commercial sector in society as the sector that "provides goods and services." Yet business behaviour in recent years has caused us to question whether the goods are truly good (hazardous consumer products, violent and sexually explicit video games, unhealthy foods, and fuel-inefficient automobiles) and whether we are really being well served (scandals in accounting, deceptive credit card practices, Ponzi schemes in investments, and greed in mortgage finance).

Since the fall of the Berlin Wall, through the globalisation of the 1990s, the scandals of Enron, Arthur Andersen, and WorldCom, and most recently in the financial markets, driven by the mortgage crisis, the challenges of capitalism have been substantial. They have even called into question the credentials of the free market economic system—especially in relation to the need for authentic human development (material and spiritual). These have been the decades wherein, with an almost monotonous regularity, instances of high-profile misdemeanour have littered the corporate stage. These, it will be recollected, include Lockheed's bribery of key officials in certain nation states to ensure the successful debut of its civil aircraft, Nestle's mis-selling of its baby food formula in third world markets, Exxon's environmental catastrophe in Alaska's Prince Albert Sound, Shell Oil's conduct in Nigeria, and, still under investigation, Apple Computers' granting of executive share options below market value in direct contravention of prevailing US legislation.

These examples illustrate a corporate organisation's potential to exhibit certain characteristics of an unjust structure. In such an environment, employees, suppliers, and others in associated constituent groups may disapprove but become complicit if only to survive and even blind to the behavioural contradiction between "is" and "ought." Such factors demonstrate why many in society consider that business has an inherent tendency to be predatory and that, for this reason, business management motivations are unworthy of trust.

So far so depressing, but is this a fair representation of the corporate world?

As in other fields of endeavour, business enterprise must operate in an era of unprecedented paradigmatic change. The explosive combination of modern education, the convergence of information technologies, and the oft-rehearsed remembrances of two world wars have served to accelerate the onset of a post-modern liberalism wherein the mid-twentieth-century prophetic conceptions of a global village have long since been surpassed. Metaphysical and theological beliefs have been marginalised. Rival versions of moral criteria now define contemporary life. Diverse, even apocalyptic, ideologies up to an including certain forms of terrorism compete for allegiance or, at least, for understanding. Most specifically affecting business, money has become nomadic and, given current data, appears to be in process of exodus from the West to the East. Either way, takeovers, mergers, cross-licensing agreements, and other forms of alliance on a global scale are now the norm.

A radical change in corporate culture is needed to help transform our economic system and to make it socially legitimate. Yet a question arises with ever greater acuity: How can the corporations develop into responsible moral agents and what is the social responsibility of business? This question is crucial for Christian ethics today. And the Christian in business is confronted with the question: How can I do business and act ethically in a system that is not? The essays collected in *Christian Ethics and Corporate Culture* are an attempt to offer some answers to this question and to encourage the debate on modern business ethics from a distinctly Christian perspective.

In this volume, a select group of management theorists, theologians, legal scholars, economists, and ethicists jointly strive to give back to the market economy its ethical and political dimensions. To deal with this topic, the contributors first develop the argument that in business ethics, the norms of personal and (especially) corporate responsibility are the natural correlates to "the criteria that govern moral action." Using this as a point of departure, they propose to break new ground in the study of corporate social policy—especially the confining effects of *neoliberal one-dimensional thinking*—and offer in opposition a recovery of social, emotional, and even spiritual capital and a reliable form of social learning that helps to define and respect the emergent forms of global cooperation and the characteristics required to build an enduring trust in economic relationships, with the suggestion that the business leaders and the executives can accelerate this transformation by founding *the purpose of the company*, not on profit alone, but on its creativity and its ability to ensure sustainable economic and technical progress.

Expanding on this much-appreciated approach, the contributors assess the quality of contemporary corporate social policy by applying the Christian principles of the unity of knowledge and pursuit of truth to the traditional principles of justice, the common good, and subsidiarity, all in direct contrast to the utilitarian, secularist, materialist, and relativist approaches that dominate business management today.

In doing so, the contributors convey encouragement to *meet the needs of the world* with goods that are *truly good* and *truly beneficial* while taking responsibility for the social and environmental costs of production, of the supply chain and distribution chain. The arguments advocate the principle of *organising work within enterprises* in a manner that is *respectful of human dignity* of employees, structuring workplaces with *subsidiarity* that designs, equips, and trusts employees to do their best work, and, finally, using resources wisely to create both profit and well-being, to produce sustainable wealth and to distribute it *justly* (a just wage for employees, just prices for customers and suppliers, just taxes for the community, and just returns for owners).

The volume proposes an integral vision and understanding in the reduction of social principles into practice that is clearly structured in three parts: First, one explores and critiques CSR goals; secondly, one forms a judgment on it in the light of these same principles; thirdly, one decides what in the circumstances can and should be done to implement these principles. These are the three stages that are usually expressed in the three terms: understand, evaluate, and act. The purpose is to provide ethical norms that can be used in the modern corporation in its effort to become a responsible moral agent and to assign a purpose to the company that notably consists of considering and answering the following questions:

- Am I creating wealth or am I engaging in rent-seeking behaviour? (That's jargon for trying to get rich by manipulating the political and economic environment, for example, by lobbying for tax breaks, rather than by actually creating something.)
- Do I regularly assess the degree to which my company provides products or services which address genuine human needs and which foster responsible consumption?
- Is my company making every reasonable effort to take responsibility for externalities and unintended consequences of its activities (such as environmental damage or other negative effects on suppliers, local communities, and even competitors)?
- Am I making sure that the company provides safe working conditions, living wages, training, and the opportunity for employees to organise themselves?
- Am I seeking ways to deliver fair returns to providers of capital, fair wages to employees, fair prices to customers and suppliers, and fair taxes to local communities?
- Does my company honour its fiduciary obligations . . . with regular and truthful financial reporting?
- When economic conditions demand lay-offs, is my company giving adequate notifications, employee transition assistance, and severance pay?

Thus, from keeping an ethical balance while seeking profits to social ethics of corporate management, these essays offer to all persons of goodwill—in these difficult times for the world economy, during which many businessmen and businesswomen suffered the consequences of crises that deeply reduced the income of their enterprises, risked their survival, and threatened many jobs—an insightful extended meditation on the kind of political economy that is urgently needed for the world of globalisation that lies before us.

Whilst fundamentally a practical guide, this book is also an essential reading for academics wanting to stay abreast of the latest developments in the study of business ethics, organisational and work psychology and sociology, governance, accountability, and the like. It proposes an integral vision and understanding and provides business leaders (and future ones attending business schools) with both principles and tools for discovering the good and deliberately pursuing it, so to live a harmonious or integrated life of enterprising service.

Onitsha-ana, Nigeria Bartholomew Okonkwo

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Shaping the Conscience of a Corporation

Chapter 1
The Business in Society: Can Companies Save the World?

Heribert Schmitz

Abstract Few tasks are more urgent than rethinking the purpose of business, after one of the greatest economic convulsions in our history. Today's heightened interest in the proper role of businesses in society has been promoted by increased sensitivity to environmental and ethical issues. Issues like environmental damage, improper treatment of workers, and faulty production, leading to customers' inconvenience or danger, are highlighted in the media. The simple fact that we are human beings endows us with the responsibility to address and to try to alleviate some of these problems, yet, to answer the question in the title: Yes I am convinced that companies can save the world, but not in capitalism as it is lived today. The "Arab Spring" we saw in the Middle East in early 2011 is one of the more powerful indications of the ability of people to self-organize entrepreneurially to obtain what they want.

1.1 Situational Analysis

The supporters of a completely free market economy argue that the markets are developing best in countries with high inequality and in democratic countries without too many regulations, except the ones defined by the WTO which support the free economy as long as the interests of capital are guaranteed.

In the past it was commonly accepted and understood that each economy needs a framework of rules in which it can develop and prosper. This was and is the case in national economies and also to a high degree in the European Union. At a worldwide level, we don't have this framework.

Any globally defined social, ecological, and cultural rules and regulations, as defined, e.g., by the Global Compact and by the Global Marshall Plan initiative, are resisted and are seen as negative to the growth of worldwide trade. Officially more

H. Schmitz (✉)
Hochschule Furtwangen University, Furtwangen, Germany
e-mail: heribert.schmitz@email.de

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than 1,000 companies have signed the Global Compact, but do they really apply the principles and live them constantly? Because the defined rules are voluntary, most companies say they would like to live by them but that the competitive environment doesn't allow it.

Capitalism today is focusing on shareholder value only, without taking real responsibility for the interests of the other stakeholders (like customers, employees, society, and environment). It doesn't want to be limited by rules and regulations which limit its activities and which limit its potential margins. If it is at all interested in taking responsibility beyond the shareholders interest, it wants to do this voluntarily. But because some competitors don't do it in the end, nobody does it.

If the current trend continues, this will finally lead to a "race to the bottom," which will lead to unsolvable problems in the industrialized nations. It will also prevent the developing countries, especially the people in those countries, from benefiting from the wealth creation.

Looking back to the early days of capitalism, we had a situation, which in some parts of the world we are now moving to, like working 7 days a week, child labor, etc., Workers didn't have any rights. The owners and capital were only concerned about their own interest. And only over time, when the workers could organize themselves in unions, did the situation improve substantially. But this didn't happen without major conflicts.

After this initial period of industrialization, the situation improved considerably, and it was common understanding that overall wealth could be created only if all levels of the society could benefit from the wealth creation. The working class should benefit from the economic development. People should be able to buy the products they produce. As Henry Ford put it: "*Each worker should earn enough to buy a Ford automobile*." Society can only prosper if there is a broad and strong middle class. When this was the case, the gap between rich and poor decreased, e.g., from 1947 to 1968 the gap decreased by 7.5 %. It was easier to move from poor to middle to rich. But today we have an opposite trend, less and less people can afford to buy the products they produce, and the gap between poor/middle class and rich is widening. In the USA there are signs that the middle class is disappearing, and it is very likely that Europe will follow if we don't reverse these trends.

In the last 100 years, the development of a society was depending mainly on labor resources in the home markets; the wealth creation was shared between the owners and the people, which lead to a situation where the standard of living grew fast. An excellent example of this is Ireland. But now in a situation where, because of new technologies (information and telecommunication technology, the Internet, and the transportation industry), companies are not anymore dependent on labor in the home countries, *labor can be used from everywhere*.

Worldwide we see overall a strong growth in rate of unemployment in developed countries, because jobs are moving to locations where the costs are the lowest. We discuss today in the industrialized nations mainly the loss of production jobs, which is indeed a problem, but the much bigger problem is not seen yet. The threat to the service jobs is much higher. All back-office functions, which represent between 20 and 60 % of all labor in companies and governmental institutions, can be delivered from highly educated workforces in low-cost countries.

There is another major difference compared to the past. The number of people in the developing countries like India, China, Indonesia, and Brazil is nearly unlimited which means that for the foreseeable future, there will be cheap labor available (ratio 1:10), which means that the income of the majority of the people in those countries will only improve marginally if at all.

The benefits will only go to a minority at the top but the majority will suffer. This is true for the industrialized societies but also for the developed countries (like Korea and Taiwan) and in the future also for the developing countries (like China, India, and Eastern European countries). It is very unlikely that people enjoy working in this type of environment, especially when they realize that their interests are not considered and they are seen as a resource which can be replaced and/or removed just like a machine. This will become dramatic as the labor market becomes more and more global.

In the last few years, there are however more and more voices that see a big threat to capitalism if this view is not changed to a view which considers the interests of all impacted parties. It is interesting to note that the highest growth rates are today in economies (esp. China) that are not democratic and where no or limited social and ecological regulations exist.

1.2 What Needs to Be Done?

We need to reposition capitalism so that it feels a responsibility not just towards the shareholders but to all parties which have a vested interest in the company. This means to the customers, the workforce, and the shareholders and to the society. We need a capitalism which is not just based on economic values but which is grounded on a social and ecological market economy.

Europe, Canada, and developed Asian states (like Japan, Korea, Taiwan) are already trying to find a more balanced approach. Unfortunately the dominant player, the USA, and the new power countries (China and India) are pushing hard to maintain the status quo, meaning a free economy without social, ecological, and cultural boundaries as long as it fits the interest of capital. What is also interesting is to see an increasing trend in the USA to protect certain markets.

We need a worldwide accepted framework with rules and regulations which ensure that the world can develop peacefully, that the ecological challenges can be mastered, and that the well-being of people in all countries can improve over time, benefiting from economic development.

I see here a major role for all globally operating companies. Why? Some of the big global corporations have more influence than the national states. Furthermore, it is very unlikely that states will agree on such rules and force them through. We have good rules, defined at the level of the United Nations (e.g., Global Compact and ILO), but they are only voluntary and cannot be enforced.

Globally operating companies could have a big influence:

1. By supporting and helping to define a worldwide framework in which all nations and economies can operate in
2. As long as we don't have this framework (and I know that this probably will take many years to achieve) by filling this gap by applying self-imposed rules in the area of social, ecological, and ethical standards

I am aware that we are far from this situation and that it may sound unrealistic. However I am convinced that such a development would in the long run be beneficial to all, including the shareholders. If we don't find solutions, we will end up with a race to the bottom, and at the end this would lead to dramatic developments:

- High unemployment in the industrialized world
- A destruction of major existing markets like Europe, the USA, Japan, and other developed states
- Inequality in developing countries would increase
- Major social conflicts
- Ecological disasters
- Potential for military conflicts
- Increasing protectionism

This cannot be in the interest of anybody. Reading these arguments, you may have got the impression that I am against globalization. I am a strong supporter of globalization as it has brought a higher standard of living to many people and more stability in the world. But conditions are changing. We need a world economy which is interested in the common good of the world.

1.3 We Need a Social and Ecological Market Economy

We need a more social and moral capitalism based on commonly accepted rules which apply:

– Ethical and moral standards (religions should play a major role here)
– Human rights of the United Nations (Global Compact)
– Minimum social standards (ILO)
– Sufficient water supply
– Fair distribution of energy
– Protection of the environment
– Fair trade conditions (e.g., agriculture, intellectual property)
– Continuous improvement/minimizing disruptive processes

This will only be possible if business people and politicians develop a picture of the world where the interest of our people and the interests of the globe (in an ecological sense) are considered. This can be done only if the responsible people and the people in power have a minimum set of ethical standards.

Now let me make a few comments, where I look mainly at these problems with the eyes and from the perspective of a European. Do I support the status quo? Not at all. We, the industrialized states, need to open our markets, and we need to have fair trade conditions amongst the nations. We need to fight corruption at all levels, not just in the developing world, as we have enough also in the industrialized nations. The people in the industrialized nations need to understand that we are competing with the developing nations. This requires workforces which are highly competitive. As the industrial nations cannot compete on cost, we need to become much more flexible, more innovative, better, and faster. We need to understand how to differentiate ourselves.

The current leadership styles and management practices don't reflect these attitudes and behaviors at all. Worldwide studies from Gallup show that the level of motivation and engagement within companies is extremely low and that this leads to dramatic damages to the companies and societies. We need to establish a culture in our companies and societies which is built on the belief that the majority of our people represent a positive image of the human being.

We need:

- To apply business principles which are based on high ethical standards. The Caux Round Table principles are widespread and could be an excellent platform for this.

With regard to a high-performing, motivated, and creative team, we need:

- A culture of trust and respect
- To provide the freedom where people can be creative and innovative
- To make them understand that they are really our most important assets and that we care for them and that we are interested in their development
- To create an environment where people WANT to contribute, to win, to be creative, and to be flexible and are open for change
- To create a WANT culture

If we can create this environment, we have a chance to succeed and survive in the global competitive markets.

What is required?

- Corporations, which understand that they have a responsibility for a better world and who contribute to the definition of a global framework
- Corporations, which support a social, ecological market economy
- Managers and entrepreneurs with a new cooperative leadership style which enables this constructive environment of a WANT culture
- Governments, which push for a social, ecological market economy
- Governments, which push for a global framework, where a fair global competition is possible (ensure that Global Compact and ILO regulations are applied)
- Governments, which invest in education and R&D
- Governments, which limit bureaucracy at a minimum level
- People, who understand that we live in a global world with global competition and where each employee needs to be as much better and faster as others are cheaper

1.4 Summary

We need a new understanding of how to move to a better world. In this new world, based on a social, ecological market economy, the GOOD Company plays a decisive role. Managers need to take responsibility not only for the shareholder interest but also for all stakeholders in the company and for the common good.

In this type of environment, where the interests of all stakeholders are in balance, people will certainly enjoy to work!

Chapter 2
Setting Up the Dialogue Between CST and CSR: The Challenge of Clashing Theories

Stefano Zamagni

Abstract Christian Social Doctrine (CSD) embodies a coherent world view centered on four basic principles: the centrality of human person, the common good, solidarity, and subsidiarity. These principles have substantial content and as such they should be able to influence CSR. However, the difficult problem is that of translation: how CSD can be translated into a normative framework for a concrete understanding of businesses and CSR? In spite of numerous efforts, there is no consensus, nor any accepted way to provide an answer. Clearly, this is no wonder if one considers that the relation between rationality and moral principles is an unresolved problem in the history of ethics.

This chapter will critically examine the main philosophical approaches to CSR present in the current debate with the intention of showing why they are unable to cope with the many problems of opportunism in business and will conclude by indicating that a way out of these problems is to embed CSR in another concept of ethics, a concept where CSD plays an important role.

2.1 Introduction

Christian Social Doctrine (CSD) embodies a coherent worldview centered on four basic principles: the centrality of human person, common good, solidarity, and subsidiarity. These principles have substantial content and as such they should be able to influence CSR. However, the difficult problem is that of translation: how CSD can be translated into a normative framework for a concrete understanding of businesses and CSR? In spite of numerous efforts, there is no consensus nor any accepted way to provide an answer. Clearly, this is no wonder if one considers that the relation between rationality and moral principles is an unresolved problem in the history of ethics. (The problem is posed at the very beginning of the history of

S. Zamagni (✉)
University of Bologna, Bologna, Italy
e-mail: stefano.zamagni@unibo.it

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philosophizing about the *justification* of moral rules, in Plato's *Republic* by appeal to the story of the ring of Gyges.)

Yet, it is nowadays accepted (almost) by everybody that the separation thesis, according to which there is a separation between business decisions and ethical decisions, is a real fallacy which is responsible of many pragmatic contradictions circulating in both academic and real-life circles. For example, a statement such as "only value to shareholders counts," being a value judgment, would have no meaning outside of a specific ethical perspective. Again, the "responsibility principle"—according to which most people accept responsibility for the effects of their actions on others—is incompatible with the "separation thesis." In fact, if business is separated from ethics, there is no question of moral responsibility for business decisions.

So, the basic question I try to discuss in these notes is the following: what kind of ethics operates behind the concept of CSR practices? I say "behind" since quite often the experts themselves in CSR do not seem aware of the specific ethical theory holding up their positions. Consider the well-known European White Paper on CSR. It is written under the veil of an ethical theory which is a mix of utilitarianism and Kantism, i.e., a social welfare function under a Kantian constraint (about human dignity). However, such a theory is never mentioned, which does not help the reader to understand how to make the CSR blueprint operational.

In what follows, I will critically examine the main philosophical approaches to CSR present in the current debate with the intention of showing why they are unable to cope with the many problems of opportunism in business. I will conclude by indicating that a way out of these problems is to embed CSR in another concept of ethics, a concept where CSD plays an important role.

2.2 The Ethics of Intentions

Why should the firm ever act in a *socially* responsible way, if no canon of economic rationality exists that justifies that behavior? Is it not perhaps sufficient a personal ethics based on the principle of intentionality that reduces ethical questions to interpersonal relations? According to the ethics of intentions—upon which many critics of CSR base their arguments—an action is defined as good when it conforms to two rules: the proximate rule (conscience) and the remote rule (the law). The person who, harmonizing conscience and the law, behaves accordingly commits a morally good act. It is the intentions, and not also the consequences, of action that must come under the definition of ethical behavior. That is like saying, the ends justify the consequences. This is where the famous expression that sums this up nicely comes from: *good business is good ethics*. The firm that turns a lot of profit is also highly responsible because, creating wealth, it allows well-intentioned people to pursue their goals. There is no better illustration of this way of thinking than Andrew Carnegie, the great American philanthropic capitalist, whose methods of doing business were anything but civil.

In his *The Gospel of Wealth* of 1889 one reads: "Wealth concentrated in the hands of one man alone is the result of the labor of an entire community and must go back to that community in one way or another. The rich person is the custodian of a fortune and that must be at the disposal of the common good and his career *must be divided into two parts*: acquisition and distribution."

What is the principal limit of such an ethical theory? That it doesn't give enough weight to the induced and indirect effects of individual actions. If my activity, though guided by good intentions, generates negative externalities that fall on other subjects, the act which was subjectively just becomes objectively, that is, ideopraxically unjust. Deciding to entrust my savings to a financial institution so that it maximizes my rate of return is a just act according to the criteria of the proximate and remote rule. But if that institution invests my savings in any one of the many illicit ways, the act in question is objectively censurable. This means that the anticipation of the effects of an action is an integral part of ethical behavior.

More in general, the fact that the firm operates today in a system in which it is the globalized market that constrains, more than ever before, the economic agents is not a sufficient reason for freeing them from their social obligations. Also because one can't want a market that is, at the same time, the place of maximum entrepreneurial freedom and such a constraining place that it renders firms socially irresponsible. Thinking in this way would bring us to a pragmatic contradiction.

2.3 The Enlightened Self-Interest Approach

An ethical theory that seeks to remediate some of the deficiencies just highlighted is that of *enlightened self-interest*. Because of the tight interconnection between external environment and the firm, if it wants to compete successfully in the long term in the market, it cannot take into consideration the needs of the context in which it operates and in particular those of its stakeholders. Just as that version of utilitarianism known as social utilitarianism suggests, *good ethics is good business*. This is like saying ethics pays in one way or another. Cochran [1] wrote to explain the difficulties of development in the western United States in the second half of the nineteenth century: "the low level of business ethics among many American entrepreneurs was a grave impediment both to economic efficiency and raising capital" (p. 96). The famous economic historian Rostow [2] pushes himself/herself so far as to claim that the root cause of the Great Depression was a lack of ethical behavior on behalf of the economic leadership.

The ethical theory in question represents certainly a step forward but too short of a step to be interesting. Reducing social responsibility to just another constraint to the strategic management of the firm, the enlightened self-interest approach inverts the natural order of things. Instead of being a presupposition or a guideline for economic action, ethics becomes in fact a consequence of economic success. Let's try to explain. According to this theory, ethical behavior is visualized as a superior good in the sense that the demand for such a good grows at a larger rate than income and vice versa. (The demand income elasticity is larger than one.) The more people

become rich, the more the need, or the demand, for ethical behavior, and vice versa. Consider now the case of a firm that competes on the global markets and that intends to put CSR procedures into practice. If its rivals, through illicit behavior (e.g., the use of child labor), are able to lower production costs and therefore the selling price, there will be a reduction in income for the firm in question. The latter will then lower the demand for ethical behavior until this is brought in line with average behavior.

In situation of this type, the strategy that Shleifer [3] suggests adopting is to accelerate, as quickly as possible, the process of income growth, through an intensification of the levels of competition and without too many moral scruples (better to use child labor, e.g., than to see people die of hunger). The increase in the disposition to "pay" for higher ethical levels would come as a consequence.

But if ethics is simply a by-product of economic growth—Marx would have said a superstructure of the economic structure—what sense would there be in talking about CSR? And why speak ever of ethical behavior as an ulterior constraint under which to maximize long-run profits if ethics is a consequence of economic results? As it can be understood, the above line of reasoning is opposite to the great Socratic message according to which virtue is not born out of riches; on the contrary from virtue itself derive all the riches and all the other good things to men.

2.4 The Ethics of Responsibility

The moral theory, currently more in vogue in studies of CSR, is the ethics of responsibility as interpreted by the well-known stakeholder model. We can consider Max Weber [4] the father of such a theory who, in his celebrated essay, *Politics as a Profession*, indicates the ethics that must characterize "he who wants to place his hands on the gears of history" (1969, p. 101), adding, a few pages later, that responsibility is the "willingness to respond to the *foreseeable* consequences of one's actions" (p. 109). To the Weberian formulation of the ethics of responsibility, has added an important qualification. Basing his idea on a "heuristic of fear," Jonas does not consider it sufficient to stop only at the foreseeable consequences; one must go further and take into account the *possible* consequences of its actions. The appropriate imperative for the new type of human action is, for Jonas, "to act in such a way that the effects of your action are compatible with the continuation of an authentically human life." From the Kantian imperative "you can, because you must," we pass to "you must, because you can."

It is not difficult to understand the meaning of Jonas' qualification. Limiting oneself only to the control of the foreseeable effects of one's actions is too little in economic contexts in which the *proprium* of the entrepreneurial function is to continuously generate unforeseeable effects. On the other hand, is it not perhaps in this—as Schumpeter had acutely anticipated—the basic difference between entrepreneur and *rentier* or bureaucrat? Think, in addition, about the possibility, which is enormously greater today with respect to the past, of the so-called rational errors made by the firm. As experience suggests, the cost of such errors too often

exceeds the monetary value of the capital conferred by shareholders. In cases like this, the calculation of the foreseeable consequences does not constitute a solid anchoring for the notion of responsibility. (Think about the corporate scandals of Enron and Parmalat, among the many others.)

Well, it is on such a foundation that stakeholder theory affirmed itself, beginning in the 1960s. In the words of its most representative exponents, Evan and Freeman [5] said: "We believe that the legal, economic and moral challenges to the current theory of the firm require a revision in an essentially Kantian perspective. This means that each group of stakeholders has the right not to be treated as a means oriented toward some end, but must participate in the determination of the future direction of the firm" (p. 101). It follows that the objective of the firm is not the maximization, under constraints, of profit, as is the case in the shareholder theory. The latter defends the position according to which the shareholders, being ultimately responsible for the destiny of the firm, have the right to a special and different consideration with respect to other classes of stakeholders. Rather, "the authentic objective of the firm... is that of operating as a vehicle for *coordinating* the interests of the stakeholders" (Ib., p. 104, italics added).

The primary task of management is therefore to operate for the realization of a balancing of different interests: "Management is the bearer of a financial relationship that links it closely to the stakeholders as much as to the firm as an abstract entity. Management is asked to act in the interest of the stakeholders as if it was an agent of theirs and must act in the interest of the business to guarantee its survival, safeguarding in the long-term the shares of each group" (Ib., p. 104). Finally, in a very recent essay, after having reaffirmed that "the firm is a *nexus of relationships* among groups that have an interest in its activities" adds: "The firm has to do with the world in which clients, families, employees, investors (shareholders, bondholders, banks), local community and managers interact and create value. To understand the firm one must understand how these relationships function" (p. 1). From this follows the conclusion that the central objective of stakeholder theory is that of studying how to make the interests of the various stakeholders move in the same direction. "The creation of value and not the conflict of value is the metaphor of reference" (p. 1).

But how to achieve the compatibilization of the interests of all those who, inasmuch as they are bearers of specific investments (finance capital, human capital, trust, social capital, etc.), cooperate within the firm for the creation of value? In other words, how to respond to the objections of many, and in particular of M. Jensen and K. Goodposter, according to whom a multi-stakeholder model of governance would leave the managers confused, without the so-called bottom line which can be utilized to evaluate their performance?

As Sacconi [6] indicates, the response is the social contract among all the stakeholders as a *normative* device for defining the contents of CSR. The Rawlsian contractualist version of stakeholder theory, as opposed to the original Kantian version, is capable of supplying a criterion for judgment, not only of the legitimacy of the firm as an institution but also of its strategic management. Asking the interested subjects if they would give their consent to being part of a firm in a

state of nature in which they were guided only by enlightened self-interest—and not also by conventions and traditions—Rawlsian contractualism allows for the identification of a bargaining equilibrium. The fundamental property of such an equilibrium is that each stakeholder would accept it in order to cooperate voluntarily, given that it would be the expression of an impartial procedure in which the moral equality of all the participants would be assured. The normative force of contractualism is, therefore, in linking justice (or equity) to consensus without renouncing the rational calculus. In formal terms, instead of maximizing the profit function, the firm maximizes the function that represents the solution to the negotiation game among all the stakeholders. Demonstrates how, under reasonable conditions, such a solution exists, in general.

Is everything okay, then, regarding the possibility of using CSR as a model of enlarged governance of the firm? Not quite, because once the fiduciary obligations of the firm regarding its stakeholders are identified, there still remains the problem of their practical application. What is to guarantee, in fact, that the obligations decided upon in the social contract will be effectively met? Let's assume, that, following the deliberative process that brought the stakeholders to agree to the social contract, the firm decides to give itself an ethical code, or something similar. What is to assure that the self-imposition of some canon of behavior fixed in the ethical code is, in reality, respected? The answer the literature is able to give is based on the mechanism of reputation: the firm that self-inflicts the sanctions called for by the ethical code following defective behavior will see its reputational capital grow in the eyes of all of its stakeholders, and this will improve its economic performance, for obvious reasons.

As Sacconi has observed [6], things would happen this way if it weren't for the fact that the reputational mechanism suffers from grave cognitive fragility. It would require that the awareness of the stakeholders, and in particular of the consumers and civil society, was perfect, in order that they would be able to decide if that which was supposed to have been done was done. On the other hand, one can't forget that the ethical horizon of contractualism is always that of axiological individualism; according to which the normative foundation is the impartial agreement of rational individuals. In other words, in the contractualist view, rational individuals realize that it is in their interest—whatever that may be—to agree on common norms of behavior to avoid phenomena such as free-riding, shirking, the many difficulties of coordination. This is tantamount to say that the ethical code is visualized as a *rational constraint* that the firm imposes on itself. It is nonetheless always a constraint. And therefore if, given the contextual conditions, there is a chance of transgressing the norms without penalty, i.e., without tarnishing the firm's reputation, this will occur.

2.5 The Ethics of Virtues

It is at this point that the fourth ethical theory to which I referred at the beginning of the section comes into play. This is the ethics of virtues, as Adam Smith, on the heels of the line of thought inaugurated by the civil humanists in the fifteenth century, elaborated in his fundamental work *The Theory Moral Sentiments (1759)*. The institutional structure of society—says Smith—must favor the dissemination among citizens of the civic virtues. If economic agents don't already embody in their structure of preferences those values that they are supposed to respect, there isn't much to be done. For the ethics of virtues, in fact, the enforceability of the norms depends, in the first place, on the moral constitution of individuals, that is, of their internal motivational structure, much before any system of exogenous enforcement. It is because there are stakeholders that have ethical preferences—that attribute, that is, value to the fact that the firm practices equity and works for the dignity of people *independently* of the material advantage that can be derived—that the ethical code could be respected *also* in the absence of the mechanism of reputation. And that there are subjects endowed with ethical preferences is, today, a fact documented by a dispassionate observation of reality, other than by experimental research.

Consider, to give just one example, the relationship between a company and its employees. As is well known, this relationship can assume the forms of the "social exchange" or "market exchange." In the former case, immaterial elements like loyalty, honesty, and attachment to the mission enter into play. These elements cannot be negotiated, since they are non-verifiable. In the latter case, everything passes through the definition of "optimal" incentive schemes. Now, there is nobody who does not realize that there is a great difference, as far as the company performance is concerned, between the two types of relationship. But it is evident that the worker will accept to enter into a "social exchange" instead of a "market exchange" only if the firm will appear to him/her to be a moral subject that believes in and puts into practice the principle of reciprocity.

The point worth highlighting in particular is that the key to the ethics of virtues is in its capacity to resolve the opposition between self-interest and interest for others, between egoism and altruism, by moving beyond it. It is this opposition, child of the individualistic tradition of thought, that prevents us from grasping that which constitutes our own well-being. The virtuous life is the best not only for others—like the various economic theories of altruism would have it—but also for us. This is the real significance of the notion of common good, which can never be reduced to a mere sum total of individual well-beings. Instead, the common good is the good of being in common, that is, the good of being inserted into a structure of common action, which is exactly what the firm represents.

Suggests that common is the action that, in order to be carried out, requires both the *intentional* coming together of many subjects (and of which all the participants are aware) and of intersubjective relationships that lead to a certain unification of efforts. More precisely, three are the elements that distinguish a common action.

The first is that it cannot be concluded without all those who take part being conscious of what they are doing. The mere coming together or meeting of many individuals is not enough. The second element is that each participant in the common action must retain title, and therefore responsibility, for that which he/she does. It is exactly this element that differentiates common action from collective action. In the latter, in fact, the individual's identity disappears and with him/her disappears also personal responsibility for that which he/she does. The third element is the unification of the efforts on the part of the participants in the common action for the achievement of the same objective. The interaction among many subjects in a given context is not yet a common activity if they follow diverse or conflicting objectives. Therefore, the firm, inasmuch as it possesses all three of these elements, is a common action.

Diverse are the types of common action in relation to the object of commonness. The commonness, in fact, can realize itself around the means or around the ends of the action itself. When the commonness is extended to the end of the action—as happens in the firm—the final result of the action has the nature of a true joint product. This means that it is de facto impossible to determine the specific contribution of each stakeholder. This was attempted more than a century ago by the neoclassical theory of distribution of income with the principle of marginal productivity of factors but with rather scarce success as we know, nowadays. Note that while in the contract—which is another example of common action—the commonness is limited to the means (each party accepts that the other will pursue his/her own ends, even if the ends are not the same), in the firm the end is realized through common action. This is why in the firm cooperation—and not coordination—is the principal form that intersubjectivity assumes. The contracts have to be coordinated, but the stakeholders in a firm must cooperate if they want to achieve an optimal result. The question then arises: how is one to positively resolve a problem of cooperation?

Bratman [7] gives a convincing response, when he/she outlines the following three conditions. In the first place, each participant in the common action assumes that the intentions of others are relevant, and therefore worthy of respect, and knows that this is reciprocal. This is the condition of "mutual responsiveness." It is not enough that the members intend to do the same activity; they must want to do it together. In the second place, each person commits to a joint activity—even if for different reasons—and knows that the others also intend to do the same. This means "commitment to the joint activity," in which it is de facto impossible to quantify the specific contribution of each person to the joint product. Finally, each person commits to helping others in their efforts so that the final result will be the best possible "commitment to mutual support." Reciprocal aid must manifest itself while the joint activity is being carried out, not *a latere*, nor at the end of the activity. Such a commitment should not be confused with self-interest nor with disinterested altruism. There being a connection of interests, by providing help to others one pursues one's own interests.

Now we can appreciate the specific value that the ethics of virtues offers us, that is, to liberate us from the obsessive Platonic idea of good, an idea that says there is

an a priori good from which an ethic is extracted to be used as a guide to our actions. Aristotle—the initiator of the ethics of virtues—in total disagreement with Plato, indicates for us instead that the good is something that happens, that is, realized through activities. As puts it, the most serious problem with the various theories of business ethics stemming from the individualistic tradition of thought is that they are not capable of offering a reason for "being ethical." If it's not good for us to behave ethically, why do what is recommended by ethics? On the other hand, if it is good for us to "be ethical," then why would it be necessary to offer managers incentives for doing that which is in their own interest to do? The solution to the problem of moral motivation of managers is not that of setting constraints (or providing incentives) for acting against their self-interest but to offer them a more complete understanding of their own well-being. Only when ethics becomes part of the objective function of the agents does moral motivation cease to be a problem, because we are authentically motivated to do that which we believe is best for ourselves. Let's consider an immediate implication of the ethics of virtues.

2.6 From Stakeholder Management to Stakeholder Democracy

Because it seems so difficult to put into practice—as the facts show us—the canons of CSR based on agency theory, whether in the version of the shareholder model that you want in the stakeholder model? My answer is that, beyond technical and analytical problems that do exist, the main reason is due to the fact that the theory always generates crowding out effects in the sense of the extrinsic reasons related to the incentive schemes offered to displace manager, sooner or later, their intrinsic motivation. The instrumental conception that agency theory has ethics makes loads of concepts such as equity, value, trust, integrity, and responsibility that are reduced to elements of a rational management science whose sole raison d'etre is to meet, to the maximum extent permitted by the conditions, the interests of various stakeholders. It is "so" that the business ethics becomes a proper ethics management. But when ethics is made a subject to management by the manager you get the same result that the excessive use of antibiotics assures the casual use and instrumental ethics, and rules of CSR derived from it, ends up increasing the likelihood of perverse results and that to the extent that the manager opportunist longer able to knowingly violate or circumvent the rules that emanate from himself/herself.

In another way, the ethics management seems plagued by a paradox at all negligible. Creating new rules to try to cancel or at least temper opportunistic behavior within the business organization, it ends up strengthening the roots from which it springs opportunism. As the now extensive literature of experimental economic documents, whenever you offer financial incentives to achieve compliance with their rules by economic actors, almost always the crowding-out effect is

to occur. Any attempt to "buy" through the payment of incentives moral sentiments such as loyalty, trust, reciprocity, and commitment to fight for a cause ends up draining the very source from which those feelings flow. To limit myself to only one case, Falk and Kosfeld [8] show experimentally that distrust of the principal against the agent's behavior—lack of confidence, that is, manifested by the payment of incentives to the agent or by the introduction of specific controls—has a negative impact on intrinsic motivation of the latter to provide the optimal level of effort. In fact, most people reveal a behavior against the control or incentives, which explains—among other things—because many contracts are left deliberatively incomplete in practice. As Osterloh and Frey [9] document, since 1980 most of the compensation awarded to the CEO has been associated with stock options. In 1970, an American CEO earned 25 times more than an industrial worker. In 1996, the same ratio became 210–1 and, in 2000, 500–1. Yet, the performance of these CEO-led companies has not increased in the same proportion. On the contrary, they are now under the eyes of all the perverse effects of this incentive scheme: short-termism exasperated, increase in corporate scandals, and worrying rise in inequality. It must be something important, if faced with these perverse effects the same Jensen was "forced" to admit that "stock options have proven managerial heroin."

What, then, is a credible way out of the paradox in question, to deal with once and for all, the question of democratization within the enterprise. In fact, if the company has to be the institution that strives to make compatible the advanced needs of the various stakeholders—such as the stakeholder model says he/she wants—then the practical way to implement CSR is to establish, within the firm, the equivalent of a deliberative forum, a place that is where all stakeholders are represented and in which they may exercise, in a systematic way, and not just the beginning, the "voice" in the sense of Hirschman. Note the difference with the proposal that comes from the neo-contractarian, the proposal that the social contract of the company. The first of these has to do with the system basically static contractarian approach: the preferences and moral motivations of the various parties are given and supposedly immutable. This is because they transcend the socioeconomic context in which the company operates and especially its evolution over time. The second difference concerns what I consider the major limitation of the theory of the social contract: the fact that a contract has, at the time, considered to be fair by its stakeholders does not eliminate the possibility that it reflects strong asymmetries in power or negotiation skills. (Employees may accept working conditions next to exploitation because they have no alternative.)

The ultimate meaning of the write-up is that the normative version of stakeholder theory requires us to move from stakeholder management—in which the CEO or tutt'alpiù the Board of Directors seek, in a paternalistic way, the arrangement of the various interests—to the stakeholder democracy, a model of governance in which the same stakeholders, as partners of the company, share rights and duties. Clearly, the allocation of rights and duties must take into account the specificity of the business. Where does it lead, ultimately, the acceptance of such a prospect? The overcoming of the capitalist form of enterprise, as well as any form

of business in which the governance is entrusted to a single class of stakeholders. As I explained elsewhere, it is properly the civil enterprise which is inherently multi-stakeholder governance, an enterprise, that is, in which all the subjects belonging to it are placed in a position to discuss and vote on matters affecting their interests. We can therefore say that the stakeholder democracy postulates the civil company, which means the day on which the CSR practices were taken seriously by a sufficiently large number of businesses—that day would see the statement in our market economies, form of civil business.

It is evident that the practical implementation of the democratic stakeholding presents difficulties of a certain importance. The most serious of which concerns the choice of the representation model, namely, the way in which the various stakeholders come to be represented in the governance of the company. Consider the class of customers. For many companies it could be millions. Of course, the model of representation may not be that of political representation and even less labor. It is, then, to find forms appropriate to the purpose, but a systematic reflection on what has not yet begun. However, comforting to note how, in the advanced economies of the West, should be increasingly gaining various forms of democratic governance business: think of the cooperatives, ESOP companies, social enterprises. Refer to for a thorough empirical investigation about the spread of democratic stakeholding, in countries with a more advanced level of development.

Properly understood, the tendency Kruse describes is nothing more than a reflection of discomfort, increasingly warned against the obvious contradiction inherent in a capitalist economy, in its classical form, while in the arena of the market applies the two founding principles of modernity—the freedom of the individual and the formal equality of all individuals—within the enterprise capitalist relations of hierarchical precedence. And This is a consideration that, from another perspective, "The governance is synonymous with exercise of authority, direction and control. These words sound strange, however, when used in the context of a free market economy. Why should we need some form of authority? Is not the market that can efficiently allocate the resources without the intervention of?" (p. 497).

Has defined the capitalist form of economic aristocracy similar to the old political aristocracy where the ownership of land was the basis of the right to govern. Indeed, most of the arguments in favor of the capitalist form of enterprise are based on the compensation for the risk of investors, but in the context of knowledge-based economies, such as are now ours, these arguments have lost much of their persuasive force. The more human capital and social capital become more strategically relevant physical and financial capital, the more democratic forms of corporate governance demonstrate their superiority, even from a strictly economic. Not only that, but there is more. If the socially responsible business that considers itself not as a closed system, separated from the rest of society, but as a real institution, as such, shall bear the demands of democracy, how can this function be carried out if the company has not solved the problem of its internal democratization?

Before closing I would like to dispel a possible major concern: the desired diffusion of CSR practices intended as an end in itself and not simply as a means, leading to the gradual disappearance of the traditional capitalist form of enterprise; does this mean the end of the economy market? And this is the concern, for example, of Milton when he/she writes: "Few trends could threaten the very foundations of our free society as the acceptance by those responsible for undertaking a social responsibility is nothing more than make a lot of much money as possible for their shareholders" (p. 133). As it is said in another part of the book, Friedman, "our free society" is identified with the capitalist system. Well, such concerns are the result of a widespread confusion of thought, leading to a serious misunderstanding: one that aims to identify, overlapping, market economy and capitalist economy. As I have shown in, it is an identification that is belied by history and which has no solid theoretical foundation. This applies to reassure supporters of the market economy—and the writer who is one of them—that any future generalization of the practices of democratic stakeholding in no way means the disappearance or the delegitimization of the market as an institution essential to the economic order Social authentically liberal. On the contrary, it represents a powerful reinforcement, because as, among others: "Freedom of enterprise is an essential characteristic of the most advanced market economies. Capitalism, on the contrary, is contingent; is simply that particular form of ownership of the patron that most often, but not always, proves efficient on the basis of available technologies" (p. 292). That is to say that the market economy is the genus of which capitalism is only one species. And while the latter finds its legitimacy in the deepest principle of efficiency, the market economy finds its justification—not already standing—in the value of freedom.

2.7 Finally

I like to finish with a record of a general nature about the contribution that the CSD is able to offer to the ongoing debate on CSR. The foundation of responsible behavior cannot be the only economic calculation, that the only efficiency, where you can search for? For Kant and Kantianism, the foundation is in the imperative categorical liability that stems from abstract universal principles. But we stop there? Is it not from the fury of the Jacobins—which also wanted social justice—which in modern times are derived worst atrocities? We believe no chances to see the responsibility as centered on justice only. Is timely recall of E. Levinas taken off from the relationship with the Other? The responsibility derives "from the Other." First of moral norms and social norms is the bond with those close to us the ultimate reason of our responsibility, which is, first of all answer the Other, and as such is an expression of the principle of fraternity.

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Chapter 3
The Social Vocation of the Firm

Giuseppe Argiolas

Abstract Strong elements of transformation that characterize our contemporary society affected and nowadays affect, in a considerable way, all aspects of real daily life, not least how human beings express their capability to face, and then try to govern, the environmental complexity.

This circumstance influences human beings' relationships, in the form of the entities they choose to organize their relations, and especially on modus operandi of these entities.

Literature has already underlined the inevitable need for modern enterprises to be socially responsible and to adopt an authentic social orientation to properly answer the issues of society and the unavoidable social vocation of the firm.

Despite the importance of the corporate social orientation, this issue is still not really well developed. This chapter covers this gap focusing on the internal relation of the firm.

The chapter delineates the key drivers of corporate social orientation that in some way takes in, includes, and transcends the previous, implying the adoption of social dimension as background reference in defining its way of being and operating.

3.1 Corporate Operational Framework

Recent years have showed us deep mutations in technological development, in traditions, and in culture, in brief, in contemporary real life. In fact, society is characterized by systemic complexity, so that solution to problems needs the joined engagement of many people to face those problems better, both under a quantitative (sharing of engagement) and qualitative point of view (sharing according to the

G. Argiolas (✉)
University of Cagliari, Cagliari, Italy
e-mail: g.argiolas@unica.it

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competence): this leads many authors to define the present society "the new society of knowledge."[1]

Among the many aspects that contribute to delineate its principal features, it is useful to underline the following:

- The unstoppable phenomenon of globalization
- The supremacy of intangible assets

With regard to the first aspect, we refer to the fact that what once seemed extremely far, today it proves to be extremely near. This is not only in the sense that what happens in one point of the world has direct influence at the distance of thousands of miles, but also in a strong interrelation between people, cultures, and markets that only 50 years ago was maybe inconceivable.[2]

The second aspect points out that if in the past the firm was characterized by predominance of the capital factor, with the coming of the society of services[3] the predominance can be ascribed to knowledge. Such circumstances force managers to search and take new strategies in the management of the firms.

3.2 Diachronic View of Corporate Orientations

If we focus our attention on the way to be of firms as how they historically developed, taking into consideration "the main problem" that had to be considered for their survival and success, we have to say that from the Industrial Revolution until nowadays, there has been a considerable change. At the beginning of the twentieth century, the main problem for the entrepreneur was still *how to produce*. Once the technical problem was solved, in fact, it was not so difficult to put the product on the market and obtain profits. This kind of firm is precisely defined "production oriented."

The years of after-war rebuilding constitute the precondition for the economic boom with the creation and the development of new firms. The context becomes more complex, and technological development makes it easier to solve production-related technical problems, while competition becomes more and more urgent, because the firms try to attract the consumer's preference. Entrepreneurs and managers direct their attention outward the firm. The firm that wants to survive

[1] Drucker P.F., *Peter Drucker on the Profession of Management*, Harvard Business School Press, 1998, (ital. transl.: *Il futuro che è già qui*, ETAS, Milano, 1999, page 115).

[2] We live in a society in which "different economic, productive, social and cultural specificities can get in interaction, in communication on a world scale and—thanks to the diffusion of knowledge, technology and information—become interconnected parts of a larger system": Caselli L., *Processi di globalizzazione e democrazia economica*, in *Economia e politica industriale*, n° 94/1997, page 39 (*a.t.*). About *globalization* see also Ferrucci A., *For a Global Agreement towards a united world*, Città Nuova editrice, Roma, 2001.

[3] See Toffler A., *The Third Wave*, Morrow, New York, 1980.

and set out to success must consider the market, and an accurate response to its needs becomes a requirement that cannot be delayed: we are in front of the "market-oriented" enterprise.

This stress flows into the request for actions aimed at precise targets to achieve, that lead all the firms toward the customer. The enterprise must be able to understand trends and changes in progress, putting itself in the condition to advance and somehow to direct them. These aspects, with the growing difficulty to attract the consumer spending availability and the request to offer solutions for client problems more than products *tout court*, are an imperative that calls for an adaptation of enterprise strategies, an epoch-making reorganization and a rethinking of its philosophy, so that the enterprise becomes completely "marketing oriented."

At the same time, the strong industrialization, the development of the enterprise with the impact that it has on the environment,[4] economic crisis and related strong social pressure, as the growing dynamics with significant and sudden changes, highlight a very important aspect: the firm cannot exclusively focus on the market and on its customers but on the environment generally considered.[5] In fact, there are many influences that, in several ways, derive from different kinds of environments with which the firm is related and from which constraints, conditions, and opportunities[6] come, and that firms have to appropriately consider. Moreover, feeble signals must also be detected to avoid that environment turbulences, by now increasingly accentuated, may sweep away the inattentive and fragile enterprise. A relationship of dynamic and continue coevolution exists between the enterprise and the environment: the enterprise is "environment oriented."

At the same time a relevant change can be detected in the conscience of society about expectations it has referring to enterprises.[7] This change forced, at the beginning, multinational and larger corporations to adapt to that social push, first especially related to the preservation of the Earth from pollution and then considering a wider and wider intervention range. Recently corporate social responsibility has taken a new growing importance in the academic debate, in the attention of institutions and in the organizational practice, even in medium and small firms. Corporate is requested not only to practice single actions of social responsibility but more and more to define its way of being and operating, inside and outside of it, seeking for a multidimensional success, interiorizing a managerial style that focuses on the centrality of the person: the "corporate social orientation" is arising.

[4] About various concepts of environment, see Usai G., *Le organizzazioni nella complessità*, Cedam, Padova, 2002.

[5] See Perrow C., *Complex Organizations. A Critical Essay*, Random House, New York, 1972; Giudici E., *I mutamenti nelle relazioni impresa-ambiente*, Giuffré, Milano, 1997.

[6] See Giudici E., *Le nuove prospettive per l'efficienza e per l'efficacia delle imprese*, G. Giappichelli Editore, Torino, 1992.

[7] See Ansoff H.I., *Implanting Strategic Management*, Prentice Hall, 1984.

3.3 Corporate Social Responsibility

3.3.1 Literature Overview

In literature there are many works about this issue, although not all unanimous.[8] The core debate refers to the nature of the firm. The claim of an active social role of the firm, in fact, depends directly on the definition of firm that is considered.[9]

The issue of corporate social responsibility has its roots in the far 1930s and 1940s, thanks to the contributions of thinkers such as Chester J. Barnard,[10] John M. Clark,[11] and Theodore Kreps.[12] In the 1950s, the so-called modern era of social responsibility begins to arise, thanks to Howard R. Bowen who is considered, in fact, the father of the corporate social responsibility.[13]

Certain authors,[14] even though with different shades, state that the firm has not got particular responsibilities of moral or social character other than making profits and, then, the defense of shareholders' interests staying within the law that defines the rules of the game, as the firm is a private institution of economic nature, exclusively designed to make profits.

Milton Friedman clearly affirms that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase

[8] See Garriga E., Melé D., *Corporate Social Responsibility Theories: Mapping the Territory*, in Journal of Business Ethics, 53/2004; Klonosky R.J., *Foundational considerations in the corporate social responsibility debate*, in Business Horizons, July–August, 1991.

[9] The main question recalls the definition of firm so that if it is seen as a community or collectivity of people who work together for the production of goods and/or services for the market with the aim of supplying solutions to customer problems under the constraint of profitability, it can be deduced immediately and clearly that the central role of the person takes a primary and crucial importance in the adoption of social responsibility. See Klonosky R.J., *Foundational considerations in the corporate social responsibility debate*, op. cit.

[10] See Barnard C.J., *The Function of the Executive*, Harvard University Press, Cambridge, MA, 1938.

[11] See Clark J.M., *Social control of business*, McGraw-Hill, New York, 1939.

[12] See Kreps T.J., *Measurement of the Social Performance of Business*, in *An investigation of Concentration of Economic Power for the Temporary National Economic Committee*, (Monograph n. 7), U.S. Government Printing Office, Washington, DC, 1940.

[13] For a wide-ranging historical review on the definitional issue of the corporate social responsibility, see Carroll A.B.., *Corporate Social Responsibility. Evolution of a Definitional Construct*, in Business and Society, September 1999, vol. 38, n. 3; also see de Santis G., *Responsabilità sociale*, in Caselli L. (Ed.), *Le parole dell'impresa*, F. Angeli, Milano, 1995 e di Toro P., *L'etica nella gestione d'impresa*, Cedam, Padova, 1993; de George R., *Business Ethics*, 3rd ed., MacMillan Publishing Co., New York, 1990.

[14] See Friedman M., *The Social Responsibility*, in Beauchamp T.L. and Bowie N.E., *Ethical Theory and Business*, 2nd ed., Prentice Hall Inc., Englewood Cliffs, NJ, 1983; Uyl D.D., *The New Crusaders: the Corporate Social Responsibility Debate*, Social Philosophy and Policy Center, Bowling Green, Ohio, 1984.

its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud."[15]

Even among those who emphasize that firm is a social institution, grouped by Klonosky in the "social view," we find different approaches. Some authors[16] affirm that a kind of social contract is been signed between firm and society: according to the "stakeholder approach,"[17] the firm has a whole series of duties resulting from the network of relations that it weaves and develops with the different groups of people who have some interest in the firm. According to the "corporate social responsiveness approach,"[18] the firm must be in a condition to anticipate the changes, carrying out programs and policies such that to minimize negative effects that its own present and future activities may have in terms of social fallout, so avoiding to catalyze waves of complaint upon the firm. The "virtue-based approach," according to Klonosky strictly correlated to the "theological or religious approach," underlines that "Business that foster a good community within the workplace and respect the social community on the outside can make possible the moral development of both employees and society."[19]

From the point of view of the "corporate citizenship approach," the firm must be considered as an institutional citizen and, as such, holder of rights, privileges, and duties. Archie B. Carroll affirms that, managing the firm, managers must constantly and simultaneously face a series of economic and noneconomic responsibilities. Among the former, there is the production of goods and services that have to be sold to make profits; among the noneconomic, legal responsibilities are included, that is, making profits within "the rules of the game," and also moral responsibilities—respecting the ethical norms and behaviors that society expects to—and those discretional or voluntary and philanthropic, related to the voluntary roles taken by firms without a clear expectation from the society. He also underlines that "the social orientation of an organization can be appropriately assessed through the importance it places on the three non-economic components compared to the economic."[20] In the end, he synthesized his own position affirming that "the CSR

[15] Friedman M., *The Social Responsibility*, in Beauchamp T.L. and Bowie N.E., *Ethical Theory and Business*, op. cit.

[16] See Anshen M., *Changing the Social Contract: A Role for Business*, in Beauchamp T.L. and Bowie N.E., *Ethical Theory and Business*, 2nd ed., Englewood Cliffs, NJ, Prentice Hall, Inc., 1983.

[17] Freeman R.E., *Strategic Management. A Stakeholder Approach*, Pitman publishing Inc., 1984, page 46.

[18] See Sethi S.P., *Dimension of Corporate Social Performance: an Analytical Framework*, in California Management Review, Spring 1975, Vol. XVII, n. 3; See Sciarelli S., *Responsabilità sociale ed etica d'impresa: una relazione finalizzata allo sviluppo aziendale*, in Finanza marketing e produzione, n. 1, 1999.

[19] Klonosky R.J., *Foundational considerations in the corporate social responsibility debate*, op. cit., page 15.

[20] Aupperle K.E., Carroll A.B.., Hatfield J.D., *An Empirical Investigation of the Relationship between Corporate Social Responsibility and Profitability*, in Academy of Management Journal, n. 28, 1985, page 458.

firm should strive to make profit, obey the law, be ethical, and be a good corporate citizen."[21]

3.3.2 Institutional Contribution

The debate about corporate social responsibility is today more than ever animated at all levels. It is shown by the increasing interest paid by institutions and particularly by the United Nations (UN), the Organization for Economic Cooperation and Development (OECD), and the European Union (EU).

In July 2000, after an initiative started on January 31, 1999, by UN Secretary General Kofi Annan during the World Economic Forum, the UN Global Compact has arisen. Composed by hundreds of firms all over the world joined with the agencies of the UN[22] and the world of the civil society, the Global Compact is a network that promotes at the international level the adoption of ten principles within the safeguard of human rights, of labor, of defense of the environment, and struggle against corruption, and it aims to catalyze action supporting the objectives of the UN.[23]

Also OECD has been contributing for several years and in many ways to the debate of CSR. In one of the most recent documents, it underlines that "real CSR is about how a business is run—values and beliefs become real when they are lived every day and no amount of corporate rhetoric can substitute for direct evidence of management's sincere and meaningful dedication to a consistent set of values. CSR is a global expectation and global problems respond to local initiatives, but they also demand global solutions and corporations need to respond in a comprehensive manner."[24]

The Green Paper of the European Commission "Promoting a European Framework for Corporate Social Responsibility" states that "being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment and the relations with stakeholders."[25] It highlights, among others, two important aspects about corporate social responsibility:

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[21] Carroll A.B.., *Corporate Social Responsibility. Evolution of a Definitional Construct*, op. cit., page 289.

[22] Mainly: the Office of the High Commission for Human Rights (OHCHR), the United Nation Environmental Program (UNEP), the International Labour Organization (ILO), the United Nation Program for Development (UNDP), the United Nation Industrial Development Organization (UNIDO), and, since June 2004, the United Nation Office against Drugs and Crimes (UNODC).

[23] See Argiolas G., *L'orientamento sociale dell'impresa nella società della conoscenza*, Università degli Studi di Cagliari, Mimeo, 2005.

[24] OECD, *Corporate Social Responsibility*, *Partners for Progress*, Paris, 2001, page 149.

[25] European Commission, Green Paper *Promoting a European Framework for Corporate Social Responsibility*, Bruxelles, 2001, COM (2001) 366 final, page 8.

- Social responsibility refers to small and medium enterprises and not only large ones.
- Social responsibility refers to all the ambits of firms.

It is essential that these values be translated into actions inside and outside the firm with an integrated and consistent perspective both in strategic and operative decisions.

The communication of the European Commission "Implementing the partnership for growth and jobs Making Europe a Pole of Excellence on Corporate Social Responsibility" underlines the importance of the Corporate Social Responsibility at all levels, promoting a European Alliance for Corporate Social Responsibility. It matters every person because it "mirrors the core values of the society in which we wish to live,"[26] and it can give a very important contribution even fostering growth and jobs. The European Commission gives guidelines to make the Alliance identifying several priorities and stating that "The essence of this initiative is partnership"[27] and that "Commitment, mutual trust and dialogue are vital for the success of this Alliance."[28]

3.4 Corporate Social Orientation

3.4.1 The Roots of Corporate Social Orientation

Sometimes enterprises can be found to put in practice antithetic behaviors: on the one hand, they are careful on social question, on the other absolutely careless; some other times we can find enterprises carrying out *isolated* positive actions addressed to the society or a part of it, so that it is not enough to define them as social oriented, in fact much criticism and perplexities can be raised, especially referring to the *animus* that leads their actions and aims.

As Caselli states, "the firm—through production of goods and services—contribute to ensure the technical and economic progress. All this require orientation,"[29] and "the firm's social responsibility is not obtained automatically but can be reached through specific and oriented ways of acting."[30] So an authentic social

[26] European Commission, Communication *Implementing the partnership for growth and jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility*, Bruxelles, 2006, COM (2006) 136 final, page 10.

[27] European Commission, Communication *Implementing the partnership for growth and jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility*, op. cit., page 11.

[28] European Commission, Communication *Implementing the partnership for growth and jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility*, op. cit., page 13.

[29] Caselli L., *Ethics in organization: Theory and Practice*, in Rivista di Politica Economica, N° I–II, January–February 2004, page 79.

[30] Caselli L., *Ethics in organization: Theory and Practice*, in Rivista di Politica Economica, op. cit., pages 79–80.

orientation embedded in an ethical background that constitutes a reference to the enterprise's internal and external relations is needed. In order to identify the core of such an orientation, it is important to consider the seminal contribution of Chester J. Barnard.

According to Barnard, human subject is continuously aiming to transform the environment in which he lives, and to do so, he defines objectives. But in their implementation he finds difficulties and cognitive, physical, biological, and social limits. Through cooperation the person puts himself/herself in condition to overtrade those limits and then to achieve goals he cannot reach alone. In the very moment in which the person cooperates in order to achieve aims common to other subject, he constitutes or enters a formal organization. "Formal organization is that kind of cooperation among men that is conscious, deliberate, purposeful"[31] of which the enterprise is a typical example. Formal organization is the favorite place to cooperate just because of its conscious aim.

In other words, it knows what kinds of sacrifices are requested and what benefits are offered, that pushes people to enter an organization. So the question is to mobilize consensually a group of people in order to reach a purpose that isn't their own one, in a strict sense, offering them incentives such that to satisfy their personal motivation to participate.

A subject will be then driven to produce a greater or smaller effort toward the achievement of the enterprise's ends according to incentives that he receives in exchange. It is important to underline that Barnard considers not only material incentives, but rather "it seems to me that material rewards are ineffective beyond the subsistence level."[32] So nonmaterial incentives have a great importance, like "personal non-material opportunities; desirable physical conditions; ideal benefactions. General incentives afforded are, for example: associational attractiveness; adaptation of conditions to habitual methods and attitudes; the opportunity of enlarged participation; the condition of communion."[33] The condition of communion "is the feeling of personal comfort in social relations that is sometimes called solidarity, social integration, the gregarious instinct, or social security (in the original, not in its present debased economic, sense)."[34]

So Barnard develops a wider vision of the business, in which all of the internal components and external ones related to it are considered. Among them without distinctions there are employees, managers, stockholders, clients, and suppliers, all of them, to the same extent, considered members cooperators.[35] It is plain the importance of the Barnard perspective that anticipates and, in some way, overtrades the well-known stakeholder theory.

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[31] Barnard C.J., *The Functions of the Executive*, op cit., page 4.

[32] Barnard C.J., *The Functions of the Executive*, op. cit., page 144.

[33] Barnard C.J., *The Functions of the Executive*, op. cit., page 142.

[34] Barnard C.J., *The Functions of the Executive*, op. cit., page 148.

[35] See Bonazzi G., *Storia del pensiero organizzativo*, op. cit.

The condition of communion seems to be of particular importance because, through its highlighting, a shift from the single subject's analysis to his consideration as an active part of social community living in the enterprise is achieved. And the importance of relations between the subjects there working is affirmed, without neglecting, on the contrary underlining, the individual's features. In fact organizations are built by persons and their good working depends, to a greater extent, on the quality of people, besides how those people are organized.

Furthermore, to underline the human capability to enter in relation with others both in the inside and outside of the organization, then achieving the condition of communion does not exclude that decisions can be taken after rational considerations referred to benefits that can be earned from cooperation. Rather, it emphasizes in a very interesting way that person's attitudes and decisions can be inspired not only by mere economic matters but also by moral sentiments and deep beliefs.

3.4.2 Anthropological Foundations

Taking the evolution of managerial theories into account, it clearly emerges how much the anthropological view that human beings have of themselves impresses the theory and practice of management.[36] Many of the causes bringing about or fueling conflicts and/or cooperation in the organizations and particularly in the firms can be traced back to the exercise of the power and then, in the final analysis, to the perspective that human beings take considering the diversity or, better, the *alterity*. This perspective, this view deeply affects relational modalities carried out in the life together with others.

The subject of alterity has concerned the philosophical debate from Aristotle to the present days, and also in sociology a rich debate on this matter is in progress. It is not proper, in this chapter, to reintroduce the contents[37] but, instead, to draw some general indications that can be useful to the management of a firm organized in a modern way and, then, as much as possible without approximations.

The meaning of the word *other* may be understood in double perspective: anthropological and metaphysical. The other not only in what appears, but also in what is beyond appearance, in his intimate substance, in his ontology, in his *personal*–living–being.

[36] Just think about how the "rabble hypothesis" affects the Taylor's theory, or consider the psychological perspective permeating Maslow's thought, or the methodological individualism underlying Williamson contribution: See Argiolas G., *La crescente attenzione scientifica ai soggetti umani nell'impresa e alle loro relazioni*, in Annali della Facoltà di Economia di Cagliari, Nuova Serie Vol. XX, Franco Angeli, Milano, 2004.

[37] For an in-depth study on the subject, from a sociological point of view, see Sorgi T., *Costruire il sociale*, Città Nuova Editrice, Roma, 1998 and from a philosophical point of view, see Cicchese G., *I percorsi dell'altro*, Città Nuova Editrice, Roma, 1999.

It is not so easy—and probably it is impossible—to suggest a univocal definition of "person." Some researchers prefer talking of "mystery of the person"[38] to highlight all its amplitude and depth.[39] In this chapter, the term human being or person refers to a subject "endowed with self-consciousness and with moral conscience, bearer of values and value in himself."[40] The fact itself that he is endowed with moral conscience means he can submit himself to moral principles that influence his own behavior: not only his own realization but also the other's one raises as fundamental norm of his existence and behavior.[41] Then, the person certainly constitutes a world by himself but at the same time is opened to the dialogue with the other. Aristotle states that "human, in fact, is a social being by his own nature inclined to live together with the others,"[42] and more recently Heschel affirms that "for the man to be means to be together with the other human beings. His existence is co-existence.

He can never feel fulfilled or explain his own meaning if this is not shared, if it is not in relation with other human beings."[43] Such a perspective seems gaining more and more interest and space, even within the economic debate, in which the anthropological principles underlying the ontological individualism are questioned by a wider and wider authoritative doctrine.[44] It can be noted that also the human being emerging from a complete reading of Smith's contribution is a relational being, capable of sympathy.[45] That is, he is capable "to be in the other's shoes" or,

[38] See Mounier E., *Traité du caractére*, Paris, 1947, (ital. transl.: *Trattato del carattere*, Ed. Paoline, Roma, 1990).

[39] "Man is a being so wide, varied and versatile that every definition proves to be too limited. His aspects are too numerous" Scheler M., *La posizione dell'uomo nel cosmo*, *Fabbri*, Milano, 1970, page 98.

[40] Sorgi T., *Costruire il sociale*, op. cit., page 35. It is useful to note that this person is not referable to the agent "individualistic, self-interested and rational" in the sense of the neoclassical theory. That is his preferences are not definite and invariable, but instead they may be influenced and also thoroughly modified by relations he establishes with the other human beings, with the other people.

[41] We must also admit that the use of absolute moral principles within a theory of individual behavior presents many problems both of technical and formal order. In fact, if the preferences of a subject are determined on the basis of those principles, the order resulting has lexicographical nature, that is, it cannot be represented by a function of utility.

[42] Aristoteles, Etica Nicomachea, introduzione Aristotele, *Etica Nicomachea*, introduzione, traduzione e parafrasi di C. Mazzarelli, Rusconi, Milano, 1979, IX, 9, 1169b, 18–19, page 398 (*a.t.*).

[43] Heschel A.J., *Who is Man?*, Stanford University Press, Stanford, 1965, (ital. transl.: *Chi è l'uomo?*, Rusconi, Milano, 1989, pages 63–64).

[44] See Sen A., *Rational Fools: A Critique of the Behavioural Foundation of Economic Theory*, in Philosophy and Public Affairs, n. 6, summer, 1977.

[45] See Smith A., *The Theory of Moral Sentiments*, A.M. Kelley, New York, 1966. In Smith it takes on a different and wider meaning than the Italian translation.

as Smith himself says, he is endowed with the capacity of being one with the other,[46] in a perspective that goes beyond the altruist–egoist dualism.[47]

While *individual* refers to man/woman "considered given to him/herself, closed in his/her incommunicable and indivisible materiality (*in-dividuum*), that is incapable of sharing, (. . .) *Person*, instead, refers to man/woman that makes true his/her own individuality transcending it, that is putting it (or, better, putting *him*/*herself*) in relation with others. The essence of the person then consists in his *universality* that is in his being-relational (*unum-versus-alia*): the person is as much more himself as he is decentralized and devoted to the others."[48] Being in communion, living in communion means to experiment (perceive) that even though we are many (at least two, distinct), we are one (united). So that the other's joy is mine, his pain is mine, his success is mine, his failure is mine, what he does I did it (and vice versa, what I do is made by him), and it is really so in that, as an effect of the relation, his being is inside me, I take it within me (and vice versa) and that makes us different from what we were before.

In order to properly achieve communion and not a mere companionship or, worse, totalitarianism, it is needed that:

(a) It develops in *freedom*, in a reciprocal, circular movement of the two or many, one toward the other. Communion can be induced or generated, in the sense that can be the fruit of one's initiative, but it cannot be imposed, at the cost of losing its very essence (unity makes free if conjugated with distinction) and its intrinsic goal, that is, the human flourishing.
(b) It is *open* to the entrance of new actors, members, considering diversity as a value, a richness (even if characterized by strong internal relations in order to achieve, preserve, and develop it).
(c) It is *universal*, in the sense that it not only takes into account those who constitute or, in some way, generate it but also takes care of the common good, the development of networks of social capital.[49]

An anthropological perspective that considers human beings as "persons" may give solid basis to properly consider the corporate social orientation, both in its essence and operative implications.

[46] See Bruni L., *Relazionalità e scienza economica*, in Nuova Umanità, n. 111/112, 1997/3–4, Città Nuova Editrice, Roma.

[47] See Bruni L., Sugden R., *Moral Canals: Trust and Social Capital in the Work of Hume, Smith and Genovesi*, in Economics and Philosophy, 2000.

[48] Zappalà R., *Comunismo – Capitalismo – Comunione. Riflessioni in chiave antropologica* in Nuova Umanità, n. 80/81, marzo-giugno 1992, Città Nuova Editrice, Roma, pages 123–124. See also Zanghì G.M., *Poche riflessioni su la persona*, in Nuova Umanità 7/1980.

[49] See di Ciaccio S., *Il fattore "relazioni interpersonali" fondamento e risorsa per lo sviluppo economico*, Città Nuova, Roma 2004.

3.4.3 Drivers of Corporate Social Orientation

Considering what said above and in particular the anthropological perspective, it is important to specify how this *condition of communion* can be achieved. When we refer to a *person*, it should be considered not only in himself/herself but also in relation with others; in fact the person finds his/her own fulfillment because of the relation with others, of course, not in every kind of relation, but more specifically living in communion with others.

So, operating for achieving communion, it is possible to underline three different kinds of drivers:

- Pillars of communion
- Instruments (or tools) of communion
- Aspects (or dimensions) of communion

3.4.3.1 Pillars of Communion

Referring to pillars of communion, three elements can be considered: dialogue, trust, and reciprocity.

Thanks to dialogue, the relationship among persons can be realized. Dialogue can be more than a simple exchange of ideas. Emotions, feelings, motivations, and aims, even the most deep spiritual things, can be exchanged when a good dialogue between people works on. Such a dialogue can be carried on with two attitudes which can be seriously considered: to listen and to speak.

Listening can be shaped in different ways and on different levels. In fact listening calls for silence, and it is possible to highlight at least three levels of silence (in a deeply growing order): (1) the silence of the voice, (2) the silence of the mind, and (3) the silence of the soul.

The first is the simplest form of listening in which the interlocutor can talk and express himself/herself without overlapping during talking.

The second one is working when person gives space in his own mind to the thought of the other trying to understand what the other wants to say. The antithetic situation—as unfortunately often happens in organizations—can be clearly illustrated by the following sentence: "I've already known what you are going to say"; in such a way, a filter is activated which cannot allow the speaker to express in his own mind and, at the same time, cannot allow the listener to understand completely what the speaker would like to say actually.

The last form of silence allows the speaker to be received wholly. Not only in talking to really understand him in his ideas, motivations, and aims but Share with him His own joys, pains, and troubles and—as it is possible—releasing him. In such a way, it is possible to activate an open, deep, and comprehensive welcoming of the other. The speaker feels to be completely welcomed, the listener can live in his own skin what the speaker is living, and both of them can feel in some way as one. It can

be seen that this kind of listening isn't only passive (something that has not to be done) but calls for an active attitude (trying to be one with the other, really).

Speaking and listening can be considered two faces of the same coin which dialogue is. So, if silence constitutes the core of listening, it is very important speaking. Even speaking can be put in practice in different ways and intensity. Speaking can express a thought as it comes out from the mind, unrelated with the other, and without affecting the other. The speaking can become a bridge between the other for sharing ideas, feelings, and what is deep in mind and/or soul.

In order for a dialogue to really work, it is required that people involved in it are considered in an ontological condition of parity. Otherwise they can be forced to set a mise-en-scène that is everything but a true dialogue.

It is considered important, in this sense, to underline the role played by trust.[50] According to John Locke, trust is that "vinculum societatis"[51] (i.e., "social obligation, social relationship") without which even the most elementary forms of social life would be critically limited. Just think about all those acts we perform every day, without reflections, but that involve an attitude of trust. It is possible to see this disposition even in business relations. It has been observed, for example, that "businessmen often prefer to go by their own 'word of honor,' their handshake, the 'common honesty and respectability,' even when the transaction implies the exposition to serious risks"[52] in the exchanges between firms, as well as in the interactions within the firm itself.

It has also been highlighted that, in order for a relation based on reciprocal trust to be established, it is necessary the subject who trusts, that is, who decides first to put himself in the other's hands, makes this choice—on the level of the being—as equal with the other subject, without hidden purpose and in a free way.[53] If the persons are not on the same level, but one is stronger than the other, the "trust" is not any more genuine and loses its efficacy; at the same time, if trust is not free, but we trust the other only because he is compelled to behave in a certain way, we are not trusting the other but only exploiting our position of preeminence; also in this case, it is unlike for the trust mechanism to properly work.

It should not be neglected, however, that situations of conflict occur inside the firm. So, the quality of interpersonal relationship must be tested periodically when,

[50] About Trust and Trustworthiness see Pelligra V., *I paradossi della fiducia. Scelte Razionali e Dinamiche Interpersonali*, Il Mulino, Bologna, forthcoming.

[51] See Locke J., *Essays on the Law of Nature*, Clarendon Press, Oxford, 1660/1954.

[52] Macauley S., *Non-contractual Relations in Business: A Preliminary Study*, in American Sociological Review, 28/1963, page 58. About trust between organizations see Parolin G., *La fiducia nelle reti di imprese*, in Impresa Sociale n° 62, marzo-aprile, 2002.

[53] See Pelligra V., *Who Does Trust an Homo oeconomicus?*, Annali della Facoltà di Economia di Cagliari, vol. XV, Franco Angeli, Milano, 1999; on "trust" also see Luhmann N., *Vertauen. Ein Mechanismus der Reduktion sozialer Komplexität*, IV ed., Lucius & Lucius Verlagsgesellschaft, Stuttgart, 2000 (ital. transl.: *La fiducia*, Il Mulino, Bologna, 2002).

through a useful exchange of ideas carried out with mutual listening,[54] moments of crisis can be turned into chances of growth for the entire organization, knowing that conflicts must not be exorcized but overcome, so really turning the difference that has generated them into richness.[55] The open dialogue, sincere and continuous, carried out with "attention and care," supporting relations marked by *sympathy*, constitutes also a significant antidote against the temptation to betray the other's trust.[56] To do so, it will be necessary knowing how to be one with the other, in depth, so that the other may freely express himself and feel well received. After that, when the other will completely express his point of view, it will be possible and effective for the first to offer his own opinion, in an interaction in which each one is enriched by the other's thought, by the being the other is.

It can be noted that in everyday experience, even in the working experience, many are the circumstances in which persons behave moved by willingness toward the others, for example, sharing their own knowledge or abilities, time, and resources, without expecting something in return. The exchange is free from any particular economic interest and eludes the tight dynamics of "quid pro quo," typical of the contractual exchange.

George A. Akerlof (Nobel Prize winner for Economy in 2001), referring to a research carried out by George Homans at the Eastern Utility Co., introduces the category of "partial gift exchange": "From the side of the worker, the gift given is the work in excess with regard to the minimum standard. From the side of the firm, the gift given is the salary in excess with regard to the one the workers can get if they would leave their present job."[57]

The main aspect of Akerlof's contribution is that he introduces the category of "gift" to explain that workers' behavior which, according to the neoclassical theory, has to be considered as paradoxical. Then, the sentiment they feel to each other and toward the firm becomes the essential element, the rule, the norm that determines their behavior.[58] "To a great extent—Akerlof continues—the gift given is approximately in the range of what the recipient expects, and the latter, in turn, reciprocates in the same way."[59] Near the gift, the reciprocity[60] develops, in fact, "free gift, by

[54] See Crozier M., *E' vincente l'impresa che impara ad ascoltare*, Interview by Libelli M., in L'Impresa, n. 2/1992.

[55] See Crozier M., *E' vincente l'impresa che impara ad ascoltare*, op. cit.

[56] See Elangovan A.R., Shapiro D.L., *Il tradimento della fiducia nelle organizzazioni*, in Sviluppo & Organizzazione, n° 173, May–June 1999, page 47–70.

[57] Akerlof G.A., *Labor Contracts as Partial Gift Exchange*, in Quarterly Journal of Economics, n° 4, Novembre 1982, page 544.

[58] It is interesting to note that Akerlof uses the same word coined by Smith, *sympathy*, to indicate this kind of relation that can bind the workers.

[59] Akerlof G.A., *Labor Contracts as Partial Gift Exchange*, op. cit., page 550.

[60] About the subject, see Bruni L., *Reciprocità*, Paravia Bruno Mondadori Editori, Torino, 2006, and Bruni L., Zamagni S., *Economia Civile*, Il Mulino, Bologna, 2004. A group of researchers led by Ernst Fehr, at the University of Zurich, while reviewing the paradigm of human behavior as traditionally understood in economy, found interesting results. In laboratory experiments

its own nature, always produces the activation of the intersubjective relation 'par excellence' that is the one of reciprocity."[61] According to Zamagni, "the essential feature of the relation of reciprocity is that transfers it generates are indissociable from human relationships: objects of transactions are not separable from who realize those relations, that is to say in the reciprocity the exchange ceases to be anonymous and impersonal, as instead occurs with the exchange of equivalents."[62]

Bruni specifies that, if reciprocity is one, many are the forms in which reciprocity can be implemented. He considers, in particular, three forms of it: (a) "reciprocity without benevolence," (b) "reciprocity philía," and (c) "reciprocity agápe." The first one considers the sinallagmatic relation typical of contracts. "It consists in the fact that subjects are not requested to sacrifice something of their own personal interest: cooperation emerges on the only basis of interest, of convenience, and institutional features have to be added."[63] The second form of reciprocity can be distinguished from the first in that the latter "needs an amount of sacrifice and risk, and the relation is not the means to achieve interests that are "external" to the relation, but it has a value in itself for the subjects."[64] That second form of reciprocity is not merely conditional as the first one, especially at the beginning, but it works only if the answer is adequate. The third form of reciprocity instead is unconditional, gratuitous, where intrinsic motivation has wide room. More, to have an unconditional reciprocity, "the intrinsic reward is only a necessary condition: the sufficient condition in order for a given behavior to be set in that form of reciprocity is that the reciprocating behavior of the others does not condition the choice of

conducted by this group, reciprocity plays an extremely important role. In fact, it emerges a norm that affects the behaviors of both workers and employers, and, among other things, it is what explains the modalities of achievement of the efficiency of incomplete contracts. In their work reciprocity is defined as the disposition to pay a sum, "*a willingness to pay for responding fairly (unfairly) to a behavior that is perceived as fair (unfair)*": Fehr E., Gachter S., Kirchsteiger G., *Reciprocity as a Contract Enforcement Device. Experimental Evidence*, in Econometrica 65, 1997, page 839. The importance of reciprocity in the social life finds its confirmation also in the important and deepened sociological debate: it comes out, in a way almost unanimously shared, that reciprocity constitutes a vital principle for the society and a key-variable of intervention, through which, since the primitive cultures, the shared social rules are allowed to yield the social stability: See Gouldner A., *The Norm of Reciprocity: A Preliminary Statement*, American Sociological Review, April 1960.

[61] Zamagni S., *L'economia come se la persona contasse*, in Sacco P.L., Zamagni S. (eds.), *Teoria economica e relazioni interpersonali*, Il Mulino, Bologna, forthcoming, page 35.

[62] Zamagni S., *L'economia come se la persona contasse*, in Sacco P.L., Zamagni S. (eds.), *Teoria economica e relazioni interpersonali*, Il Mulino, Bologna, forthcoming, page 42.

[63] Bruni L., *Serpenti e colombe. Per una teoria della reciprocità plurale e pluralista* in Sacco P.L., Zamagni S. (eds.), *Teoria economica e relazioni interpersonali*, Il Mulino, Bologna, forthcoming, page 59.

[64] Bruni L., *Serpenti e colombe. Per una teoria della reciprocità plurale e pluralista* in Sacco P.L., Zamagni S. (eds.), *Teoria economica e relazioni interpersonali*, op. cit., page 62.

those who follow such a logic of action, but it does condition the result of the choice,"[65] that is, the "action is fully efficient only if the others behave the same way (if reciprocate)."[66]

It is extremely important that the three forms of reciprocity should be present in the business. The first (reciprocity without benevolence) brings some "market dynamics" inside the firm, and this ought to assure more freedom. In fact, in the contract, the normative frame is defined inside which everyone can act and this if, at first sight, can appear as a *vinculum* yet can be considered liberating in the sense that it defines the due from every part (e.g., defining working hours, extra work, vacations, and just wages).

Reciprocity philía reminds that inside the business the sole logic of contract is not sufficient. Contracts are by their own nature incomplete. And to make them efficient is a hard work if people take shelter in logics such as "this is not my duty." Reciprocity philía highlights the need for everybody to make a step one toward the other and to remove opportunistic attitudes that wear away and, sooner or later, eliminate reciprocity.

The reciprocity agápe gives dignity and emphasis to gratuitousness and to the unconditionality of action that, being animated by intrinsic motivation is not conditioned, as above stated, by anything extrinsic in its own origin, even if the effects of this kind of action are conditioned. It is important to underline that specificity of gratuitousness is properly "the building of particular links among persons. Where the philanthropic organization does *for* the others, the gratuitous action does *with* the others."[67] So, all this stresses that a full communion among persons within the business calls for activate also this form of reciprocity, just considering communion features (it is free, open, and universal and oriented to human flourishing).

3.4.3.2 Instruments of Communion

Communion in corporations as well as social orientation generally considered needs to be continuously fostered. It isn't unrealistic to think that it is possible achieving it once and for all. It is very relevant adopting instruments or tools which can help people to improve it or, in the case, reconstruct it.

The instruments of communion are The Pact on Corporate Mission and Anthropological Vision, The Communion of Experience, The Communion of Soul, The Moment of Truth, and The Private Talk.

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[65] Bruni L., *Serpenti e colombe. Per una teoria della reciprocità plurale e pluralista* in Sacco P.L., Zamagni S. (eds.), *Teoria economica e relazioni interpersonali*, op. cit., page 75.

[66] Bruni L., *Serpenti e colombe. Per una teoria della reciprocità plurale e pluralista* in Sacco P.L., Zamagni S. (eds.), *Teoria economica e relazioni interpersonali*, op. cit., page 75.

[67] Zamagni S., *L'economia come se la persona contasse*, in Sacco P.L., Zamagni S. (eds.), *Teoria economica e relazioni interpersonali*, op. cit., page 34.

The Pact on Corporate Mission and Anthropological Vision

Through this instrument persons working within a business sign a Pact in which the Corporate Mission is clearly defined, that means what is the purpose of the business and how it is going operating into the market and in relation with the stakeholders (internal and external ones). Defining and signing a Pact on Anthropological Vision is also very important.

In fact, as above stated, the way to be and to operate of persons inside and outside organizations is largely affected on the Anthropological Vision they adopt. Considering people as persons can deeply affect their behavior in fostering communion, so signing such a Pact commits people to operate considering others as persons. This allows considering relations not only under a technical point of view, but also under a human one. So that a "productiveness"[68] concept is underlined this includes productivity, the climate in which the production is made, and the quality of relationship indeed.

The Communion of Soul

To put this instrument in practice means allowing persons to share each other what they save in their heart. This could mean sharing with others' enjoyments either related or unrelated on job, like joys, matters, or fruits of personal spiritual life.

Sharing with a fellow at the beginning of morning can be very useful. In fact one's joy can be shared with others and spread over, as well as problems can be shared and solved. Of course, it must be done with tact and discretion in order to avoid hearsays spreading or trust betraying. An example can be the following: a man arrived at work with a trouble; he has to pay the car insurance within the morning. He shares the problem with his team leader.

What can be the answer? If the team leader considers the worker as a person, he will take his problem with care and will try to solve it. He can suggest him to do it in a particular moment of the morning, in order not to forget it. As Barnard emphasized, every individual asks for being considered as a person, which means that what he lives cannot be left outside the door of the business.[69] This is simply unattainable, and a good manager has to know and to take that into account.

The Communion of Experiences

The Communion of Experiences is also a cornerstone of these instruments of communion. It means that it is possible to share with others our knowledge and our experiences. To put experiences in common is very important not only because

[68] See Blum F.H., *Social Audit of the Enterprise*, Harvard Business Review, March-April 1956.

[69] See Barnard C.I., *The Functions of the Executive*, op. cit.

through this instrument is possible to transform individual knowledge and experiences in organizational one, but also because of it, it is possible to share with others how we live the "word of God" and all the virtues correlated. Of course it should be done being careful that everything serves only for the good of others and that nothing has anything to do with boasting or conceit.

This form of narrative could be considered very important in shaping personality and in sense making.[70]

Sharing experiences can be considered, in a metaphorical way, like the action carried out by a forerunner. Others can find in him a model to imitate, or they can feel encouraged to go beyond difficulties, or they can find relief in the fact that others have made the same experience and then find an easier way to walk.

The Moment of Truth

An important instrument to strengthen communion inside the firm could be the so-called Moment of Truth. Thanks to The Moment of Truth is possible to say what is seen of negative and positive in other's behavior in order to help overcome negative attitudes and to be strengthened and encouraged in acting positive ones. This instrument can be put in practice as following: people working together can meet themselves in a not very numerous group. It will need to have a bit of time at their disposal and to act with calm in order for it to yields its fruits. A moderator is needed in order to assure that everything is told only to the others' and the business benefit. First, it can be said the negative that has been seen and then the positive.

The Private Talk

Through The Private Talk it is possible to share, with a person with more experience or responsibility in work or in spiritual life, our mind, concerns, and condition at a certain moment. So, it is possible to offer struggles and victories, setbacks, and achievements in order to make progress in professional skills and human and relational attitudes. Both in the case of being the person who receives or gives help, it is very important to do so practicing dialogue, trust, and reciprocity, with open mind and soul, in order to allow the other to express oneself in his mind and offering and getting what can be useful and could be carried out.

3.4.3.3 Aspects of Communion

Communion can be carried out every time and in every aspect both of a person's daily life and business. To represent it through a metaphor, light can be considered.

[70] See Weick K.E., *Sensemaking in organizations*, Thousand Oaks, Sage Publications, CA, 1995.

When a light beam passes into a prism, it is refracted in seven colors (red, orange, yellow, green, blue, indigo, violet). So, to consider the person at the center of the business has an infinity of concrete implications and nuances.

First of all, this belief incites business leaders to carefully consider employees' talents encouraging their innovation and creativity, their assumption of responsibility, and their participation in defining and realizing the business' objectives. So, managers try to involve, as wide as possible, all members of the business in formulating strategy and objectives encouraging new initiatives, especially paying particular attention to the ones which can create new job opportunities. The business is managed to promote increased profits and applies them not only to expand the enterprise and to have a return on capital, but also to help people who are experiencing economic difficulty (inside the business and in the community at local and international level), and participating at programs for the development and spread of such a culture. All of that can be gathered under the *first aspect: the red* one.

The *second aspect, the orange*, refers on the belief that such a background formulation is expressed also in the relations the firm achieves on the outside, keeping in mind that it gets in touch with other persons:

- The clients, for instance, will be supplied with quality goods and services at fair prices, not merely fulfilling the contractual ties, but also evaluating the actual effects of the goods and services it supplies on the consumer's welfare, and adopting a communication style characterized by correctness and transparency (in the actions of communication through mass media, labels, etc.).
- The suppliers, the firm adopting relations of reciprocal collaboration and respect.
- The competitors, in a relation of fairness and cooperation, when possible, yet in an ambit of fair play competition, refraining from putting the products and services of them in a negative light.
- The public administration, the firm keeping up correct relations, building bridges with everybody in the belief that interweaving networks of good relations with every stakeholder, and also with the public administration, constitutes a benefit for all the environment in which it is embedded.
- The (local and international) community which feels to be a part of it.

Third Aspect: Yellow. Such a business complies with the law and maintains ethical dealings with tax authorities, regulatory agencies, labor unions, and all such institutions. And if it tries to develop workers' capabilities, it does not forget to behave legally and ethically assuring them what defined by agreements and law.

Fourth Aspect: Green. The health and well-being of every member of the business cannot be ignored, so this asks for working conditions suitable to the type of business, such as security, requisite ventilation, adequate lighting, and acceptable noise levels. It cannot be forgotten that workers express their personality also in other organizations. The corporation cannot consider the worker as its own property, that means concretely that excessive hours and days of work should be avoided (excepted in particular moments within a true and free agreement) so people will not become overly strained. For the same end, adequate vacation should

be provided, also aware that after a period of rest, people are well disposed to profound a more intensive and rational effort.

Fifth Aspect: Blue. Particular attention has to be paid to applying management systems and organizational structures that foster teamwork and personal development, as well as keep their surroundings as clean, orderly, and pleasant as possible.

Sixth Aspect: Indigo. Carefulness can be the following of personnel selection criteria and a program of professional development that makes it easy for workers to establish an atmosphere of mutual support and cooperation of communion. Recognizing that the human person is at the center of the enterprise, managers have a great responsibility to create opportunities for continuous learning and updating to enable the individual to achieve personal and corporate objectives.

Seventh Aspect: Violet. Another aspect emerging from such a management is represented by a convenient internal and external system of communication the firm has to set into action, with all those features that can allow it to properly convey beliefs and performed actions, even of social character: in this sense, the so-called social balance or social report might play an important role.

What the above said underlines how conditions of communion, instruments, and aspect are strictly interrelated. In fact, living aspects of communion without dialogue, trust, and reciprocity can create a simple organizational structure which might overwhelm the person.

The corporate proves to be consistently social oriented with regard to the centrality of human beings and the quality of relationships it develops both inside and outside, with the external environment, as well as the actual reexamination of its operating in the light of this orientation, this guidance. In this way, instruments of communion are useful to renew this option and make it continuously effective. In fact, it must be kept in mind that communion is not achieved once and for all, but it is necessary to renew it, improve it, and, if the case, rebuild it afresh.

3.5 Corporate Social Orientation and a Multidimensional Success

An increasing number of firms try to find their own legitimacy through attitudes aiming not only at making profits, so offering their particular contribution to the economic development, but also at an active presence in the society. In fact these firms are aware of the important contribution they can offer, through several initiatives, to social development, too.

In this way, corporate mission widens into the society, so that entrepreneurs and managers can find a wider sense to their work that is not the exclusive fulfilling of enterprise's legitimate and dutiful economic purpose. Nowadays even more appears that the crucial element on which to focus the attention if the firm wants to achieve a lasting success is the person and the modality of relationship adopted inside the firm

and with the outside.[71] So, it cannot be disregarded that the adoption of an integrated social orientation can constitute a convenience for the firm, both from an internal and external point of view. About the external one, it is important to consider not only the product/service itself the business can offer to the clients and the perspective that the social community has about it, but also the *quality* of relations the business is able to build with the stakeholders. On the other hand, with regard to an internal point of view, it's enough to say that, in the present social–economic context, where the resource *knowledge* is the main aspect upon which building the competitive advantage, firms have to use all the possible strategies to employ and maintain the best human resources.

Most of the difficulties that today managers have to face in the managing of the firm can be synthesized in two aspects, strictly correlated and almost inseparable:

- The incompleteness of contracts: we need to refer to dynamics not exclusively of quantitative character but also, better mainly, of qualitative nature, given that immaterial aspects have been gaining more and more importance in the working practice. More, the intangible, and not exclusively economic, elements enter with full rights also in the range of expectations[72] underlying the actions of workers; also, intrinsic motivations that aim the persons are really important to turn inefficient contracts into efficient ones.[73]
- The management of the diversity and relationship among human beings: the arising of the knowledge society calls for a change in the staff management; the fundamental hypothesis here is that "the employees might also be the biggest of our liabilities, but people are our biggest opportunity."[74]

In order to obtain what was above stated, a deep change is needed, similar to that occurred passing from the market orientation to the marketing orientation. Above all, a change of cultural character must resist the easy temptation to adopt behaviors only partly social oriented, not supported by a consistent underlying social orientation.

Passing from one orientation to the following, it is important to note that some aspects of the previous one persist and must be carefully considered, in that they coexist in some way, they integrate to each other, and, at the same time, they are transcended because considered in a new perspective, obviously a wider perspective.

If once the enterprises were given the only task to create richness, achieving the entrepreneur's interest, today a strong attention to social issues is emerging. In other

[71] See Peters T.,Waterman R. Jr., *In Search of Excellence*, Sperling & Kupfer, New York, 1982.

[72] See Pelligra V., *How to incentive Who? Intra-personal and Inter-personal mechanisms*. Paper presented at the meeting Organizations, today, Cagliari 5–7 giugno 2003; USAI G., *L'efficienza nelle organizzazioni*, Seconda edizione, UTET, Torino, 2001.

[73] See Akerlof G.A., Labor Contracts as Partial Gifts Exchange, in Quarterly Journal of Economics, no. 4, Nov. 1992.

[74] Drucker P.F., *Il management della società prossima ventura*, Etas, Milano, 2003, page 105; see Peters T. and Waterman R. Jr., *In Search of Excellence*, op.cit.

words, the important aim of producing richness is not disregarded, rather it is emphasized, but including it in a wider and more general context, that is, correlating it to the very important social issues of the framework in which enterprises operate and to the broader environment of general reference: so, producing richness not only in mere economic terms but also in social ones.

Thus, it is necessary to implement a management in which relations are informed by dialogue; trust; reciprocity; encouraging positive relations, even the informal ones, in brief, considering human beings as *persons*; and giving this option an operative value through "instruments" of communion and affecting and transforming each business' dimension just considering the *seven* "aspects" of communion. Working according to pillars, instruments, and aspect of communion is possible, favoring the start-up of those skills that are inborn in each person, to be in relation with the others in an authentic, deep, stable, and lasting way, with the awareness that in the relation between people, there is an unavoidable element of the self and the other's realization.

This requires an adequate training for all the human beings operating in the firm, aware that this orientation is not acquired once and for all; it requires—instead—be continuously considering and implementing. In this way *efficiency* and *solidarity*, *economy*, and *sociality* no more appear as antithetical but complementary elements that are starting to give shape to the corporate of the present and will mark, more and more, the corporate of the future.

The corporate, then, pursues a stable and lasting success both from an economic and social point of view, trying to consider in a consistent way the expectations of all its stakeholders and contributing to the building of a society and an economy which can give proper value to persons.

The business, through the implementation of social orientation, as it has been outlined in the previous pages, can resolutely aim to generate, keep, or restore inside and outside of it the "*consensus*," not only in the meaning of a mere legitimation to act, but also as "horizons of shared sense," that is, *direction*, *agreement*, and *meaning* at the same time. Therefore, "*consensus*" that means direction—toward which goals and through which ways is the business' operating direct for—; agreement—with shared goals to achieve and related ways to cover to—; meaning—referring on the ending sense of working and working in communion with others.

This way, the firm answers not only to the ever new and pressing social demands but also to that insuppressible social vocation that springs directly from its own nature.

Chapter 4
Nonprofit and Business Sector Collaboration: Towards a New Strategic Approach

Laura Michelini

Abstract Over the last few years, the advent of Corporate Social Responsibility (CSR) has enhanced corporate social commitment and cooperation between corporations and nonprofit organisations (NPO). The development of partnerships with the nonprofit sector is an important strategic tool that enables corporations both to promote socially active attitudes and to contribute to social well-being, as well as to pursue business aims.

Through the analysis of Italian and international literature, the first part of this chapter highlights three different tendencies of thought with regard to the relationship between CSR and corporate social commitment: *pure profit approach*, *multi-stakeholder approach* and *social orientation approach*.

Secondly the chapter discusses the nonprofit-business alliances (NBAs) and classifies variables for understanding alliances' characteristics through the analysis of Italian and international case histories.

Moreover it illustrates the evolution of different types of partnerships and defines the features of the so-called *integrated* NBAs. The chapter ends with two best practices: Foxy for UNICEF and Ikea for UNICEF. The case histories are examples of *integrated alliance*. This kind of partnership represents a successful strategy enabling the corporation to combine business goals with tangible support to social cause.

4.1 CSR and Corporate Social Commitment: Literature Analysis

Over the last few years, corporations have increasingly chosen to develop social initiatives by making alliances with nonprofit organisations [1].

L. Michelini (✉)
LUMSA University, Rome, Italy
e-mail: l.michelini@lumsa.it

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Since the early 1960s, social commitment has been deeply analysed by a number of studies and surveys in CSR literature.[1] Kotler and Lee [2] consider the CSR as "a commitment to improve community well-being through discretionary business practices and contributions of corporate resources". They use the term corporate social initiatives to describe major efforts under the Corporate Social Responsibility umbrella, and they offer the following definition: "corporate social initiatives are major activities undertaken by a corporation to support social causes and to fulfil commitments to corporate social responsibility" [2, p. 3].

Current debates about CSR and corporate social commitment are characterised by conflicting positions that can be grouped into three categories: *pure profit approach*, *multi-stakeholder approach* and *social orientation approach*.

The researchers in favour to the *pure profit approach* do not accept any social commitment of corporations. Friedman, in his famous work "Capitalism and Freedom" (1962), asserts that economy is only driven by business and that the only social responsibility of business is to increase profit. In Friedman's view, profit is the only aim of business, and the entrepreneurial world is not obliged to meet any social commitment.

Carr[2] has a more radical position [3]. He affirms that the only aim of a firm is to translate a product into profit. Corporation has an impersonal nature as it happens in the poker game, where everyone plays by the rules. Thus bluff and deception are allowed, but those who do not respect the rules will not succeed.[3]

The *multi-stakeholder approach* imposed itself after Freeman's[4] enunciation of the stakeholder theory and developed during the 1990s together with the spread of a number of reflections on corporate responsibility. According to this approach the European Commission [4] stated that CSR means "not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and the relations with stakeholders". Sacconi [5] defines CSR as "a model of extended corporate governance whereby who runs a firm (entrepreneurs, directors, managers) have responsibilities that range from fulfilment of their fiduciary duties towards the owners to fulfilment of analogous fiduciary duties towards all the firm's stakeholders" (p. 6).[5]

[1] This article is a revision of a paper presented at The Sixth International Conference on Catholic Social Thought and Management Education The Good Company: "Catholic Social Thought and Corporate Social Responsibility in Dialogue", Pontifical University of St. Thomas (Angelicum) Rome, Italy—October 5–7, 2006.

[2] One of the early empirical studies of this subject was conducted in 1966 by Johnson [14], aiming at inquiring into the relationship between corporate philanthropy and business size.

[3] Mentioned in [15, p. 603].

[4] Heath and Norman [16] and Sternberg [17] are also in favour of the pure profit orientation.

[5] "A stakeholder is any group or individual who can affect or is affected by the achievement of a corporation's purpose. Stakeholders include employees, customers, suppliers, stockholders, banks, environmentalists, government and other groups who can help or hurt the corporation" [18, p. 55].

Other authors, who claim the *social orientation approach* of the corporation, agree with the multi-stakeholder approach, but they highlight the importance of the corporations to develop social initiatives among CSR's activities.

In 1991 Carroll [6] pointed out the relationship between corporation's aim and corporate philanthropy in a famous essay "The Pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders". In Carroll's view, corporations have four levels of responsibilities: economic, legal, ethical and philanthropic duties. The economic responsibility is based on the assumption that the corporation is an economic entity designed to provide goods and services to social members, and its principal role is to produce goods and services that consumers need and want and to make an acceptable profit. The legal responsibility refers to the corporation's observance of law, whereas the ethical responsibility embraces those activities and practices that are expected or prohibited by societal members even though they are not codified into law. Lastly, the philanthropic responsibility is the corporation's willingness to take responsibility for issues not strictly concerning its own running and takes part in actions and programmes aimed at promoting both social and environmental well-being.

According to Carroll, philanthropic activities have a more discretionary and voluntary nature compared to other responsibilities. Moreover the author highlights that corporate philanthropy is unacceptable unless the corporation meets others responsibilities.[6]

Substantially in agreement with Carroll's position, Sciarelli [7–9] affirms that social responsibility must include commitment in the community. By pursuing this strategy, a corporation is able to become a social character and at the same time to take charge of outright social and economic responsibilities.

Furthermore Sciarelli underlines that the economic responsibility is the base of social responsibility, and he also affirms that the corporation has to pursue the following aims at the same time [9, p. 38]:

- Creating economic value
- Distributing created values
- Solving problems due to corporation activities
- Participating in territorial problems
- Supporting philanthropic initiatives

Molteni [10], using a strategic managerial approach, claims that pursuing social initiatives benefits the corporation. The company should not confine itself to the mere observance of the rules since there are two levels of CSR:

- Level 1: protection of rights (the major tools are ethic certification, code of ethics, annual report, etc.).

[6] For a further analysis see [19].

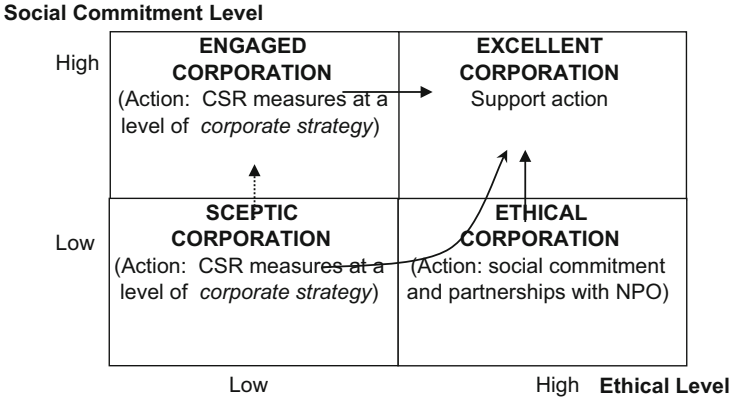

Fig. 4.1 CSR and social commitment level of corporations

– Level 2: "socio-competitive creativity" that is the search of innovative solutions which aim to increase the stakeholders' expectations. This level includes initiatives to support social causes.

The analysis of literature shows different positions on the corporate involvement in social context. It is possible to affirm that social commitment is a discretionary activity and the corporation can choose to do it or not. Moreover, it is possible to classify the corporations according to their level of commitment in society and their ethical level. Ethical level refers to the corporate performance on the CSR which can be evaluated with the tools of the Corporate Social Performance, whereas social commitment can be measured with the quantity of social engagements. There are four types of corporations (see Fig. 4.1):

– The *sceptic corporations* which are notoriously at a low ethical level and demonstrate scarce social commitment.
– The *engaged corporations*, despite being closely involved in solidarity initiatives, usually neglect further aspects of the CSR.
– The *ethical corporations* are at a very high level of social responsibility, but lack of solidarity initiatives.
– The *excellent corporations,* which are at high levels of ethic attitude and social commitment.

This classification highlights two paths that the sceptic corporation can choose to follow to achieve high CSR level. The first, and the most consistent path, requires that the corporation increases its ethical level through the adoption of CSR tools and subsequently to undertake social activities. The second path requires that corporation should commit to social initiatives as well as to other sectors of the CSR.

4.2 Types of Nonprofit-Business Alliances

Over the last few years, there has been an increase in corporations which have developed social initiatives by subscribing partnerships with the nonprofit sector. These kinds of corporations have become increasingly complex and articulated [11].

Therefore most essayists have focused on analysing the reasons why a number of corporations have developed a partnership with the nonprofit sector and their related advantages rather than on examining other aspects in terms of activities, level of social commitment and complexity.

In this chapter more than 200 case histories[7,8] have been analysed, and they refer to partnerships made by Italian and international corporations. Over the last few years, nonprofit-business alliances (NBAs) have become extremely complex and diversified to the extent that the currently available classification models are becoming insufficient to understand and analyse this issue.[9]

To achieve a complete picture of NBAs phenomenon, we need to make a taxonomy of partnership types. This taxonomy must be provided with a classification of major types of partnerships between corporations and nonprofit organisations based on three macro-variables:

- *Purpose of the agreement*
- *Complexity of the alliance*
- *Social commitment of the corporation*

4.2.1 Purpose of the Agreement

Partnership initiatives classified on the *agreement's purpose* are the following:

- Corporate philanthropy and corporate donation in kind
- Social sponsorship
- Cause-related marketing

[7] Carroll: "Philanthropy is icing on the cake—or on the pyramid, using our metaphor" [6, p. 42].

[8] The analysis regards Italian and international partnerships carried out between 2002 and 2006 and collected in the following websites: http://www.rsinews.it, http://www.sodalitas.it, http://www.clubsocialis.it, http://www.orsadata.it (for Italian partnerships) and UNDP and the Private Sector, UNDP (2004), http://www.wbcsd.ch and http://www.unglobalcompact.org (for international partnerships).

[9] Rondinelli and London [20] suggested a taxonomy based on the intensity of the relationship, whereas Elkington and Fennel [21] identified a range of possible relationships between corporations and nonprofit organisations based on activities and on the level of corporate involvement. Austin's [22] classification focuses on how intense the cooperation is, measured against the cross-sector cooperation continuum, and includes three types of relationships: philanthropic stage, transactional stage and integrative stage.

- Licensing
- Joint promotion or joint fundraising
- Fidelity programme
- Payroll giving programme
- Voluntary programme
- Advocacy programme (information service and activities aimed to awaken the public opinion to certain initiatives)
- Training programme
- Product innovation
- Improvement and innovation of manufacturing processes

Corporate philanthropy is a pure donation from a corporation usually in favour of a nonprofit organisation without any business aim. In the past, several corporations—particularly in the USA—contributed significantly to the well-being of their community, supporting and financing projects of nonprofit organisations without entrepreneurial aims. Today a donation is a part of a wider business strategy, and the aim of the corporation is to balance "altruistic giving with strategic donation" [12, p. 5]. Corporate Philanthropy also includes the *donation in kind* or donation of goods.

A number of corporations with a high level of Corporate Social Responsibility have established a corporate foundation which deals with activities in support of social or environmental causes in line with the values and the mission of the firm. Corporate foundations are widespread in the States and recently are arising in Italy as well.

A further form of partnership is the *social sponsorship* that is the support of a nonprofit organisation in terms of financial, organisational and managerial resources. For instance, Avon Cosmetics supports the nonprofit organisation "Lega Italiana contro il Cancro" sponsoring the fundraising initiative "AVON Running", which is a marathon race for women only.

On the contrary in *cause-related marketing* (CRM) programmes, donation is dependent on product purchase. Varadarajan and Menon [13] define CRM as the process of formulating and implementing marketing activities that are characterised by an offer from the firm to contribute a specified amount to a designed cause when customers engage in revenue-providing exchanges that satisfy organisational and individual objectives.[10]

In *licensing* initiatives the nonprofit organisation allows the exploitation of its trademark against an agreed money consideration. In this case the donation does not depend on the sale volume as it happens in CRM initiatives. A previous agreement between the parties is usually required for the definition of the contribution and the subsequent exploitation of logos (e.g. on the product packaging, in advertising campaigns).

[10] For further analysis on cause-related marketing, see [11].

The *joint promotion* is very similar to sponsoring: the initiative regards the exploitation of a product as a means to convey a message or to advert the cause supported by a nonprofit organisation, including publishers' offers to enclose informative booklets in magazines and newspapers. This partnership requires no direct financial contribution but rather concerns the opportunity to convey a message of a fundraising initiative or to awake public opinion to certain social themes. The corporation may choose exclusively to spread the message or even to share production costs of required material (brochure publishing, advertising, etc.).

In *joint fundraising* initiatives the corporation supports the nonprofit cause acting as a contact between its own customers and the nonprofit organisation. The foregoing activity involves particularly service corporations: for instance some banks display fundraising brochures at their desks. An example is "Change for Good" project developed by UNICEF in partnership with airline companies (as Alitalia, British Airways…). Airline companies' customers can donate their unwanted foreign coins and notes at any time during a flight, using collection envelopes which can be found in their seatback pockets, in headset packs or on request from cabin crew. In this case airline companies participate in the fundraising initiatives and in the operational running of the campaign.

Another typology of NBAs can be based on *fidelity programme*. The company can allow customers to donate collected credits (i.e. Alitalia Miles) to a nonprofit organisation rather than requesting the products available on the catalogue.

In *payroll giving programmes*, the corporation is responsible for the collection of the donations of those employees who choose to give the organisation a donation or deducting it from the payslips. The corporation can support the project and show willingness to share tasks not only by collecting the staff donations but also by doubling the amount of the donation (*gift matching*).

Another activity to involve personnel staff is *volunteer programme* or time per charity. The company demands its staff to dedicate job hours in voluntary work. Moreover these hours are paid by the company. For example, Novartis has supported initiatives of this type and every year holds the Community Partnership Day (C-Day) that is the day of solidarity, where the staff is called on to carry out voluntary work in local associations. The aim of the C-Day is also to give all Novartis cooperators the opportunity to meet local associations and to narrow the bridge to the social and regional context where they operate.

Another initiative is the advocacy programme that has the aim of informing public opinion to social and environmental subjects (*advocacy programme*). For example, in 2002 ST Microelectronics joined the coordination programme of Mobility Managers of Vimercate with the aim to reduce the number of the personnel who commute by car to work.

As regards *training programmes* there are developed for employees in cooperation with nonprofit organisations. The "Go, Give and Grow" programme was developed by P&G in cooperation with the World Health Organization to draw the attention of future managers on social themes as well as to involve recent university graduates in humanitarian projects. Procter and Gamble, after hiring the selected young graduates, assigns them to projects of the World Health

Organization in developing countries. European men and women have joined initiatives in Africa and Asia in cooperation with the WHO developing projects to support vaccination for Ethiopian children and building local information centres for the prevention of malaria.

As regards *developing new products*, an example of partnerships is the fruitful cooperation between DKK Scharfenstein and Greenpeace to design a more sustainable fridge. In 1992 the obsolete industry "DKK Scharfenstein" in the former German Democratic Republic developed with technical aid of Greenpeace a house fridge with single temperature without CFC, HCFC and HFC.

A few months later, the major German industries of house appliances including Bosch, Miele, Liebherr and Siemens followed suit. The energetic efficiency of the butane–propane mix, at first lower than that of marketed fridges (DKK was not technologically advanced), is as high as in usual fridges with CFC or HFC[11]. In this connection a further example is provided by Procter and Gamble which has boosted Millstone products with the name "Rainforest Reserve Caffè", guaranteed by the Rainforest Alliance. The latter fosters farmers to preserve rain forests.

In regard to *process innovation*, an example is shown by Acqua Lete that has subscribed an agreement with Enel aimed to supplying the Acqua Lete industry exclusively with power from renewable sources. This enables Acqua Lete to market products bearing the mark "100 % green energy with Enel". Another example is the Marine Stewardship Council project which was started in 1996 by WWF and Unilever for the protection of marine areas and the preservation of seas full of fish.[12]

4.2.2 Nonprofit-Business Alliances Complexity

The above-mentioned types of alliances (see Sect. 4.2.1) can be more or less complex depending on the following variables:

- Geographic area
- Involvement of the corporation and the NPO
- Partnership duration
- Level of interaction
- Participation in project's implementation
- Visibility

[11] Source: http://www.greenpeace.it

[12] The role of MSC is to identify through a certification programme well-run fisheries and to promote the consumption of MSC marked products.

4.2.2.1 Geographic Area

There are two types of cooperation in reference to the geographic area where partnerships are developed and managed: partnerships carried out directly in developing countries and partnerships implemented in developed countries (OECD countries).

The first type is related to partnerships developed by corporations located or operative in developing countries. An excellent example is provided by the AMISCONDE project (Amistad Conservation and Development Initiative) developed by McDonald's together with Conservation International (CI). In the early 1990s fast-food industries including McDonald's were harshly criticised for using lands which were obtained through the deforestation of tropical forests.

McDonald's reacted in a proactive way by developing a model for an economic development of tropical areas along with the involvement of a nonprofit organisation.

The second type of partnership refers to cooperation initiatives developed by national or multinational corporations and managed in OECD states.

Moreover the complexity of the partnership depends on how many countries are involved in the project.

4.2.2.2 Involvement of the Corporation and the NPO

Another important variable is represented by the management level involvement in the project both by the corporation and by the nonprofit organisation.

A classification of sub-variables due to determine the involvement level can be describe as follows:

- Number of businesses/management units (of the corporation and of the NPO) involved in the project and members of the staff participating in the management of the partnership.
- Risk level: a partnership initiative may have negative effects on the reputation of both corporation and NPO. The higher is the level of involvement, the higher is the risk.
- Number of collateral initiatives: a partnership can be formed by one or more initiatives. For example, a corporation can decide to accomplish a CRM initiative, and at the same time it can carry out an advocacy programme or a payroll giving programme.

There are three different levels of involvement: low level, characterised by occasional initiatives which are not flanked by a subsequent close relationship between the corporation and the NPO; medium level, when the corporation is involved in the process and establishes connections with the NPO; and high level, when the corporation is involved in a long-term strategic partnership and establishes strong connections with the NPO.

4.2.2.3 Partnership Duration

A cooperation initiative between a corporation and a nonprofit organisation can be carried out for short, medium or long term, and it depends on the aims of the alliance.

4.2.2.4 Level of Interaction

The level of interaction determines three types of cooperation: the first type is characterised by low interaction, particularly by occasional and general informal communication; the second type stands out for a medium level of interaction where frequent communication between the parties is flanked by formal interaction; and the third and last type refers to alliances characterised by a high or very formal level of interaction with frequent approvals, reports, etc.

4.2.2.5 Participation in Project's Implementation

Participation in the project may be classified in three levels: low participation when the cooperation supports social cause, but it does not get involved in fulfilling the project. Examples are philanthropic donations and sponsor activities; medium participation when the cooperation partially participates in the project's implementation. An example is Project Dash—"Missione Bontà"—which along with ABIO and AIL participates actively in the construction of penny arcades in Italian hospitals; and high participation where the cooperation participates in the fulfilment of the project in collaboration with the NPO. An example is Project AMISCONDE (described earlier).

4.2.2.6 Visibility

The partnership initiative has three levels of visibility: low level, when the communication remains within the corporation, unless the partnership is advised only by corporate and institutional tools (for instance annual reports); medium level, when the corporation and the NPO plan together communication activities, for example, a press conference; and high level, when the partnership is notified on the products or with advertisement campaigns, for example, in CRM activities.

Figure 4.2 represents the NBAs' complexity grid. The lower part of the table contains various configurations of a partnership. The grid highlights some aspects:

- Partnerships on the right side are characterised by higher complexity.
- The same type of partnership may have different configurations depending on specific features of the alliance. The different complexity level between the two CRM initiatives (developed by P&G and Universal Pictures) is evident.

NON PROFIT – BUSINESS ALLIANCES COMPLEXITY GRID				
Low	Level of complexity			High
OECD (one country involved)	☐	☐	☐	PVS or more than one country involved
Level of corporate involvement: low	☐	☐	☐	Level of corporate involvement: high
Level of NPO involvement: low	☐	☐	☐	Level of NPO involvement: high
Duration of the partnership: short-term	☐	☐	☐	Duration of the partnership: long-term
Interaction level: low	☐	☐	☐	Interaction level: high
Level of participation in the project: low	☐	☐	☐	Level of participation in the project: high
Partnership visibility: low	☐	☐	☐	Partnership visibility: high

Examples of NBAs:
——— Philanthropic donation (e.g. Foundation of the Monte dei Paschi di Siena Bank)[13]
– – – – Cause-related marketing initiative (e.g. Dash Missione Bontà)[14]
····· Cause-related marketing initiative (e.g. Balto for UNICEF)[15]
▬▬▬ Product innovation (e.g. PUR, Procter & Gamble)[16]

[13] For years the Monte dei Paschi di Siena Bank and its foundation have supported UNICEF through philanthropic donations related to projects in developing countries including a number of collateral activities aimed at awakening the opinion of the bank staff and customers to social themes. Moreover representatives of the bank and of the foundation have continuously checked the progress of work in the financed projects.

[14] In 1987 Dash was the first trademark in Italy which proposed the Italian people a social cause. Since 1999 it has been supporting the ABIO and AIL associations through CRM initiatives and other activities.

[15] In 2004 Universal Pictures Italia supported the UNICEF "vaccination" project with a 6-month campaign of CRM for the launching of the animated cartoon "Balto".

[16] Procter and Gamble, in cooperation with a number of universities and NGOs, has developed "PuR", an innovative water purification system to tackle the water problem in the world.

Fig. 4.2 Non profit - Business Alliances Complexity Grid

– Partnerships with high complexity level are more advantageous for the NPO, particularly when it is a long-term alliance and when collateral activities are developed within the partnership (e.g. events or advocacy programmes).

In the end several essayists assert that the complexity level of a partnership is mostly determined by the purpose of the agreement.[17]

However, partnerships have remarkably evolved over time, and in certain cases NBA types with low involvement may have a high degree of complexity and be characterised by a strong corporate commitment. Indeed, there are initiatives of corporate philanthropy which are more complex than partnerships developed for cause-related marketing.

4.2.3 Corporate Social Commitment Level

Corporate social commitment level is another variable to classify nonprofit-business alliances. The social commitment level is the value of the donation given by the corporation to the nonprofit organisation in support of a social cause or for the development of cooperation initiatives. The social commitment is the major proof of the corporate willingness to pursue both profit and social aims. The amount of a donation is mostly agreed by the corporation and the nonprofit organisation on the basis of two yardsticks: the partnership complexity, particularly in terms of organisational efforts by the NPO, and the visibility provided by the initiative both in economic terms and in terms of visibility or corporate image.

4.2.4 Towards the Best Alliance

Partnerships between corporations and nonprofit organisations are characterised by a number of features and different degrees of complexity. As we described before, it is possible to classify alliance on the three considered variables: the partnership purpose, the complexity and the social commitment of the corporation.

First of all it is possible to create NBAs' matrix based on complexity and social commitment. Thus there are four types of partnerships (see Fig. 4.3):

– *Basic alliance*: partnerships characterised by a low level of social commitment and complexity which are developed only once or occasionally and last for a short time. Basic alliance is not part of a strategic plan, but can be encouraged by the outside, occasion or specific events, rather than a real schedule. Partnerships of this kind include, for example, single donations, occasional sponsorship of a certain event and also short-term initiatives of cause-related marketing.

[17] In this connection Wymer and Samu [23] sustain that commitment (in terms of business resources and managerial involvement) is lower or higher in each type of partnership depending on the purpose of the agreement, and they classify partnerships as follows: corporate philanthropy, corporate foundation, licensing agreements, sponsorships, transaction-based promotions, joint issue promotion and joint ventures.

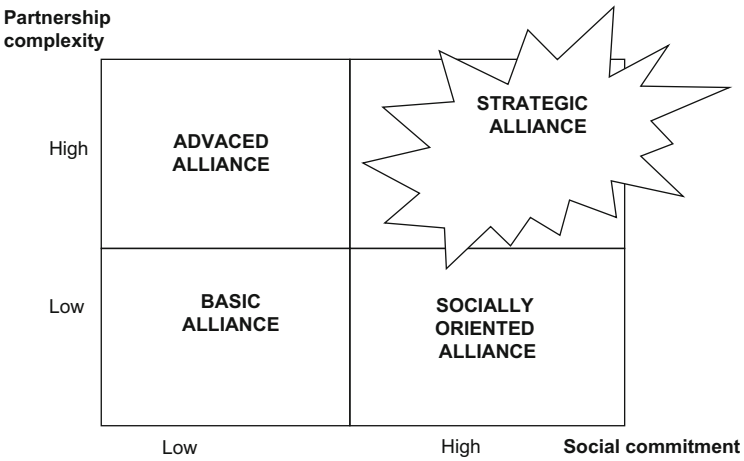

Fig. 4.3 NBAs' Matrix based on the complexity and social commitment of the partnership

- *Advanced alliance*: partnerships characterised by a low level of social commitment and by high degree of complexity. In this type of partnership, the corporation develops a long-term strategic alliance with a minimum budget. Therefore in this case the corporation takes advantage of the internal resources, contributing to the social cause. It is important that the partners share the purposes.
- *Socially oriented alliance*: characterised by a high level of social commitment and by a low level of complexity. We can refer to it as a donation, and it does not require a high level of involvement in the process management.
- *Strategic alliance*: this is considered one of the best alliances, characterised by a high social level of involvement. Strategic alliance allows to combine business purposes with social causes. It is a long-term strategic partnership distinguished by a strong interaction among different partnership typologies. Many corporate units are involved in managing the partnerships. This kind of alliance represents a model in which all the corporation should refer to in order to increase their social commitment level.

The above-mentioned matrix of NBAs allows the identification of four different stages for each type of partnership depending on commitment and complexity, which are *basic*, *advanced*, *socially oriented* and *strategic*. The analysis of case histories clearly proves that partnerships may change over time and evolve in accordance with the two variables considered. For instance a sponsoring initiative may start as a *basic sponsorship* when both the social commitment and complexity are at a low level. Over time these variables are subject to changes, and a partnership may become an *advanced sponsorship* (with higher complexity), a *socially oriented sponsorship* (with enhanced social commitment) or even a *strategic sponsorship* (see Fig. 4.4).

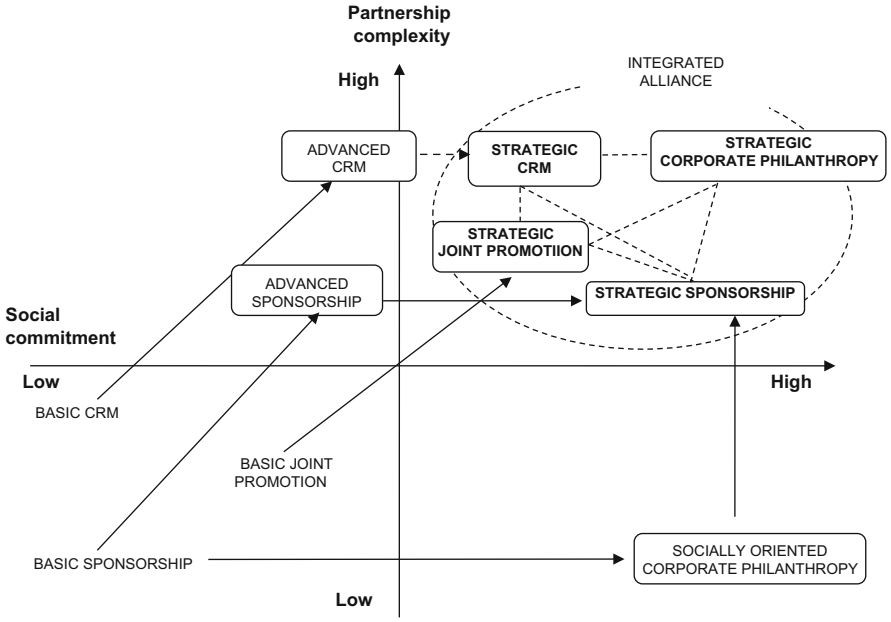

Fig. 4.4 NBAs' evolution paths

A further aspect concerning strategic alliances between corporations and nonprofit organisations needs to be mentioned, namely, the fact that in most cases partnerships are focused on a number of different activities. The corporation may support an NPO through several consistent and synergic initiatives better to foster both the nonprofit organisation and the social cause, as happens to *integrated alliances* where the corporation and the NPO develop together various types of partnership. In this regard excellent examples are provided by BNL and P&G. BNL supports Telethon through sponsoring activities, joint promotion and advocacy campaigns; Procter & Gamble supports the "Friendly Hospital Project" through sponsoring initiatives, CRM initiatives and joint promotion. An *integrated alliance* should be the aim of all corporations pursuing CSR policies. Social commitment on Corporate Social Responsibility means making a strong and aware choice suggested not only by profit, marketing and public relations but also by the willingness to contribute in social well-being. Social commitment in single marketing initiatives aimed at profit or at gaining visibility has nothing to do with the CSR, whereas *integrated alliance* benefits in the long run both parties. This is shown in the partnerships UNICEF–Foxy and UNICEF–Ikea.[18]

[18] The information regarding the cases studied was collected during an interview to Annita Di Donato (responsible for corporate partnerships of UNICEF-Italy who personally conducted the aforesaid partnerships) as well as in the following websites: http://www.foxy.it, http://www.ikea.com and http://www.unicef.it.

4.3 Case History: ICT (Foxy) for UNICEF

Industrie Cartarie Tronchetti (ICT) is a family business located in the province of Lucca (Tuscany) which has been operating in the tissue sector (toilet paper, handkerchiefs, napkins, paper cloths, etc.) since 1978. Today the business has 34 members of staff, has 6 plants (in Italy, Spain and Poland) and exports its products to 25 countries. The "Foxy" trademark, registered in 1982, has become more and more popular, and now it is one of the favourites in Italy. Supported by advertising campaigns on national mass media and by several activities besides substantial partners, Foxy has become a top brand, with 95 % of brand awareness and 8 % of the market.

The UNICEF–ICT partnership began in 2000 when the corporation donated to the NPO £130 million in support of a vaccination project. At the same time the business created a special packaging to communicate the initiative.

In 2002, Foxy made a donation to UNICEF's Immunisation Campaign and also became the official sponsor of the UNICEF Pigotta[19] project with a sponsorship of £180 million to finance the project.

Moreover, Foxy enlisted the volunteers by featuring pictures of Pigotta dolls on Foxy products and executing a direct-mail campaign to encourage customers to sew a Pigotta for UNICEF. A free Pigotta doll was offered to the first 1,000 customers who responded to coupon offers. More than 1,000 Pigottas were made by Foxy's consumers, and nearly 14,000 customers returned coupons to receive a Pigotta doll in 2002.

In 2003 cooperation increased: besides the donation, the sponsorship and the mailing campaign for consumers, Foxy carried out an advertising campaign in newspapers and in TV to promote the initiative taking charge of all costs related. The same happened in 2004 and 2005 with a further investment in an online advertising campaign with the development of a co-branded section in the Virgilio website and in a banner campaign.

In 2004 Foxy published "Un mondo più morbido", a 6-monthly magazine addressed to consumers which provided information and updating on "Adotta una Pigotta" and illustrated the destination of the funds raised as well as the UNICEF activities. In 2006 ICT renewed its sponsorship to the above-mentioned initiative through a donation of €120.000 and a contribution of €50.000 to build schools in Africa. In addition ICT is increasing the donation by supporting the project called "Africa, punti e. . .scuola!" with the resources allocated to the yearly fidelity programme buying all products directly on the UNICEF official catalogue. Furthermore Foxy will donate €2 to UNICEF for each programme completed by customers. From 2005 to 2012 Foxy continues to support the project with many initiatives (see Table 4.1).

[19] Pigotta is a handmade fabric doll manufactured by UNICEF volunteers which was sold for 20 euros—a price equivalent to the cost of immunising and administering vitamin A to one child.

Table 4.1 The evolution of UNICEF - FOXY alliance

2000	2001	2002	2003	2004	2005–2006	2007–2012
Donation for Immunisation Campaign	Donation for Girls' Education Campaign	Donation for Immunisation Campaign Official sponsor of "Adotta una Pigotta" project Mailing to the customers	Donation for Immunisation Campaign Official sponsor of "Adotta una Pigotta" project Mailing to the customer Mailing to the customers Advertising campaign	Donation for Immunisation Campaign Official sponsor of "Adotta una Pigotta" project Mailing to the customer Mailing to the customers Advertising campaign Co-branded website Foxy magazine	Donation for Immunisation Campaign Official sponsor of "Adotta una Pigotta" project Mailing to the customer Mailing to the customers Advertising campaign Co-branded website Foxy magazine	Donation for Immunisation Campaign Official sponsor of "Adotta una Pigotta" project Mailing to the customer Mailing to the customers Advertising campaign Co-branded website Foxy magazine Fidelity programme Sponsored Pigotta website Sponsored the publication "Pigotte d'Italia" (2011)

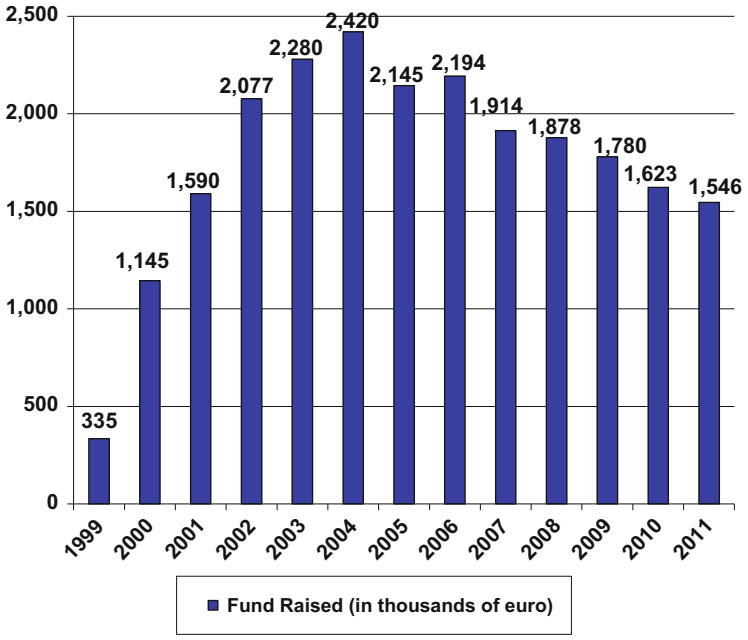

Fig. 4.5 Funds Raised with Pigotta Project (1999–2004)

The ICT contribution to UNICEF has been precious for its support not only to humanitarian projects but also to the initiative called "Adotta un Pigotta". Moreover ICT has contributed to:

- Increase the funds allocated to UNICEF projects, thanks to its philanthropic donations
- Reduce production and managing costs of "Adotta una Pigotta" project, thanks to its sponsorship donation
- Spread the initiative and raise additional funds
- Awaken the public opinion to activities and projects of UNICEF
- Increase the brand awareness of the Pigotta project
- Increase the know-how of both the staff and UNICEF volunteers engaged in the project

In particular from 1999 to 2004, the funds raised increased by about +585 % (thanks also to the partnership with Foxy). Over the next years (from 2005 to 2011), the adoptions of Pigotta are decreased due to the life cycle of the product (about −32 %) (Fig. 4.5).

4.3.1 Annual Report

Foxy has drawn from this partnership the following benefits:

- Increased sales and market shares
- Improved brand image
- Enhanced brand loyalty
- Increased motivation behind the work of salespeople and manufacturing staff

From the analysis of the UNICEF–Foxy partnership, it follows that cooperation has been characterised by a permanent evolution in terms of both complexity and economic commitment by the corporation. The partnership, firstly developed by Foxy as an initiative of corporate philanthropy (in support of UNICEF projects) and then enriched with a sponsorship initiative, has been fruitful not only for "Adotta una Pigotta" project but also for the Foxy brand. The main feature of the partnership is the lack of connection between the amount of the donation and the turnover of income sales of ICT. Over the years further initiatives have turned the partnership into an *integrated alliance*, a long-term strategic partnership made up of different initiatives involving the nonprofit organisation.

In this regard the point of strength of the partnership lies in the commitment of ICT to foster the initiative by allocating as many funds as possible in the attempt to promote "Adotta una Pigotta" conscious of the fact that the success of the project would have been a success for the Foxy brand too.

Therefore Foxy has offered UNICEF the opportunity to exploit its own communication channel including packaging, the website and the magazine, but also the advertising campaigns in the TV and in newspapers. All these activities have benefited both partners. The partnership in question has also been successful because of the common shared objectives pursued, mutual respect and common ground managing the initiative.

4.4 Case History: Ikea for UNICEF

Ikea, a Swedish group distributing house and office furniture, was born in 1943. Today the Ikea group has 90,000 cooperators and operates in 44 countries. In the financial year 2004, from the 1st of September 2004 to the 31st of August 2005, its profit was 14.8 billion euros (in Italy was 714 million euros). Since its birth the Ikea group has been pursuing environmental and social policies and today is one of the most socially engaged corporations in the world. All suppliers are strictly controlled. The rules include a responsible attitude towards the environment and the prohibition to exploit child labour. Moreover the group is engaged in countless projects of social solidarity.

In 2000 Ikea and UNICEF started a project to promote children's basic rights in 500 Indian villages in Uttar Pradesh aiming to prevent and eliminate child labour. The goal was to raise the awareness of Indian rural communities engaging them in strategies aimed to prevent child labour and to help children reach the standards required by the official education system through the building of Alternative Learning Centres and the promotion of enrolment campaigns. Ikea's commitment was proven visiting India in March 2006 to supervise the working progress. Thanks to Ikea, the UNICEF created informal learning centres in the villages where products are manufactured to help children learn reading and writing and to reintegrate them into school. Indian children work in markets and fields and above all at home, where they are exploited to manufacture carpets and decorate material. In this regard Ikea in cooperation with the International Labour Organization developed the Charter of Human Rights, a clear, strict and verifiable code of conduct. Local trading offices select and check suppliers, who are responsible for sub-suppliers. The latter are inspected by independent bodies without notice also at night. Suppliers have clear duties. If children are found at work, they are responsible for them and have to prove to UNICEF and Ikea for the following 4 years that children do not work and go to school. In the same geographical area, Ikea in cooperation with UNICEF and the World Health Organization started a 5-year vaccination programme.

In addition to this project, in 2003 and 2004 Ikea developed an international initiative aimed in supporting UNICEF projects regarding the right to play in order to help children injured in armed conflicts in Angola and Uganda. Every Ikea Brum puppet sold was worth a donation of €2 to UNICEF, which collected more than 2 million euros. Furthermore in 2003 Ikea-Italy launched a drawing competition for children in its outlets: the three winning drawings were published on the UNICEF-Ikea Christmas card. In 2006 Ikea is supporting UNICEF through initiatives in three periods of the year (March-April, August-September and November-December). In the first period (from the 4th to the 12th of March) UNICEF volunteers displayed in the Ikea stores of the main Italian cities UNICEF fancy *bonbonnière* and provided customers with information on UNICEF programmes. The objective of the first stage was to guarantee children's right to health and to carry out vaccination campaigns in the Democratic Republic of Congo. Also in the following periods, Ikea stores sell UNICEF products including the animated cartoon on DVD called "L'isola degli smemorati". In the last two stages of the partnership, Ikea will allocate €1 to UNICEF for every kids' menu sold in its restaurants and in the period between November and December as well as for every soft toy sold.

The Ikea group is an excellent example in terms of CSR and social commitment. The benefits drawn from this partnership with UNICEF are countless. What is clear is that Ikea's success derives also from its high degree of social and environmental responsibility (Fig. 4.6).

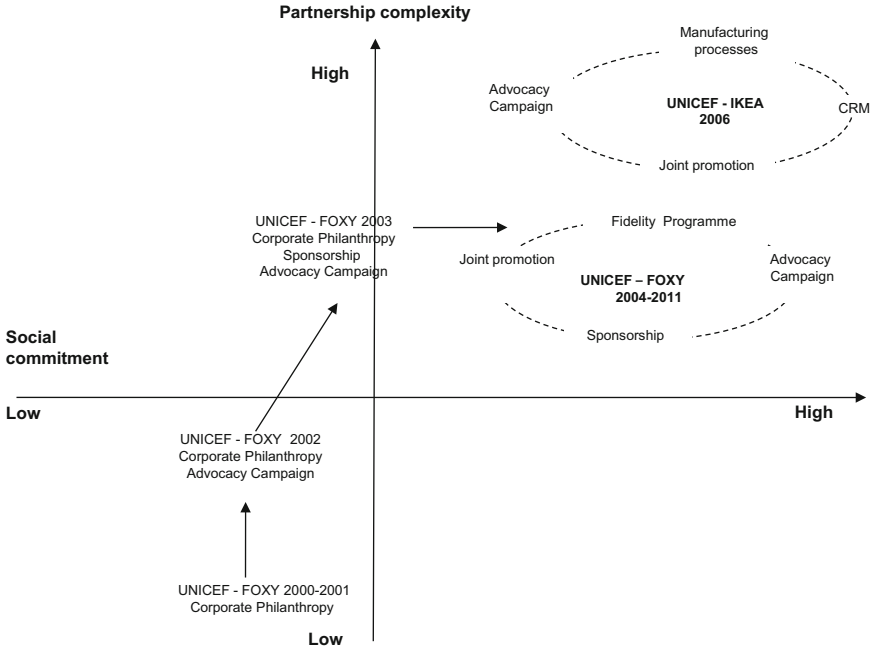

Fig. 4.6 UNICEF-FOXY and UNICEF-IKEA alliances

4.5 Conclusion and Future Research

The analysis of both Italian and international literature as well as case histories related to partnerships between corporations and nonprofit organisations has highlighted that, thanks to the spread of the CSR, corporations are increasingly socially committed. In this regard essayists maintain that the social commitment of corporations must be concomitant with a wider commitment in all fields of the CSR. At the same time the corporation supporting a social cause must be able to reconcile business with social aims. It follows that partnerships between corporations and nonprofit organisations become more and more complex and articulated to the extent that new models of analysis are required for these new types of cooperation. The NBAs' taxonomy, although it is still incomplete, is a useful model for the development of empirical researches aimed at analysing the degree of complexity and possible evolutionary processes of a partnership. The case histories quoted above are examples of NBAs and are the evidence that supporting a nonprofit organisation and a social cause to the full is a successful strategy enabling the corporation to combine business with a tangible support to humanitarian projects.

However several aspects require a further in-depth study, and the aforesaid model needs to be validated through an empirical research which allows a quantitative analysis of NBAs. Moreover future research should focus on evaluation modelling to estimate the NBAs returns.

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Part II
Clarifying the Common Good

Chapter 5
The Common Good and Social-Competitive Creativity

Mario Molteni

Abstract What does it mean for the top management of a corporation pursuing common good by doing business activities? This communication intends to give a contribution in answering to this question from a perspective typical of management studies. Given a competitive strategy, the first step towards CG is the activation of a dialogue mechanism with various groups of actors in order to identify principal areas of need. A clear and decisive understanding of social issues is indeed a condition to shape a more valid strategy. Before trying to respond to these social issues, the corporate executive must screen them using two criteria: *ethical* and *historical*. Once legitimate social needs have been identified for the corporate strategy, there is the problem of how to integrate them into this strategy. This communication proposes a pyramid that identifies five efficiency levels in answering social needs.

Conclusions remark that when for the top management of a corporation pursuing common good principally means searching innovative solutions to satisfy more effectively the expectations of one or more groups of stakeholders. It tends to make these solutions factors in developing the competitiveness of a company. Thus, it becomes synonymous with business creativity aimed also at satisfying everyone's expectations.

5.1 Identification and Evaluation of Social Expectations

The model presented shows a logical process by which the top management of a corporation can make CG a distinctive part of corporate strategy (Fig. 5.1).

Given a competitive strategy (the variable on the left of Fig. 5.1), the first step towards CG is the activation of a dialogue mechanism with various groups of actors in order to identify principal areas of need. A clear and decisive understanding of

M. Molteni (✉)
Catholic University of Sacred Heart, Milan, Italy
e-mail: mario.molteni@unicatt.it

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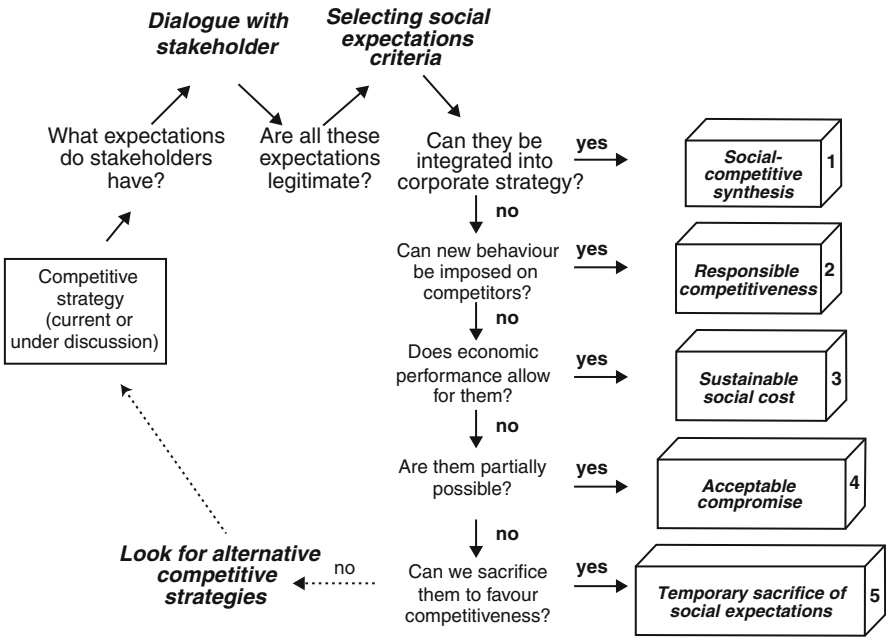

Fig. 5.1

social issues is indeed a condition to shape a more valid strategy for stakeholders, to pre-empt conflict and to help create cohesion around the corporate project.[1] The aspirations and interests of stakeholders may be more or less clear and can be changed into explicit requests to the company. In certain cases they take the form of demands, of organised protests or of well-orchestrated press campaigns. In other cases, pressure groups find it hard to express their expectations due to a lack of influence and means. In yet other cases, interests may be latent, given that they have not been fully understood.

Before trying to respond to these social issues, the corporate executive must screen them using two criteria that we can call *ethical* and *historical*. First, not all demands that a company considers are necessarily legitimate under an ethical perspective. For example, the economic demands of organised crime, even if widespread in certain contexts, are not legitimate expectations. Other areas are even more controversial, e.g. extending equal opportunities (pensions, health assistance, etc.) so as to recognise equal status of heterosexual and homosexual families. As is shown by the lively debate on this theme, if, on the one hand, recognising rights that are not yet recognised in law may be considered an element of civil progress, on the other hand, it can also be a destabilising factor in society.

[1] See [3] and [4].

Second, we need to make a historical judgment. Offering certain services (such as schools) to employees, which may in some circumstances be an excellent show of social responsibility, may seem, in other cases, to be meddling in things that have nothing to do with the company.

5.2 The Social-Competitive Innovation Pyramid

Once legitimate social needs have been identified for the corporate strategy, there is the problem of how to integrate them into this strategy. Here we have proposed a pyramid that identifies five efficiency levels in answering social needs (see the right-hand part of Fig. 5.1). The highest level (known as social-competitive synthesis) shows the best response. When this is not practical, we need to go down a level and so on until we reach the fifth level. If this is not possible, we need to question the competitive strategy that the corporation intends to adopt.

5.2.1 Level 1: Social-Competitive Synthesis

In order to satisfy legitimate social expectations, we need to answer this question: can we satisfy social expectations by integrating them into corporate strategy, i.e. making them a means to corporate development? By searching for an answer to this question, we have already started on the path towards *social-competitive synthesis*.[2] This is an innovative means of replying to expectations from one or more groups of stakeholders going beyond legal obligations, giving life to a solution that contributes to maintaining competitiveness and long-term success (Fig. 5.2). This strategy can affect the whole of the corporation, one of its specific strategies, one specific function or a single process.

Let us look at the individual elements of this definition. Above all, the answer given to pressure groups is innovative, i.e. it is typical of entrepreneurial creativity. Secondly, such a response can be considered socially relevant in a very concrete fashion, given that it refers to a specific spatial and temporal point. This is because it is a programme that responds specifically to pressure groups' expectations compared to normal business practice. Thirdly, the social-competitive synthesis involves the company both comprehensively and in its individual parts. Regarding the whole this synthesis colours strategic and organisational policies. Regarding individual activities it can influence commercial, process or political decisions. Fourthly, it is essential that this social entrepreneurial creativity does not sacrifice

[2] See [5].

Fig. 5.2

shareholders' expectations but rather is part of it. To understand social-competitive synthesis, we need to place an idea or a project under two screening issues:

- Does this idea answer the real or latent aspirations of the various stakeholders more efficiently than the existing CR solutions?
- Can this response consolidate/increase the company's competitiveness? What links the social project to the competitive and economic performance of the company?

Only an affirmative answer to both issues would indicate an example of social-competitive innovation. A positive response to the social-responsibility question without its insertion into the development of the company would be an act of charity that while seeming positive to its beneficiaries could not be deemed *paradigmatic* for an enlightened management. Indeed this type of action is often criticised by those who would prefer to see resources used to generate wealth for shareholders. Social-competitive synthesis, however, increases both workers' and other social groups' satisfaction. This contributes to maintaining competitiveness and, as a consequence, economic performance.

Finally, we should consider the effects of feedback—balancing and reinforcing[3]—connected to the social-competitive process. Firstly, there are two balancing processes, given that the competitive advantage generated helps to narrow the gap between desired and actual strategy, as well as satisfying the

[3] For a distinction between 'reinforcing (or positive)' and 'balancing (or negative)' feedback, see [6].

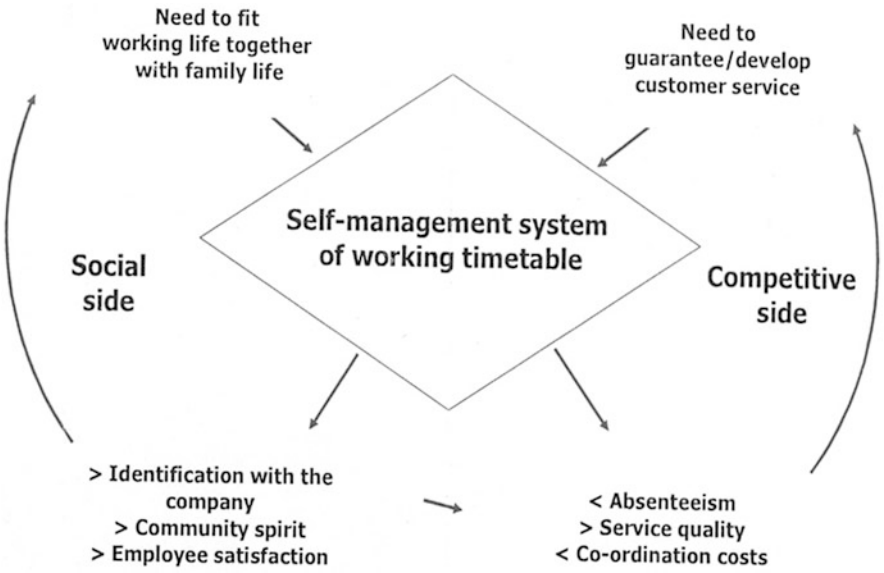

Fig. 5.3

stakeholders and enabling them gradually to fulfil their need. This balancing effect explains why social-competitive synthesis tends to lose its value over time from both the competitive and social points of view, to become a mere working condition of the company.[4]

Thus, there is the need for continual relaunch, working out new projects with their own social-competitive characteristics. Secondly, there are two reinforcing processes as improved economic results make more financial resources available and thus increased faith in the potential of synergy. These both feed the development of the company and increase the will to satisfy the expectation of stakeholders in completely different ways.

Figure 5.3 shows an example of social-competitive synergy in a large retail corporation. The company decided to look at the principal human resource management problem of its point of sales, i.e. the checkout timetable, in a completely different way. This also involved the speed and quality of the checkout service that was one of the key points of quality perceived by customers. A self-management of working hours was started that allowed the workers, mainly women, to integrate their personal and family needs with that of work. For the company there were two basic advantages: the organisation and management of departments became easier,

[4] The differential value of the social-competitive synthesis also tends to decrease due to the copying process that corporate culture tends to generate.

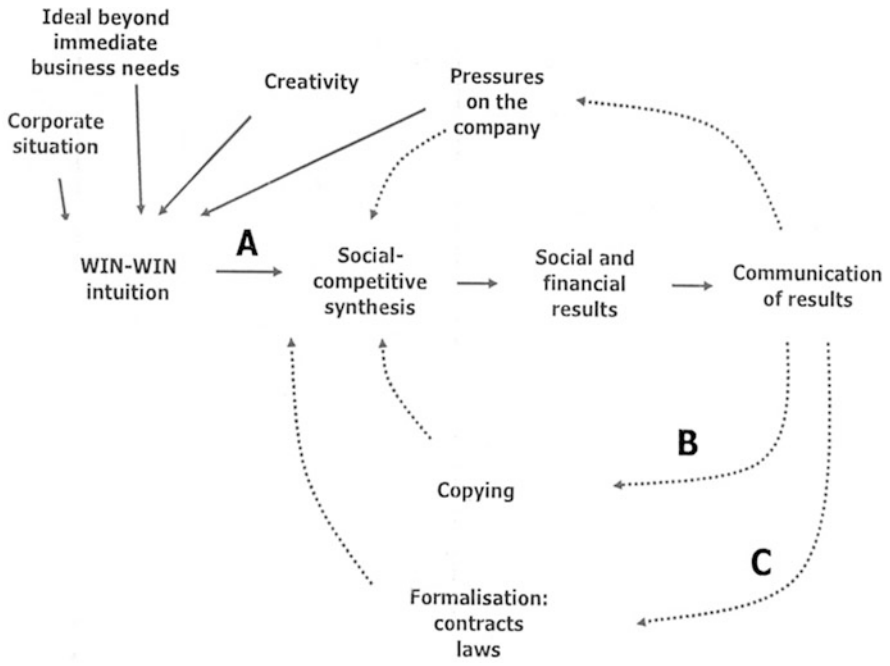

Fig. 5.4

and the satisfaction of the personnel converted into less absenteeism and better customer relations.

Before going on to the next phase of the model, we should answer a typical 'liberal' objection towards socially orientated innovations: the social-competitive synthesis is nothing other than good management intended to maximise profits. If we look at the achieved synthesis, this may seem to be true. However, this is no longer the case if we ask *why* a particular solution emerges in one company and not another, and *why* at one moment rather than another. So, we can see that social-competitive synthesis is not a 'flower in the desert' but has been developed within a corporate context that makes the awareness of all its stakeholders' expectations a primary concern.

To understand this better, let us look at the process by which the social-competitive synthesis is conceived and implemented (Fig. 5.4). Above all, given a certain corporate mentality, not all corporations will want to satisfy their stakeholders' expectations. Indeed, not all companies will even notice the presence, intensity and relevance of their stakeholders' expectations. The ideal that goes beyond the immediate business needs is the only factor that is open to these manifest or latent expectations and that will energise the creativity necessary to bring about a solution. Once the concept of a *win-win* solution for both society and company gains a foothold, then realisation may occur and—if well managed with

an eye to the maximum potential benefits of the idea—it will generate satisfaction for both the social partners and the company's competitiveness (path A in Fig. 5.4).

External communication of these results can multiply the effects due to the copying phenomenon that is frequent among corporations (path B). Finally, it is not unknown for a *win-win* solution, copied by others, to become widespread among all other companies and then to become a typical subject of union negotiation or new laws (path C).

5.2.2 Level 2: Responsible Competitiveness

However, this *win-win* solution, which has the basic advantage of overcoming the dilemma between social usefulness and competitiveness, may simply not be available. This could to varying degrees stem from the difficulty of the situation, from the strength (or weakness) of belief that drives the search for solutions and from the lack of creativity in a project, even given goodwill.

Without social-competitive synthesis, action taken to satisfy the social expectations implying added costs would place the corporation at a disadvantage compared to its fiercest competitors. So the management must ask itself another question: can we change the rules of the game by imposing new modes of behaviour on the whole sector? In other words, how can we promote a 'responsible competitiveness?'[5] Thus, satisfying stakeholders would not mean that a company would lose competitiveness. The executive could then make policies to modify the context [1] (local, sector, national or international) in order to defend its own desired development strategy.[6]

Let's consider an example. The head of a company, sensitive to environmental problems, is inclined to make ecological investments beyond the legal requirement. This operation creates a disadvantageous cost differential compared to competitors that behave irresponsibly. If this differential were unsustainable, the company's choice could be put in the form of a dilemma, i.e. do we benefit the environment or the company performance? A way out could be to start an action in this sector that could involve the company's main competitors and/or category associations that aim at promoting collective self-regulation or a new law that makes the planned investment obligatory for all. These new conditions would reconcile the two objectives that were previously considered a trade-off. Importantly, managers sensitive to social issues tend not to limit their activity to their own corporation but become active in associations, of which the company is a member, as well as in

[5] This concept was developed by Simon Zadek [7].

[6] De George writes: 'Companies with integrity do not harm or exploit or take unfair advantage of others. Rather they help develop adequate background institutions to make competition fair. They have a self-interested reason for doing so, as well as a more altruistic, ethical motivation' [8, pp. 192–193].

the wider social and political scene.[7] They tend to foster relations with influential external partners (public administration, the mass media, opinion leaders, etc.), and they actively participate in debates on 'hot' social and economic themes. They promote or adhere to various forms of self-regulation that involve a higher respect for rights, as well as satisfying stakeholders rather than simply following the law, and they help to form public opinion and lobby for new laws. This involvement, created by the desire to contribute to integral development within their own context, also works for their corporation. Above all, it can mean that whatever the company has done voluntarily becomes obligatory for all other operators in its field. Furthermore, it can increase the consensus of social partners towards the company and its strategic goals [2, Chap. 4].

5.2.3 Level 3: Sustainable Social Cost

Whenever a particular action is seen to be impossible or, at least, incapable of producing results in a given time, a new question needs to be asked: can the economic performance of a company allow the necessary costs to satisfy social expectations? If the answer is yes, we could say we are talking about sustainable social cost. With this term, we want to underline the fact that an activity undertaken in favour of stakeholders may create insufficient expected economic return to justify the investment in itself, but it may be compatible with the general economic-financial performance of a company. Judgement on economic sustainability implies, as well as careful examination of the cost of CR policies, also the evaluation of present and future economic results of a company. It goes without saying that the social cost becomes more sustainable as the general wealth of a company increases.

The concept of sustainable social cost reveals the errors of two reactions toward corporate social responsibility. The typical liberal objection would state: 'it is easy to talk of corporate social responsibility when the company's performance puts abundant resources at its disposal. In these cases, the value of management is not in its social orientation but in its ability to generate and defend a competitive advantage. This confirms the fact that the only problems a company has to face are those of efficiency and competitiveness'. This point of view (the importance of efficiency and competitiveness) is partially true, but does not explain *why* social costs are sustained in certain situations and not in others. One example of this is the Olivetti of the 1950s, managed by Adriano Olivetti. The company was innovative in its relations with its employees, in its industrial set-up and the impulse it gave to culture and art, thanks to the fact that some of its products guaranteed high competitiveness and hence high income margins. It is also true, however, that in

[7] On the importance of active involvement with public bodies also aimed at aiding competitiveness [9–12].

the same period, other entrepreneurs who also enjoyed healthy economic situations used their accumulated resources simply for personal wealth and power. In short, it is part of the very definition of sustainable social cost that it can be undertaken only in times of economic prosperity but also needs participation of the main players before it is actually carried out.

The second point of view is that typical of those with a deeply rooted diffidence towards business that prefer sustainable social cost to social-competitive synthesis, given that the former has no pretensions to a return that may affect its authenticity.

Our position is diametrically opposite: sustainable social cost, although laudable, is less important from a business point of view than the social-competitive synthesis. This is because a hoped for return on investment, rather than creating suspicion as to the motivation of a project, would mean that social respect is not only present but also able to generate functional solutions for the development and survival of the company.

5.2.4 Level 4: Acceptable Compromise

Whenever economic performance does not allow social costs, then the problem arises of how, at least partially, to alleviate these expectations. We must begin to look for a compromise between social objectives and short-term performance objectives that are at least acceptable to everyone involved. This is the classic trade-off, where the problem is a delicate balance of all the parts in question. This usually means a partial sacrifice of some social expectations together with a redefinition of corporate strategy that considers reduced or delayed increase in performance. In synthesis, the art of compromise is needed in economics as well as in politics,[8] and the path to take is where the 'ideal' dovetails with reality.

5.2.5 Level 5: Temporary Sacrifice of Social Expectations

If a reasonable compromise cannot be found, then the temporary sacrifice of social expectations that were originally identified may be necessary. This is not a complete refusal to satisfy social expectations other than those legally necessary. It is

[8] Ratzinger has stated: 'It is of course always difficult to adopt the sober approach that does what is possible and does not cry enthusiastically after the impossible; the voice of reason is not as loud as the cry of unreason. The cry for the large-scale has the whiff of morality; in contrast limiting oneself to what is possible seems to be renouncing the passion of morality and adopting the pragmatism of the faint-hearted. (. . .) It is not the adventurous moralism that wants itself to do God's work that is moral, but the honesty that accepts the standards of man and in them does the work of man. It is not refusal to compromise but compromise that in political things is the true morality' [13, pp. 148–149].

rather a momentary sacrifice until the conditions for future corporate development benefit everyone involved. This is the case when there are redundancies, due to technological changes affecting a particular sector. This is usually accompanied by a plan to rebound that will occur in the future in the hope of benefiting employment.

Whenever social expectations that remain unfulfilled are too important, the company executive should try to re-elaborate its competitive strategies, that is, to find a growth plan in which both competitiveness and social welfare are more easily harmonised. We could think of the case when a company decides to stop operating in a business or a geographical area so as not to find itself in a position to act unethically. Such an action would involve finding alternative paths towards channelling positive energies in a company.

5.3 Final Considerations

The model of social-competitive innovation can be used in two different managerial circumstances. Firstly, as we have already noted, it can be used to evaluate a competitive strategy that is already in force from a social point of view, thus making it more sensitive to social needs (and therefore more solid and sustainable from a market point of view).

Secondly, it can be used for planning. When creating a new strategy, it is very important also to consider social implications of the planned action. One of the difficulties to overcome here is the identification of stakeholders' expectations, given that the social repercussions of a new strategy have not yet been tested. The sensitivity of management can ease the difficulty of creating preliminary dialogue with stakeholders. Indeed, their ability to forecast social and environmental problems may well be enhanced, thanks to listening to external influences and talking with stakeholders. Once relevant social expectations have been identified, the issues we have outlined can have a double role: on the one hand, to understand fully the repercussions of the strategy being considered and, on the other, to stimulate social creativity so as not to give up in the face of dilemmas between economic and social objectives.

To conclude, we remark that when for the top management of a corporation pursuing common good principally means searching innovative solutions to satisfy more effectively the expectations of one or more groups of stakeholders. It tends to make these solutions factors in developing the competitiveness of a company. Thus, it becomes synonymous with business creativity aimed also at satisfying everyone's expectations.[9] The creative factor should be introduced when talking about responsibility, as we must realise that perfection does not exist. In any situation, it is always possible to respect 'more', to appreciate 'more' and to satisfy 'more'. In this

[9] Regarding the importance of creativity in the search for new solutions for reconciling expectations which were trade-offs, see among others Coda [14] and Lozano [15, p. 330].

sense, social-competitive innovation can flourish more in situations where we are aware of its limits. Someone may be positively 'unsatisfied' and so will be aware of new possibilities, will listen and will always look for new solutions.

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Chapter 6
Maximizing the Shareholder Value

Robert Miller

Abstract A persistent tension exists concerning the proper ends of business organizations and thus the purposes that corporate managers ought to pursue in acting on behalf of the company. On the one hand, "[a] business' objective must be met in economic terms and according to economic criteria" (Pontifical Council for Justice and Peace, Compendium of the Social Doctrine of the Church (2004) at §338), which seems to mean that managers should maximize shareholder value. On the other hand, "[b]usiness owners and management must not limit themselves to taking into account only the economic objectives of the company [and] the criteria of economic efficiency. . . . It is also their precise duty to respect concretely the human dignity of those who work within the company" (*Id*. at §344) and, presumably, of those who are customers, vendors, creditors, and persons who live in communities in which the business operates. This seems to mean that managers should sometimes promote the interests of such persons at the expense of shareholders. The question is thus how the ends of maximizing shareholder value and benefiting other corporate constituencies interrelate, i.e., how managers ought to balance the interests of one group against those of others.

In attempting to answer this question, I begin from the working assumption that, in a good company, managers balance properly the maximization of shareholder value and the interests of other corporate constituencies. As I explain below, this assumption is actually more complex than it may seem and involves adopting a virtue-theoretic meta-ethics. I next consider, in light of the moral philosophy of St. Thomas, what precisely it means to say that a company is good, that is, that it is good qua company or a good company. With that analysis in hand, I return to the issue of how maximizing shareholder value ought be balanced against other corporate ends, and I argue that managers may pursue such ends only to the extent that actions undertaken for such ends are ultimately ordered to maximizing shareholder

R. Miller (✉)
University of Iowa College of Law, Iowa City, IA, USA
e-mail: robertthomasmiller@gmail.com

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value. I further argue that, despite its seeming limitation on actions directed to the benefit of other corporate constituencies, this principle in fact allows wide scope for such actions. Finally, I conclude that this view establishes an intelligible relation among the various corporate ends, gives a due primacy to the end of maximizing shareholder value, and still allows managers wide latitude to treat employees and other corporate constituencies generously.

A persistent tension exists concerning the proper ends of business organizations and thus the purposes that corporate managers ought to pursue in acting on behalf of the company. On the one hand, "[a] business' objective must be met in economic terms and according to economic criteria,"[1] which seems to mean that managers should maximize shareholder value. On the other hand, "[b]usiness owners and management must not limit themselves to taking into account only the economic objectives of the company [and] the criteria of economic efficiency. . .. It is also their precise duty to respect concretely the human dignity of those who work within the company"[2] and, presumably, of those who are customers, vendors, creditors, and persons who live in communities in which the business operates. This seems to mean that managers should sometimes promote the interests of such persons at the expense of shareholders. The question is thus how the ends of maximizing shareholder value and benefiting other corporate constituencies interrelate, i.e., how managers ought to balance the interests of one group against those of others.

6.1 Conceptual Presuppositions of the Working Assumption

In a good company, corporate managers appropriately balance the competing goals of maximizing shareholder value and promoting the interests of other corporate constituencies. Innocuous as this assumption may seem, it in fact includes some significant conceptual presuppositions, even some very fundamental ideas in metaethics. In order to make clear the structure of the argument I want to develop about good companies and how they balance various corporate goals, I want to articulate some of these conceptual presuppositions, for especially nowadays, when even in Catholic moral theology we find a diversity of foundational assumptions and a variety of moral concepts, it is particularly easy to lose sight of the very abstract, fundamental premises in an argument; to tacitly and unwittingly substitute others that may be more familiar; and thus to essentially misunderstand the argument being made.

[1] Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church* (2004) at §338.

[2] *Id.* at §344.

6.1.1 Conceptual Presuppositions of the Working Assumption

The most important presupposition implicit in the approach to the good company is the conceptual priority of the good over other moral concepts. That is, implicit in my working assumption is that we can know what it means to say that a company is a good company and so recognize a company as being a good company, *prior to and independent of*, knowing how maximizing shareholder value ought rightly be balanced against other corporate purposes. Knowing what a good company is, we can examine good companies in order to learn how they balance the various corporate goals, and once we discover this, we will have discovered the right way for these goals to be balanced. We do not determine, beforehand, how the goals ought rightly be balanced, inquire whether a particular company so balances them, and, if it does, pronounce the company good on such basis. Rather, we know that a good company balances these goals rightly *because* we know that the company is a good company and however good companies balance these goals is ipso facto the right way. There is thus an *epistemological* priority of the good over the right here.

Similarly, the fact that good companies balance the competing goals in one particular way is why this way is the right way for the goals to be balanced. That is, because good companies balance the goals thusly, such is the right way for them to be balanced. It is not that, on the basis of other normative considerations, the goals ought to be balanced in a particular way, and so, in order to be good, a company has an obligation to balance them thus. On the contrary, there is a *justificatory* priority of the good over the right. In both the order of knowledge and the order of justification, therefore, we begin with good companies and proceed towards the right balancing of the competing corporate goals.

An illustration will make clearer the differences between the presuppositions embodied in my working assumption and the conceptual alternatives. Imagine that, in connection with the development of the Joint Strike Fighter, engineers working for the United States Department of Defense determine that currently available composite materials used in the windshields and canopies of fighter aircraft are not suitable for use in the aircraft under design. Another material is thus needed, one that will allow the aircraft to perform as the engineers intend, successfully resisting certain levels of stress, deflecting or absorbing energies from enemy radars to preserve the aircraft's intended stealth capacities, allowing the pilot unobstructed vision, and so on. To obtain such a material, the Department of Defense decides to solicit proposals from firms involved in producing composite materials of the kind needed, but, for reasons of military secrecy, the department does not want firms supplying the material to know the purpose for which the material will be used. Accordingly, the request for proposals that the department circulates includes very detailed specifications for the material to be supplied, including measures of its opacity to light, density in grams per cubic centimeter, its tensile strength, its reactions with radio waves of various wavelengths, and so on, but the request for proposals does not describe the purpose to which the material will be put.

Now consider how differently two groups of engineers—those working for the Department of Defense, on the one hand, and those working for firms considering making proposals to supply materials in accordance with the specifications, on the other—will evaluate various materials. Engineers at the Department of Defense know for what purpose the material will be used, and they will think that a material is *good* or *bad* depending on how well it fulfills the intended purpose in various respects. Since materials might fulfill the intended purpose to a greater or lesser degree, such engineers will also be able to rank potential materials, at least in some cases, as *better* or *worse*. Knowing what the intended purpose for the material is, these engineers are able to draft the specifications included in the request for proposals, specifying what characteristics the material needs to have in order to fulfill the intended purpose. Engineers at firms considering the request for proposals, however, do know not the purpose for which the material is to be used;[3] all they know is that the material must conform to the elaborate set of specifications the Department of Defense has supplied. For them, any material that conforms to the specifications will be a good one, and all that conform will be equally good.[4] For such engineers, materials will not be evaluated in degrees, as *better* or *worse*; they will be simply either conforming or nonconforming, and in this sense either good or bad. In other words, the engineers who wrote the specifications were able to recognize, before writing the specifications, which materials were good or bad in the context of their project, and on the basis of this knowledge were able to articulate the specifications; but the engineers at the firms supplying the materials will look first to the specifications to determine if a given material conforms to the specifications, and if it does, they will conclude it is a good one on which to base a proposal to the Department of Defense. In short, for the engineers inside the project, the good is primary and understood in relation to the purpose to which the material is to be put, while compliance with the specifications is secondary and defined in terms of the good; but for the engineers outside the project, who know nothing about it except what is contained in the specifications, it is conformance to the specifications that is primary, and the good is defined in terms of such conformance.

The assumption underlying my treatment of the good company is that, with respect to good companies, our position is analogous to that of the engineers inside

[3] In fact, they may be able to puzzle this out in a mode of reasoning that becomes very important in virtue-theoretic systems and to which I return to below.

[4] In practice, specifications like those in the example often include provisions that state that the material must have, e.g., density of *not greater than* a specified number of grams per cubic centimeter. If so, engineers reading the specifications would probably conclude that the lighter a material is, the better it is, everything else being equal. Such complications do not vitiate the main point for which I am using the example. At the very least, we can imagine that the specifications contain statements only of the form that, e.g., the density of the material ought to be within a specified range, for, from the point of view the engineers at the Department of Defense, above such range it is too heavy, increasing the overall weight of the aircraft beyond acceptable limits, and below such range it is too light, introducing changes in density between the external skeleton of the aircraft and the canopy that would create unacceptable structural stresses, etc.

the project, not those outside the project. Philosophers will recognize that what I am assuming is that the right is defined in terms of the good, not the good in terms of the right. I am assuming, in other words, that we recognize good companies first and, by examining them more closely, we see how they balance the various corporate purposes, thus learning how such purposes ought to be balanced. It is not that, on the basis of some other kinds of normative considerations, we can determine how the various corporate goals ought to be balanced and then hold companies to that standard, commending as good the ones that do and deploring as bad the ones that do not.

6.1.2 *Relation to Virtue-Theoretic Moral Conceptual Schemes*

In adopting this working assumption with respect to business organizations, I am implicitly adopting a virtue-theoretic moral conceptual scheme of the kind found in Greek moral philosophy and the Catholic moral tradition. According to Aristotle, the good man is the measure of morality, meaning that Aristotle begins his moral inquiry by investigating human goodness, generally under the rubric of the "virtuous man," and from the results of this inquiry moves on to consider the norms which characterize the good man, i.e., the catalogue of the virtues.[5] The alternative approach, perhaps best typified by Kant, proceeds in the opposite direction. It begins with the norms—usually understood to be rules—that a person ought to obey, gives some justification for such rules, and then characterizes a person as good or bad, from a moral point of view, depending on the extent to which the person in fact obeys the norms or rules. For Kant, for example, morality is about acting in accordance with maxims identified and justified by his categorical imperative, that is, justified on the basis of what a rational person can consistently will; a person then has a "good will" precisely because, and precisely insofar as, that will is informed by such maxims, that is, wills in accordance with them.[6]

The difference between the virtue-theoretic and Kantian approaches may be brought out clearly by reverting to the example of the specifications for the composite material to be used in building the Joint Strike Fighter. Just as, for the engineers inside the project, the purpose to which the material is to be put is conceptually primary and gives content to the statements that some materials are good and others bad, the characteristics demanded in the specifications being elaborated and justified on the basis of an understanding of what it means for a material to be good, so too for Aristotle and other virtue theorists, there is a final end to which human beings are ordered, and this end is conceptually primary and gives content to the statements that some human beings are good and others bad, the

[5] See *Nicomachean Ethics*, especially Book I and passim.

[6] See *Groundwork for the Metaphysics of Morals*, passim.

characteristics contained in catalogues of virtues being elaborated and justified on the basis of an understanding of what it means for a human being to be good. By contrast, just as, for engineers outside the Joint Strike Fighter Project and working at firms considering submitting proposals to supply the desired composite material, the specifications are primary and give content to statements that some materials are good and others bad, the purpose to which the material might be put not being in consideration, so too for Kant the maxims of morality identified as being such and justified by the categorical imperative are primary and give content to statements that some human beings are good and others bad, any purpose or end of human beings qua human beings not being in consideration.

The Catholic moral tradition has always been virtue-theoretic. In the ancient world, the virtue-theoretic way was generally the only known way of understanding morality, and so it continued in Christianity, throughout the patristic and medieval periods, including in Augustine and Aquinas.[7] Moreover, this approach has continued in most of the Catholic tradition even until the present.[8] It was also the approach, although less clearly articulated, of John Paul II in *Veritatis Splendor* as well as many of his other writings on morals. He says, for example, that human beings "live by means of things, always preserving their own purpose. . .. There is no way to acknowledge the dignity of the human being without taking this purpose and its thoroughly spiritual character into account."[9] This is to define the dignity of

[7] See generally, Alasdair MacIntyre, *A Short History of Ethics* (1966). Similarly, "Ancient and medieval ethical theory centers on the problem of how man in general is to achieve well-being. Before the Renaissance it was generally assumed that all men are by nature ordered toward the attainment of one ultimate end. In different writers this over-all goal is described diversely but the orientation of all premodern ethical thought is teleological. This means that the focal point of nearly all ethics covered in the first two parts of this history [i.e., "Part One: Greco-Roman Theories" and "Part Two: Patristic and Medieval Theories"] is the question: How may man best live and act, so that he will reach his final objective as man? On the other hand, modern and contemporary ethical theories focus on the problem of practical judgment: How can one explain and justify the 'oughtness' in human experience?" (Vernon J. Bourke, *History of Ethics* (1968) at 7–8). Also see generally, Servais Pinckaers, O.P., *The Sources of Christian Ethics* (trans. Sr. Mary Thomas Noble, O.P., 1995).

[8] See generally, Ad. Tanquerey et al., *Synopsis Theologiae Moralis et Pastoralis* (9th ed., 1931); Antonio M. Arregui, *Summarium Theologiae Moralis ad Recentem Codicem Iuris Canonici Accomodatum* (1944).

[9] "The Dignity of the Human Person" in Karol Wojtyla, Person and Community: Selected Essays (Theresa Sandok, OFM, trans., 1993) at 177, 179. John Paul's views on this matter are difficult to characterize. Despite the strong emphasis on the final end for human beings in *Veritatis Splendor*, he nevertheless takes an emphatically Kantian approach in *Love and Responsibility*, *The Theology of the Body*, and *Crossing the Threshold of Hope,* in which last he expressly says that he himself relies on a formulation of the categorical imperative: "Love for a person excludes the possibility of treating him as an object of pleasure. This is a principle of Kantian ethics and constitutes his so-called second imperative" [*Crossing the Threshold of Hope* (1994) at 201 (emphasis deleted)]. Assuming, however, that what John Paul says when discussing fundamental moral theology in a magisterial mode ought be given greater weight than what he says in other contexts in non-magisterial writings, then the virtue-theoretic account in *Veritatis Splendor* ought to govern.

the human person in terms of the purpose or function of the person, and thus to make that purpose or function primary from a conceptual point of view.

6.2 Philosophical Analysis of the "Good"

St. Thomas gives general accounts of the good in the *Summa Theologiae* and in the *De Veritate* and discusses goodness in less systematic ways in other works as well.[10] Below I set out the general outlines of his position.

6.2.1 The "Good" in St. Thomas

St. Thomas inherited an understanding of the good from St. Augustine, who had borrowed from the Neoplatonists the doctrine that all things, insofar as they exist, are good. Evil is not a positive reality but a privation, the absence of something that ought to be present, as blindness is the absence of the power of sight in the eye. Augustine had adopted this doctrine as a partial solution of the problem of evil, the problem of explaining how an omnipotent and omnibenevolent God had created a world in which there is so much evil. Regardless of the merits of this position in dealing with that problem,[11] however, the doctrine had the clear implication that, as Aquinas would say, "being" and "good" are convertible terms, or, as we might say today, "being" and "good" are coextensional. The philosophical problem thus created for Aquinas was to explain how being and goodness are related.

Recognizing that the terms "being" and "good" are clearly not mere synonyms, Aquinas held that predicating "good" of a being adds something, as he would say, "of reason."[12] In more contemporary language, although the terms are coextensional, they have different meanings, and so calling a being good describes that being in a certain way that calling it a being does not. In particular, predicating "good" of a being calls our attention to the relation the being has to something that it

[10] *Summa Theologiae* Ia.5.1–6; *De Veritate* xxi. See also the *Expositio Sententiarum* I.1; I.8.3; I.19.5 and passim, and the *Expositio in X Libros Ethicorum Nicomacheorum*, especially Lib. I.

[11] Augustine and Aquinas both fully realized that this doctrine dealt only with what might be called the *metaphysical* problem of evil, i.e., with blocking the inference that God acts to create or conserve in being evil as a positive reality. They both fully realized that the *moral* problem of evil, i.e., an explanation as to how a good God permits such privations to occur, required a further treatment. In Aquinas, see *Summa Theologiae* Ia.19.9 and Ia.48–49; *De Malo* i, ii, and iii; and *De Potentia* i.6.

[12] "Illud nomen vel sit synonymum enti: quod de bono dici non potest, cum non nugatorie dicatur ens bonum; vel addat aliquid ad minus secundum rationem; et sic opportet quod bonum, ex quo non contrahit ens, addat aliquid super ens, quod sit rationis tantum" (*De Veritate* xxi.1). See also, *Summa Theologiae* Ia.5.1–2.

tends to, in Aquinas' technical language, perfect or conserve. He means that, in calling something good, I am indicating that it tends to effect, or cause to remain the case, a certain state of affairs viewed as an end to be achieved.[13]

The paradigm cases for Aquinas arise in connection with his metaphysics, in which every entity, every positive reality, has by its essence a natural end associated with it, its *final cause*, which is the full realization in actuality of its natural potential. When such an entity is attaining this natural end, it is *perfected* and so called *good*, because it tends to attain this end. Thus the fully developed, healthy animal specimen is a good one of its kind for Aquinas.[14] More generally, Aquinas appeals to Aristotle's definition of the good, given at the beginning of the *Nicomachean Ethics*, according to which the good is that at which all things aim,[15] saying that things are good insofar as they are desirable (*appetibile*), that is, desired for an end, desired in order that some state of affairs may be the case. A thing is then called *good* insofar as it tends to effect or conserve that state of affairs.[16] For example, if we are operating a university, then we will call hiring talented professors, securing large gifts from alumni, and receiving increased numbers of student applications *good*, because each of these tends to advance or preserve the state of affairs we are aiming at, i.e., the efficient operation of the university.

6.2.2 Geach's Contemporary Interpretation

Following this account from St. Thomas but refocusing it through the more careful consideration of language typical of contemporary analytic philosophy, Peter Geach[17] has argued, and Alasdair MacIntyre has subsequently agreed,[18] that one important use of the predicate "good" is as an attributive adjective in phrases such as "a good lawyer," "a good clock," or, in general, "a good *F*," where *F* stands for

[13] "In quantum autem unum ens est secundum esse suum perfectivum alterius et conservativum, habet rationem finis respectu illius quod ab eo perficitur; et inde est quod omnes recte definientes bonum ponunt in ratione eius aliquid quod pertineat ad habitudinem finis" (*De Veritate* xxi.1). See also, *Summa Theologiae* Ia.5.4.

[14] "Ratio enim boni in hoc consistit, quod aliquid sit appetibile: unde Philosophus, in I 'Ethic.,' dicit quod bonum est 'quod omnia appetunt.' Manifestum est autem quod unumquodque est appetibile secundum quod est perfectum: nam omnia appetunt suam perfectionem. Intantum est autem perfectum unumquodque, inquantum est actu: unde manifestum est quod intantum est aliquid bonum, inquantum est ens" (*Summa Theologiae* Ia.5.1).

[15] *Nicomachean Ethics* I.1, at 1094a3.

[16] "Cum bonum sit quod omnia appetunt, hoc autem habet rationem finis; manifestum est quod bonum rationem finis importat." *Summa Theologiae* Ia.5.4.

[17] Peter T. Geach, *Good and Evil*, 17 Analysis 33 (1956), reprinted in Philippa Foot, *Theories of Ethics* (1967) at 74.

[18] Alasdair MacIntyre, *A Short History of Ethics*, 5–13, and *After Virtue* (1982), passim.

some noun.[19] In attributive uses of "good," a precondition for the proper use of the adjective is that there be associated with the noun in question, either generally or in the specific context at issue, some end that the things of which the noun is predicated are expected to fulfill. For example, if the noun is one that, like "lawyer," names a social role, then the end will be the end for which such role exists within a larger social context, e.g., to provide advice about the law and to litigate on behalf of clients. If the noun is one that, like "clock," names an artifact, the end will be the purpose that people characteristically have in mind in wanting artifacts of the relevant kind, e.g., to tell the time. In such a case, a *good* thing of its kind is one that fulfills well the end associated with the noun; that is, a *good F* is an *F* that fulfills well the purpose associated with *F*s. When there is no end commonly associated with a noun *F*, the phrase "a good *F*" is meaningless, e.g., "a good fork in the road," "a good rotation of the earth," or "a good prime number."

Two qualifications are in order here. First, note that, as the end varies, so too does the meaning of "good" as an attributive adjective. A beach good for enjoying sand and surf might not be good for landing amphibious assault troops on, and one and the same person might be a good accountant, a bad golfer, and a merely so-so bridge player. Second, note that such uses of "good" are generally nonmoral. That is, in saying that something is a good one of its kind, we make no specifically moral judgments about it or anything else. It makes perfect sense, for example, to say that someone is a "good assassin," meaning someone who always kills those whom he is hired to kill and does so without being caught, for such, presumably, is the end that people characteristically have in mind when they want an assassin; in saying this, we do not express moral approval for assassins or assassinations.

6.3 Virtue-Theoretic Presuppositions and Good Companies

This account explains the semantics of the predicate "good"; it does not explain a moral theory based on a notion of goodness.

6.3.1 Virtue-Theoretic Presuppositions

In a virtue-theoretic moral system, morality is founded on one special application of the attributive adjective "good"—its use in describing human beings. In such systems, a "good human being" is one who fulfills the final end for human beings,

[19] Geach actually says that all intelligible uses of "good" reduce to this attributive use, but I need not defend that stronger claim here. It suffices for my purposes that the attributive use of "good" is one intelligible use of the word and that the use of "good" in "good company" is attributive.

which is the end or purpose uniquely associated with human nature. The characteristic claims of virtue theory, therefore, are that there is such an end, that the end is objective and not the product of human choice, and that we can know what this end is with specificity sufficient to determine, at least generally, which actions are ordered to it and which are not.

Now with words naming social roles or artifacts, it is clear that, in the background, we have actual human beings who create such roles or make such artifacts and thus have in mind purposes for such things. Hence, in considering social roles or artifacts, there is a socially determined purpose at hand to which we can appeal when judging such persons or things good or bad. Although it would be possible, in a virtue-theoretic system, to take God as standing behind human nature and having in mind for it a purpose just as we human beings stand behind our artifacts and have purposes in mind for them, nevertheless most virtue-theoretic accounts do not proceed in this way. Indeed, many virtue theories, such as Aristotle's, make no mention of God at all. If a virtue theory were based on the divine will in the way indicated, then the virtue theorist would need to ascertain directly the will of God for human beings, and while this might be possible in a revealed moral theology, philosophers have not generally thought it possible in natural moral philosophy.

Rather, virtue-theoretic moral systems in natural philosophy begin from the concept of the human being (i.e., that understanding of human nature derived from biology, psychology, sociology, and the other empirical sciences that study human beings) and then ask for what end human nature thus understood is a well-adapted means. This question is intelligible regardless of the origin of man, i.e., regardless of whether or not human beings are the product of an intelligent Creator, because the question is answered by an unusual kind of means-ends reasoning. For, while means-ends reasoning usually proceeds by taking the end as given and understanding the problem as devising means that will serve this end, the reasoning at the foundation of virtue theory proceeds in the opposite direction, taking the means as given (i.e., human nature, as understood in our empirical knowledge of human beings) and viewing the problem as determining what end such a means best serves. Although not the most common form of means-ends reasoning, we are familiar with this kind of reasoning in various contexts, e.g., when an archaeologist ponders what use ancient people may have had for a stone implement that the archaeologist has discovered at a dig.

Nor is there any presupposition in such reasoning that the object to which such reasoning be applied in fact be the product of intelligent design. For example, George Washington Carver, in an attempt to aid African-American peanut farmers in American South, devised many uses for peanuts, including peanut butter. In so doing, he asked himself for what ends peanuts may be a good means; no part was played in this inquiry by a supposition that God made the peanut for such ends. Similarly, a neo-Darwinist biologist may ponder what function a newly discovered enzyme may serve in the cell, and he will often be able to work out a theory of this function based on the enzyme's properties, all the while asserting that the cell is the product of random mutation and natural selection. As neo-Darwinist Richard Dawkins says, "any engineer can recognize an object that has been designed,

even poorly designed, for a purpose, and he can usually work out what that purpose is just by looking at the structure of the object."[20]

The premise of virtue theory is that human nature—the concept of human beings derived from the natural sciences—can be treated in just this way, i.e., that we can intelligibly ask and answer the question for what end is human nature a well-adapted means. Virtue theorists answering this question have come to different answers, of course, as demonstrated most clearly in their differing catalogues of virtues. To the extent relevant, I here assume without argument that the final end of human nature is essentially what St. Thomas said that it was. In particular, we can consider the final end using only natural human reason in moral philosophy and thus consider it to the extent that it can be achieved in this life, without the aid of divine grace; in this case, the final end is something like rational activity (especially the contemplation of divine things to the extent possible by unaided human reason) in a community of friends. We can also consider the final end in light of the Gospel in revealed moral theology and thus consider it to the extent that it can be achieved in the life to come with the aid of divine grace; in this case the final end is the beatific vision of God in the communion of saints.[21]

6.3.2 Good Companies

The problem of good companies is, at least initially, considerably easier than that of good human beings, for a company, unlike a human being, is not a natural thing, and so a company has no natural end arising independent of human purposes. A company, in fact, is a kind of artifact—an abstract artifact, but an artifact all the same. "A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law," Chief Justice Marshall famously said. "Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly, or as incidental to its very existence. These are such as are supposed best calculated to effect the object for which it was created."[22] Like any other artifact, a company can have no end apart from the purposes of actual human beings. The end of companies, like the ends of artifacts and social roles, is socially determined.

A good company is thus one that fulfills the end that people characteristically have in mind in forming companies. As Leo XIII said in *Rerum Novarum*, "[T]he purpose and perfection of an association is to aim at and to attain that for which it is formed, and its efforts should be put in motion and inspired by the end and object which originally gave it being."[23]

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[20] Richard Dawkins, *The Blind Watchmaker* (1986) at 21.

[21] *Summa Theologiae* Ia-IIae.1-6.

[22] *Trustees of Dartmouth College v. Woodward*, 17 U.S. 518, 636 (1819).

[23] *Rerum Novarum* at no. 27.

In the case of companies, therefore, we must thus consider the purposes typically had in mind by those responsible for forming such companies. Naturally, the identity and legal status of such persons will vary with the nature of the business organization in question: we will have to look at the intentions of partners for a partnership, of incorporators and shareholders for a corporation, of founding members of limited liability companies, and so on. A company will be good qua company, therefore, if it fulfills the purposes such people typically have in mind.

Now although people may form companies for any number of idiosyncratic reasons, the issue is what purposes people *typically* have in mind, not the purpose any particular person may have had in mind. As a matter of empirical fact, the vast majority of companies are founded, regardless of the legal form adopted by the founders, in order to increase the wealth of the founders. Taking the corporate form as representative, we may say that companies are founded to maximize shareholder value. Certainly, with publicly traded corporations, the only purpose that can reasonably be attributed to the ever-changing mass of individuals who invest in such companies is the maximization of shareholder value. Since a company is good to the extent that it fulfills the purpose that founders of companies typically have in founding companies, a good company is one that maximizes shareholder value. When CSD "recognizes the proper role of profit as the first indicator that a business is functioning well,"[24] it ought to be understood in this sense, because for a thing to function well and for it to be a good one of its kind are, in the semantic analysis of the attributive use of "good" given above, synonymous.

Nor can it be said that the proper functioning of, or goodness of, a company as understood in CSD may be limited to *making a profit* as opposed to *maximizing shareholder value*, i.e., making the largest profit possible. For one thing, the empirical fact is that those forming or investing in companies surely want not just a profit but the largest profit available. Since the purpose of the company is determined by what people characteristically want in forming companies, this consideration is dispositive.

But, if more is needed, a distinction between making a profit and making the largest profit available would confuse accounting profits with economic profits. What those forming a company want is not merely the former, for a business can show an accounting profit (i.e., have positive net income), but in fact entail an economic loss for equity holders unless the return on equity is the competitive return, given the riskiness of the business and other market conditions. For example, if market conditions allow investors to make a 12 percentage return on other investments of equal risk, then a company that returns 10 %, although it will show an accounting profit, in fact occasions an economic loss for its equity holders. Hence, to be functioning well, a business must return not only a profit but the economically competitive return for an investment of comparable risk.[25]

[24] *Compendium* §340.

[25] As an empirical matter, it seems very likely that people forming or investing in companies are seeking not just the competitive return but a supercompetitive return, i.e., economic rents. Just how

6.4 Moral Concerns of CSD and Other Constituencies

Of course, it is not immediately clear that a company good in the attributive sense explained above is morally good. That is, it is not immediately clear that, by maximizing shareholder value, the company's actions are properly directed to the final end of human nature. For, although a company may fulfill the purpose typical of those who form and invest in companies, since human purposes are good or bad depending on their relation to the final end for human nature, a company's fulfilling its purpose does not guarantee the moral goodness of its doing so. As noted above, the attributive use of "good," except as predicated of human beings qua human beings, is nonmoral. If maximizing shareholder value is an end incompatible with the final end for human beings in the way that, say, the genocidal extermination of racial minorities is, then a company could be a good company, even though its actions were uniformly morally bad. It remains to be seen, therefore, how the end associated with companies relates to the final end of human nature.

In fact, however, maximizing shareholder value is an end compatible with the final end of human nature. For, since human beings are not only rational beings but also animals, their well-being requires the continuing physical well-being of their animal nature, and this requires an abundance of goods and services, i.e., wealth. Hence, actions seeking to produce and acquire wealth are capable of being ordered to the final end. "On this very account—that man alone among the animal creation is endowed with reason—it must be within his right to possess things not merely for temporary and momentary use, as other living things do, but to have and to hold them in stable and permanent possession."[26] Since wealth can be produced and acquired much more efficiently when human beings band together, the formation of organizations to deliver to their founders increased wealth is likewise an action capable of being ordered to the final end. In fact, maximizing value is even a constitutive part (albeit a small such part) of the final end of human nature. This is what CSD means in teaching, "Businesses should be characterized by their capacity to serve the common good of society through the production of useful goods and services."[27]

But although human beings' banding together to produce and acquire wealth is an end compatible with the final end of human nature, it does not follow that any action whatsoever that is ordered to the end of maximizing value is moral; that would be to treat the end of the company as the final end of human nature. Rather, an action may serve one end but be destructive of a more comprehensive end of which the subordinate end served is constitutive. Hence, not every action that maximizes shareholder value is licit. In particular, a human organization formed

this relates to the end we should assign to companies is complex, but one thing is clear: this consideration strongly reinforces the conclusion that those forming or investing in companies want not just an accounting profit but the largest profit available.

[26] *Rerum Novarum* at no. 6.

[27] *Compendium* at §338.

for a morally licit purpose—whether playing chess, advancing human knowledge, or, as in this case, increasing the wealth of its members—will act licitly in fulfilling that purpose only if its actions are otherwise moral, i.e., otherwise appropriately ordered to the final end of human nature. Therefore, in pursuing the end of the organization, those in control of a company may do so only in ways compatible with the final end of human nature.

Now, there are many ways of explaining, in a virtue-theoretic moral system, how human actions ought to be ordered to the final end of human nature. Here, I am assuming, without argument, that St. Thomas's account of this matter is essentially correct.[28] In that account, human actions are objectively moral if two conditions are met.[29] First, the action must be the kind of action that is capable of being ordered to the final end. Some actions are not capable of being ordered to some ends, as, for example, poisoning the patients cannot be ordered to the end of a hospital, which involves curing the sick and not killing them. This first condition requires, therefore, that the actions in question be capable of being ordered to the final end, and, as we have already seen, the actions of forming a company for the purpose of maximizing shareholder value are capable of being ordered to the final end of human nature. Nevertheless, this condition excludes further actions that, although perhaps ordered to the end of maximizing shareholder value, are nevertheless incapable of being ordered to the final end, such as lying, fraud, and theft. In some circumstances, these actions would indeed maximize shareholder value, but since these actions cannot be ordered to the final end of human nature, corporate managers may not engage in them. Notice, incidentally, that this condition is negative in the sense that it prohibits to companies and their managers certain actions (i.e., ones similarly forbidden to everyone else), but it does not positively require any particular actions.

Second, in order to be moral, the action in question must, in the circumstances in which it is chosen, *in fact* be ordered to the final end. That is, actions that are capable of serving an end will in fact serve that end in some circumstances but not in others. For example, searching out the enemy to give battle when one enjoys a superiority of force is an action capable of being ordered to the end of military victory and very often is in fact so ordered, but not, as at Leyte Gulf, when Admiral Halsey took large elements of the American fleet in search of the Japanese fleet and left behind, dangerously exposed to attack, allied forces landing in Leyte. Similarly, giving alms is an action that can be ordered to the final end of human nature, but one ought not be giving arms while a man lies in the street bleeding to death; one should render first-aid first and give alms later. The moral correctness of an action,

[28] See *Summa Theologiae* Ia-IIae.18.

[29] The two conditions in the text make the action objectively moral. There is a third condition that must be fulfilled for the action to be *subjectively* moral as well, viz., the agent must choose the action as ordered to the final end and not for some other reason. Important as this condition is for judging the agent's particular merit or demerit, it is not relevant to identifying which actions, in general, human beings ought to perform or not perform, and so is not relevant to our inquiry here.

therefore, requires not only that the action be capable of being ordered to the final end but also that it is in fact so ordered in the totality of the circumstances.

As applied to the problem of what actions corporate managers may take in maximizing shareholder value, this second condition presents some complex problems. In general, just as the first condition, which prohibits to companies, as to all others, actions incapable of being ordered to the final end, so too this second condition prohibits to companies, as to all others, actions that, in the circumstances, are not in fact ordered to the final end. Descending from the general to the particular, however, we encounter a special problem, namely, that one of the circumstances that must be taken into account in determining whether a particular action by corporate managers is in fact ordered to the final end of human nature is the very fact that the agent in question is a corporate manager—that is, is a person holding a special kind of office in a particular kind of organization created and governed by the corporation laws, its organizational documents, and perhaps other quasi-legal rules, such as the rules of a securities exchange on which its securities are listed.

This circumstance results in two general conclusions. The first is that corporate managers, being fiduciary agents of the corporation and its shareholders, are generally required to act exclusively for the benefit of the corporation, that is, to maximize shareholder value. The second is that the circumstance that a company is a company and not an individual does not generally result in the company having an obligation to act where an individual similarly situated would not.

6.4.1 Fiduciary Duties of Corporate Agents at Law

Among the circumstances affecting whether a particular action is in fact ordered to the final end are the preexisting moral obligations of the agent. Since there is usually a moral obligation to observe legal duties, the agent's legal duties are, at one remove, also relevant. Now corporate managers occupy offices that are created by the corporation laws under which a company exists or, sometimes, by agreement among the shareholders or other equity holders in the company. Practically without exception in Anglo-American law, we find that corporation laws require (and founders of business organizations generally thus expect) that their human agents holding such offices will act solely for the benefit of the corporation and to maximize shareholder value.

Nor is this very surprising. Corporate managers are fiduciaries, i.e., agents authorized by their principals (in this case, the founders and shareholders of the company) to hold in trust property belonging to the principals and to use such property for the ends the principals have authorized. Absent authority from their principals, fiduciary agents are not legally permitted to dispose the principals' property except for the principals' benefit. Such is the case for fiduciaries generally—for employees of employers, partners of partnerships, trustees of trusts, and directors and officers of corporations. In their official capacities, they are under

a strict legal duty to act exclusively for the benefit of their principals. In the language of the Restatement (Second) of Agency, "an agent is subject to a duty to his principal to act solely for the benefit of the principal in all matters connected with his agency."[30] And this duty is interpreted in the strictest way. Justice Cardozo, then a judge on the New York Court of Appeals, explained the required standard of conduct in language now taught in the introductory course in corporate law in practically every American law school:

> Many forms of conduct permissible in a workaday world for those acting at arm's length are forbidden to those bound by fiduciary ties. A trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior. Uncompromising rigidity has been the attitude of courts of equity when petitioned to undermine the rule of undivided loyalty by the disintegrating erosion of particular exceptions.[31]

Hence, if, while acting as a fiduciary and in possession of a large sum of money belonging to my principal, I meet a worthy man in genuine need of funds, I ought not expend such funds to supply his want. The money belongs to my employer, and I have no right to distribute it, whether in almsgiving or in any other way not authorized by my employer. My principal, perhaps, ought to give money to the man in need, and so ought perhaps authorize me to do so on his behalf, and, similarly, perhaps I ought to help the man out of my personal funds, but as a fiduciary of my principal, I have a definite obligation not to divert my principal's funds for such a purpose, except perhaps in the most extraordinary circumstances.

6.4.2 No Special Obligations of Companies Qua Companies

If the special circumstance that corporate managers are fiduciaries tends strongly to support the conclusion that they may not act except to maximize shareholder value, the same circumstance, for independent reasons, tends to support the conclusion that companies qua companies, which act only through their human fiduciary agents, have no special moral obligations qua companies. They have no special obligations to act.

For St. Thomas, any moral requirement of positive action arises because, in the circumstances, the agent has available to him one action that is uniquely well ordered to the final end in such circumstances, such as helping the bleeding man in the street when there is no more pressing business at hand. If there be an action uniquely well ordered to the final end in the given circumstances, then there is a positive obligation to act, and it makes sense to say that the agent ought to perform the action in those circumstances; but when there is in the circumstances no action

[30] Restatement (Second) of Agency §387.

[31] *Meinhard v. Salmon*, 164 N.E. 545, 546 (New York 1928) (internal quotation marks and citation omitted).

uniquely well ordered to the final end, then the agent retains a large degree of freedom to choose among an indeterminately large number of actions each capable of being ordered to the final end and each, in the circumstances, in fact ordered to that end.

Therefore, if there are moral obligations of companies qua companies, these obligations must arise from the circumstance that the company is an organization formed to maximize shareholder value. That is, such an obligation would arise because this circumstance makes some action available to the company uniquely well ordered to the final end. Other than obligations that the company and the individuals involved in it may have assumed by agreement or by operation of law in creating the company (such agreements and laws being responsible for calling the company into being as a legal entity), it is very hard to see what these special obligations might be, for it is very hard to see how these circumstances, regardless of all others that might obtain, could support the conclusion that some action is uniquely well ordered to the final end. On the contrary, it seems very likely that circumstances beyond the company's being a company will be of great concern in determining whether there are any actions available to it that are uniquely well ordered to the final end. It thus seems that companies do not, qua companies, have any special, additional moral obligations, excepting always such as arise by agreement or by operation of law in the formation or governance of the company. If all this is right, then, with the same exception, a company has no moral obligations over and above those that a similarly situated individual would have. That is, the company is bound only by moral norms of general applicability.

6.5 Maximizing Shareholder Value and Benefiting Other Constituencies

One might say that, when CSD teaches that managers have a "duty to respect concretely the human dignity of those who work within the company"[32] and of those who comprise other corporate constituencies, this teaching refers merely to the obligation to observe moral norms of general applicability. This seems unsatisfactory, however, because, it being obvious that companies are not dispensed from the usual moral norms (the novelty of my position lying in the claim that there are no *additional* moral norms applicable to companies as such), the CSD teaching must mean more than this. Still, given the human tendency to confuse the ends of an organization with the final end, especially when so doing would gratify human greed, a reminder that moral norms of general applicability apply to companies as much as to any other moral agents is still very much to the point.

Nevertheless, the CSD teaching ought to mean more than that moral norms of general applicability apply to companies as to all others, and the virtue-theoretic

[32] *Compendium* §344.

moral analysis I have supplied suggests what more the teaching might mean here. In particular, there is a wide range of actions that a company might take that, in purpose and effect, directly benefit corporate constituencies other than shareholders but that are ultimately ordered to the maximization of shareholder value. For example, generous salaries and benefit programs for employees can attract and retain productive employees, donations to charitable organizations can generate goodwill for the company, and exemplary fair-dealing with customers can build customer loyalty. Corporate managers may and should engage in such actions, if they sincerely believe that these actions will ultimately tend to maximize shareholder value. Thus the CSD teachings is, on one level, a reminder of the empirical fact that the economic good of the company is importantly related to how it treats members of other corporate constituencies. On another level, it is the moral proposition that very often companies ought to act to benefit these constituencies directly, for such benefits ultimately redound to the economic benefit of shareholders.

Such, incidentally, is the law of fiduciary duties under the Delaware General Corporation Law, the corporate law governing most publicly traded American corporations. Directors of a Delaware Corporation may act for the benefit of constituencies other than shareholders, but only when such actions are rationally related to maximizing shareholder value. The Delaware Supreme Court has specifically held, "Although such considerations [of corporate constituencies other than shareholders] may be permissible, there are fundamental limitations upon that prerogative. A board [of directors] may have regard for various constituencies in discharging its responsibilities, provided there are rationally related benefits accruing to the stockholders."[33]

American courts applying this and analogous rules have upheld not only decisions by corporate managers that benefit not only parties with obvious economic relationships to the corporation, such as employees, customers, and suppliers, but also decisions to make donations for charitable, educational, or scientific purposes.[34] In *A.P. Smith Mfg. Co. v. Barlow*,[35] for example, the New Jersey Supreme Court held that a corporation engaged in manufacturing pipes and valves for the water and gas industries had authority to make a cash donation to Princeton University. In part, the court based its decision on the view of the corporation's president that "the contribution [was] a sound investment, that the public expects corporations to aid philanthropic and benevolent institutions, that they obtain good will in the community by so doing, and that their charitable

[33] *Revlon, Inc. v. MacAndrews & Forbes Holdings*, 506 A.2d 173, 182 (1986). See also *Unocal Corporation v. Mesa Petroleum Co.*, 493 A.2d 946, 955 (1985).

[34] The corporation laws of most states grant power to corporations to make such donations, e.g., 8 Del. C. § 122(9) (2006), but the issue, from both a legal and moral point of view, is when this power may rightfully be exercised.

[35] 98 A.2d 581 (NJ 1953), appeal dismissed, 346 U.S. 861 (1953).

donations create a favorable environment for their business operations."[36] Indeed, American courts of virtually all jurisdictions have generally adopted a very deferential standard in accepting explanations from corporate directors and officers as to how actions that directly benefit corporation constituencies other than shareholders are in fact ultimately ordered to the shareholders' benefit.

In this way, from a moral point of view, many corporate actions directly benefiting corporate constituencies other than shareholders become permissible or even obligatory in appropriate circumstances, i.e., when they are rationally ordered to the company's end of maximizing shareholder value. It is true that this conclusion puts some strict limits on what corporate managers may do. They may not, for example, engage in actions that benefit a corporate constituency other than shareholders or persons unrelated to the company (e.g., by distributing corporate assets to the poor), if doing so is not, in any rationally identifiable way, ordered to the benefit of shareholders. But this is as it should be, if there is to be some intelligible limit on such actions and if the role of managers as fiduciaries for shareholders is to be respected. Moreover, the fact that benefiting members of other corporate constituencies, but not usually people wholly unconnected with the company, may often be rationally related to maximizing shareholder value explains why CSD singles out members of such constituencies to the exclusion of others in teaching about the duties of owners and managers.

6.6 Conclusion

Any doctrine that provides that, in making a decision, a decision maker should consider various different interests or balance various different ends ought to specify how such interests are related. If it does not, the decision maker retains almost complete freedom of action, for by giving more weight, first to one end, then to another, the decision maker can justify virtually any decision as being consistent with the doctrine. CSD teaches that corporate managers should act to maximize shareholder value, but it also teaches that such managers should act to benefit members of various other corporate constituencies, such as employees, creditors, customers, vendors, and the persons living in the communities in which the company operates. CSD must, therefore, present an intelligible explanation of how the interests of shareholders and other constituencies interrelate.

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[36] *Id.* at 583.

Chapter 7
Doing Well by Doing Good: Distinguishing the Right from the Good in Theories of Corporate Social Responsibility

Joseph R. DesJardins

Abstract Global economic and environmental circumstances require that business in the twenty-first century be practiced in a way that is *economically* vibrant enough to address the real needs of billions of people, yet *ecologically* informed so that the earth's capacity to support life is not diminished by that activity and *ethically* sensitive enough that the human dignity is not lost or violated in the process. This paper will argue that any adequate model of corporate social responsibility (CSR) must meet these three normative standards: it must be economically, environmentally, and ethically sound. My argument to support this conclusion falls into two parts: arguments against the adequacy of mainstream models of CSR to meet these standards and arguments in support of the sustainability alternative. This alternative provides a contemporary model of the good company that is true to the Christian tradition as well as being economically and environmentally satisfactory for addressing global needs.

7.1 Introduction

The corporate social responsibility movement (CSR) is, depending on how one counts, about 40 years old. A range of social movements in the 1960s—the student movement, civil rights, environmental, and women's—had, by the early 1970s, resulted in widespread calls for business to take on greater social responsibilities than previously. Milton Friedman's famous essay rejecting this new call for corporate social responsibility was published in 1971.[1]

[1] Milton Friedman, "The Social Responsibility of Business is to Increase its Profits," New York Times Magazine, 1970.

J.R. DesJardins (✉)
College of St. Benedict/St. John's University, St. Joseph, MN, USA
e-mail: jdesjardins@csbsju.edu

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One can think of the competing models of CSR emerging from this movement as existing along a continuum of expanding ethical constraints upon a general goal of increasing profits by responding to consumer demand. At one end of this continuum, we find the very narrow view of CSR associated with neoclassical economics. Business' social responsibility is to maximize profit by meeting consumer demand, and the only constraint is the duty to obey the law. At its most libertarian extreme, defenders of this view would also argue that the only appropriate laws are those that protect property and prohibit fraud and coercion. Theories of CSR become more moderate than this extreme by expanding the range of constraints upon the pursuit of profit. Thus, one finds Norman Bowie, for example, arguing on Kantian grounds that beyond obedience to the law, business also has moral duties not to cause harm, even if not prohibited by law.[2] Various stakeholder theories expand and develop this range of duties by identifying ethically legitimate stakeholders other than investors and by articulating the specific duties owed to them.

We can thus characterize these theories as variations on the theme of balancing utilitarian and deontological ethics. The pursuit of profit is the mechanism by which business is thought to serve the utilitarian goal of satisfying consumer demand and thereby maximizing the overall good. This utilitarian goal itself is to be constrained by the duties that one has to persons affected by these activities. Our duties to other people (and their rights) create side-constraints or boundaries on business activity; as long as business does not overstep those boundaries, it is free to pursue profit. Depending on the theory of rights and duties that one adopts, those constraints range from the minimal duty of obeying the law to more extensive accounts of duties associated with the stakeholder theory.

This framework has always been problematic from the point of view of Christian social teaching. In particular, Catholic social teaching would hold that social institutions have a positive responsibility to promote the common good while this CSR framework allows only negative duties to constrain the pursuit of profit. At best, CSR understands the common good only in terms of the utilitarian goal of satisfying consumer preferences, a perspective that is decidedly at odds with the Christian understanding of the common good.

I would like to pursue this topic as it plays out on the issue of environmental responsibility. It is fair to say that virtually all of these mainstream theories of corporate social responsibility (CSR) deny that business has any special environmental responsibilities. From the classical model of CSR associated with Milton Friedman and other defenders of the free market to the more recent stakeholder theory, environmental concerns function, at best, as side-constraints upon business managers. Business may have some negative duties associated with the environment—duties not to pollute and not to cause harm—but business certainly has no positive duty to conduct itself in ways that contribute to long-term ecological and environmental well-being. I would like to offer some reasons for thinking that

[2] See Norman Bowie, "Morality, Money, and Motor Cars," reprinted in *Contemporary Issues in Business Ethics*, DesJardins and McCall (eds), Belmont, California: 2005, 5th ed.

this view asks too little of business. Expecting business to take a more active role in addressing environmental and ecological concerns is more reasonable than usually acknowledged.

7.2 CSR and Liberal Social Justice

What one will not find among these mainstream views of CSR is any suggestion that business has positive duties either to *prevent* ecological harm that it is not directly causing or *to do* environmental good. Continuing the side-constraint and boundary metaphor introduced previously, one does not find ethical goals determining either the direction or the substance of business activity. Business managers, according to these views, are ethically passive; managers can fulfill their ethical responsibilities by actively doing little or nothing at all. Business passively *responds to* the demands of the market.

Business is passive in *not violating the law*. Business is passive when it *causes no harm*. According to these views, the social responsibility of business requires business *to do* virtually nothing at all.

This point, of course, reminds us that both utilitarian and the Kantian deontological theories of social justice are thorough-going *liberal* theories. Philosophical liberalism denies that ethics can require anyone actually to do good; that would be asking too much of free and autonomous individuals. Ethics does not provide the goals of our behavior, only the limits. Liberty demands that we not coerce anyone to act in ways that they have not chosen, as long as their choices cause no harm to other individuals. Negative, not positive, duties are obligatory for every individual. Besides, given the wide variety of competing conceptions of the good life, there is little chance that we can arrive at a defensible, objective, or commonly accepted account of the good.

Thus, classical liberal theories tell us that doing good is supererogatory, an imperfect duty that we can encourage and praise but not require. Like charity, it is something that we hope for and encourage but not something that ethics obliges us to do. Of course, this is exactly the point at which liberal theories of social justice are in tension with Christian understandings of the common good. The Catholic tradition holds that there is a substantive and objective good common to all, a good that we have a responsibility to pursue even if it conflicts with our individual choices. Unlike the Catholic tradition, liberal theories create a sphere of free choice between those acts ethically prohibited and those that are merely praiseworthy.

Unfortunately, many crucial environmental and ecological concerns are thought to fall within this sphere, particularly when the agent involved is business. Releasing toxic pollutants can be ethically prohibited, but preserving biological diversity, conserving natural resources, protecting wild and open spaces, reducing energy consumption, or designing fuel-efficient cars or sustainable production methods cannot. In fact, it is difficult to find many environmental concerns other than the ban on pollution that are thought to be part of business' social responsibility, and even that can be trumped when allowed by law. (CO_2 emissions being the obvious

example—while they are known to cause harm, business is free to continue emitting copious amounts of this pollutant since it is all quite legal when released in relatively small amounts by individual firms and individual consumers.)

The view I wish to put forth holds that business does have an ethical responsibility, even when not required by law and not demanded by consumers, to redesign its operations in a way that is ecologically and economically sustainable over the long-term. Environmental responsibilities should provide the direction in which business develops as well as the constraints within which it operates. I suggest that this goal ought to be conceived of as the *telos* of business institutions in the twenty-first century. Sustainability, meeting the real needs of presently living human beings without jeopardizing the ability of future people to meet their own needs, represents the twenty-first century's common good. My argument to support this conclusion falls into two parts: arguments against the ethical adequacy of the standard models of CSR and arguments in support of the alternative.

7.3 Arguments Against Standard Models of CSR

7.3.1 Utilitarian-Market Aspects

We can begin with objections to the market-based, utilitarian aspects of the standard models. Implicit within those models is an assumed utilitarian ethical foundation. Business is advised to pursue profits; profit measures the efficiency of allocating goods and services to those most willing to pay; willingness to pay is a measure of how highly valued goods and services are; people are happiest when they get what they most highly value. Thus, by pursuing profits a business manager contributes towards the goal of maximizing happiness. Assuming the utilitarian understanding of the common good as maximized happiness, efficient markets work towards the common good.

There are, of course, significant difficulties with this line of reasoning. First, to state what should be obvious: profit is not, in itself, an ethical good. One can profit from ethically beneficial goods and services and one can profit from ethically abhorrent goods and services. Business managers have no ethical responsibility to pursue profits per se. Within the neoclassical model, profits provide managers with information that their decisions are, in fact, efficiently allocating resources. Pursuing profits thus is a shorthand way of saying that business managers ought to allocate resources in ways that satisfy the interests of those most willing to pay.

Stated this boldly one can easily understand that the apparent ethical and utilitarian basis of efficient markets is no ethical basis at all. Ultimately, and at best, markets can only attain the satisfaction of those preferences expressed by consumers in markets. The goal of any market exchange is the satisfaction of those desires expressed by the participants in that exchange. But why should the satisfaction of consumer preferences be taken as a goal of ethics? Why should one think that the world is, ethically, a better place when consumers get more of what they want?

The answer to these questions turns out to be an assumption, and it is this assumption that seems to make the connection between the results of markets and utilitarianism plausible. It is also an assumption that turns out to be false. This assumption is that consumer satisfaction, people getting what they want, can be identified with happiness, first in an empirical psychological sense and, in turn, that psychological happiness can be identified with happiness in an ethical sense. Thus, on this account, optimizing the satisfaction of consumer preferences is to optimize happiness.

But this identification is empirically false and conceptually confused. As an empirical claim, this can be shown false both at the level of individuals and at the level of societies. Individually, this claim would be that the more someone consumes, *of anything*, the happier he or she is. This, of course, is false, as any alcoholic, cigarette smoker, hospital patient, crime victim, or bankrupted consumer can testify. More generally, numerous empirical studies confirm that there is at best a mixed connection between overall consumption or economic growth and happiness. Affluent societies are not necessarily happy societies. Individuals themselves often report that the more they buy and consume, the less happy they are. Conversely, many individuals report that they are happier leading a life of frugality and simplicity. As long as there are *some* people who are *less* happy when consuming *more*, identifying the economic goal of satisfying preferences with the utilitarian goal of happiness is a mistake.

As it turns out, economists are aware of these problems and their reaction is to treat the identification of preference satisfaction and happiness not as an empirical claim but as a conceptual one. That is, what they *mean* by happiness (or "welfare" or "well-being" or "utility" or whatever they think is increased by economic growth) is simply the satisfaction of those preferences expressed by consumers in the marketplace. But this collapses the ethical justification of markets into incoherence.

The justification question begins with the query, "Why should, ethically, one accept the results of market transactions?" The answer would appear to be "because market transactions produce happiness." But, by *defining* consumer satisfaction with happiness, the actual answer turns out to be "because market transactions will produce more of those things that markets produce." But, of course, the original ethical challenge remains, "Ethically, why should one accept those results produced by market transactions?" The conceptual response is no response at all.

The lesson of this is clear. The supposed overall good attained even by the most efficient markets is not the common good identified as a fundamental element of Christian social doctrine. Theories of corporate social responsibility that base their normative claim on the alleged good of efficient markets are incompatible with the common good.

7.3.2 Deontological Aspects

The views that I am arguing against hold that business has only the negative ethical duties to cause no harm but no positive duty to do good. Traditionally, there are two general philosophical rationales offered in defense of this liberal conclusion: positive duties would violate the respect owed to each individual as an autonomous agent, and there are no rationally defensible or widely acknowledged positive goods that can be binding on individuals. In the case of business' environmental responsibilities, neither of these two rationales is persuasive.

Let us consider the autonomy side first. Philosophical liberals argue that only negative duties prohibiting harm are compatible with the respect owed to an individual as a free and autonomous agent. Requiring an agent to perform positive acts of goodness is to treat that agent as a means to an end, to coerce that agent against her will, and to have one's ends chosen by another. Thus, the moral respect owed to the dignity of individuals trumps the goods that can be attained through positive duties.

However, this is to forget the obvious: business institutions are not moral agents who have an overriding right to be treated with the respect due to autonomous individuals. Business institutions are not autonomous individuals; they are precisely the type of thing Kant had in mind when he spoke of means, rather than ends. Thus, requiring business to serve human ends is to treat business exactly in accord with its nature as a human institution designed and created to serve human ends. Human beings, acting in concert through their social, political, and legal institutions, created the modern corporation and established its legal and ethical duties. My proposal is simply that those duties need to be rethought.

That leaves only the value-relativist claim standing opposed to my proposal. This response claims that we cannot expect business to be responsible for achieving social goods because society itself lacks any consensus on the nature of the good. In the terms of traditional liberalism, the right has priority over the good because of irreconcilable disagreements over the nature of the good. After all, who is to say what is, or is not, good?

The converse of this view, the priority of the good over the right, is highly contentious. Nevertheless, I would like to defend something very much like it. In this, of course, I am very much out of the mainstream in modern philosophy and especially out of the mainstream of business ethics. But this is firmly within the mainstream of Christian social doctrine. What if we could offer a rationally defensible account of the good for business, one objectively better than the value-neutral model of business that emerges from neoclassical economics?

7.4 An Alternative Model of CSR: Sustainable Business

The narrow views of CSR sketched in earlier sections implicitly rely on a distinction between actively causing harm and passively allowing it to happen. As we have seen, most liberal theories hold individuals responsible for harms that they cause but not for harms that they allow to happen. Thus, while I may have a strong duty not to cause the starvation of my neighbor (a perfect duty in Kantian terms), I have no duty (an imperfect duty in Kantian terms) to prevent that starvation if I am not the cause. Doing good is praiseworthy but not obligatory. But this distinction has been challenged, persuasively, by many philosophers.[3] It is, perhaps, not surprising that those few laws that require positive duties are referred to as "good Samaritan" laws. Only the most ethically callous person would insist that we have no moral duty to prevent serious harm if in doing so we face only minor inconveniences.

Significant harm can be prevented, at present and into the near future, if business institutions would remake themselves on a model of sustainability. This is possible without putting most businesses in any greater financial jeopardy than is already and normally faced under the present model. Risks exist, of course, but there is no reason to think they are any graver than the risks normally faced everyday by business entrepreneurs, managers, and business leaders.

Thus business managers have an ethical responsibility for taking positive actions to create a more just and environmentally sustainable world. This is a view consistent with ordinary understanding of business management and leadership. Business managers, of course, take an active leadership role all the time. Managers have a great deal of discretion in choosing both the ends of their business and the means by which those ends might be attained. If managerial prerogative means anything, it means that society expects and demands managerial professionals to exercise their judgment in determining the proper course for business. If the concepts of business leadership or entrepreneurship mean anything at all, they mean that business managers are widely understood to be capable of, and responsible for, taking positive actions.

The harms to which I refer exist along two dimensions: ethical and ecological. First, hundreds of millions of people, mostly children and the overwhelming majority of them morally innocent in every way, lack the basic requirements of a decent human life. Lack of clean drinking water, nutritious food, health care, education, work, shelter, and clothing is a daily reality for hundreds of millions of people. Population growth, even at the most conservative rates, will only exacerbate these problems in the near future. Because population growth is highest in those areas in which people are already most at risk due to the effects of poverty

[3] The distinction rests upon the view that there is an ethically significant difference between acting and refraining, a distinction that has been seriously challenged. See, for example, the well-known essay by James Rachels, "Active and Passive Euthanasia" (*New England Journal of Medicine*, 1975) in which Rachels argues against the moral significance of this distinction as it has been employed in the ethics of euthanasia.

and oppression, these ethical challenges will only get worse in the future. To meet these needs, the world's economy must produce substantial amounts of food, clothing, shelter, health care, and jobs, and distribute these goods and services to those in need. Clearly then, significant worldwide economic activity must occur if these harms are to be addressed at all.

But these ethical goals and the economic activity to meet them must rely on the productive capacity of the earth's ecosystems. Two facts about that ecosystem are at the core of my argument. First, the economy is but a subsystem within earth's ecosystem, and therefore that ecosystem establishes the biophysical parameters of economic growth. Second, that very ecosystem is already under stress due to the economic activity of human beings. Unless a model of business can be created that allows significant economic activity without further depletion of the biosphere's ability to support both life and the very economic activity on which it depends, humans are facing global ecological, economic, and ethical tragedy.

Fortunately, such a model of business does exist. What has been called, alternatively, "sustainable business," "the next industrial revolution," or "natural capitalism" provides a model of business which can, in the words of the UN Commission on Sustainability, "meet the needs of the present without jeopardizing the ability of future generations to meet their own." It is a model of business that emerges out of a paradigm shift in economics. We must abandon the economic model that takes *growth* as the economic goal and replace it with one that targets economic *development*. Paraphrasing the economist Herman Daly, economic growth means the economy is only getting bigger; economic development means it is getting better. Where economic growth, within a finite biosphere is necessarily limited, economic development never is.[4]

What is the model of business that emerges from this new economics? First, we should recognize that there is not a single, unique way in which a sustainable business should be organized. Several models have been described in the literature, but we can abstract some common aspects of these various models.[5] The first aspect is a significant increase in economic efficiency brought about by design changes inspired by biological processes. This alternative business model should be based on a principle of biomimicry in which wastes of the production cycle are recycled back into a closed loop. "Waste equals food," in the words of William McDonough and Michael Braungart. Just as the detritus of decomposed material is turned back into fertile soil within biological systems, sustainable business must be designed so that its by-products are themselves the resources for new productivity.

A second feature of sustainable business shifts the goal of production from goods and products to services. Human beings *need* surprisingly very few *products*: food,

[4] See *Beyond Growth*, by Herman Daly (Beacon Press, Boston: 1997).

[5] My own thinking on this has been particularly influenced by three approaches. Herman Daly's writing on ecological economics and especially in *Beyond Growth*; Amory Lovins, Hunter Lovins, and Paul Hawken's *Natural Capitalism*; and William McDonough and Michael Braungart, in "The Next Industrial Revolution" and elsewhere.

water, and clean air are obvious examples, and, so far at least, only the first two have become commodities. Human beings do need many *services*: education, health care, shelter, and security. As consumers, we need very few of the products purchased in the marketplace. What we actually *want*, although we often do not fully understand ourselves, are services. As the popularity of auto leasing shows, consumers want convenient personal transportation, not ownership of a 2,000 lb automobile. As the information technology industry is showing, consumers want easy access to software, Internet, and Email, not ownership of a soon-to-be-outdated piece of computer hardware or software written on 3½ in. floppies. As the carpet manufacturer Interface Corporation has shown, people want floor-covering services, not carpet ownership. This list goes on.

This focus on services rather than products has important implications for both business and consumers. By emphasizing services rather than products, business has strong financial incentives to create longer-lasting, more durable products that are easily recycled back into the product-stream. Significant entrepreneurial opportunities exist here for creative business leaders to seize this initiative in creating a service economy. Significant economic opportunity also exists as one-time product-purchasers become long-term service lessees. Consumers benefit if they are helped to escape what has been called a commodity fetish.

The final aspect of this alternative model requires business to invest in natural capital. For too long, business (and growth-based economics) has treated the productive capacity of the earth's biosphere as an unending revenue stream. Earth's productivity was something that could be spent without cost. Only in the last few decades have the true costs of spending down our natural capital been understood. The better metaphor is to think of the earth's productivity as capital, as something capable of generating revenue in the form of interest but not something that should be spent to the point where it is incapable of continuing to be a source of income. A prudent financial strategy is to spend interest but not capital. The earth has demonstrated a remarkable ability to produce life-sustaining necessities indefinitely but only if we maintain sufficient savings in reserve to generate these necessities indefinitely.

One of the most interesting things about this alternative model of sustainable business is the huge potential it holds for entrepreneurial activity. Creative business leaders will find vast opportunities for new business ventures that transform business from the old industrial model to the new sustainable model. Thus, the fear that doing good is too much to ask of profit-seeking institutions is ill-founded. Sustainable business does not ask managers to forego profits (although it would require that profits from ecologically destructive activities be abandoned); it only requires that profits be obtained in ecologically sustainable ways.

The ecological guidelines for this new approach to business are, in their most general form, relatively straightforward. The entire economic production process takes resources from the biosphere, turns them into products and services, and generates by-products (or wastes) in the process. The ecological guidelines for sustainable business mirror the two sides of this production cycle. Resources going into the production process should be used only at the rate at which they can be

replenished by the productive capacity of the biosphere. By-products and wastes of this production process should be generated no faster than the earth's capacity to absorb them.

More specifically, we can recognize that economic resources come in a variety of types. Some are nonrenewable, either in principle or in practice. Once a species becomes extinct, humans will never again have the ability to use it. Once oil or coal is burned, it is gone forever, in any practical sense of the word. Thus, use of nonrenewable resources ought, eventually, to be eliminated but should, in the meantime, be reduced to a minimum.

Other resources are renewable, some only within certain parameters, and others practically without limit. Agriculture, fisheries, and forests are renewable, but only if we use them at moderate rates. Used wisely, the earth can produce biological resources at a sustainable rate indefinitely. Other resources—energy produced by the sun, hydrogen, wind, tides, and geothermal sources—are for all practical purposes infinite. An efficient, wise, and ethical sustainable business will use these infinitely available resources first, moderate its use of other renewables, and wean itself from reliance on nonrenewables.

Similar guidelines can be developed on the waste and by-product side of business. Waste is a bad thing, both economically and ecologically. Sustainable business must strive to eliminate all of the wastes created along each step of the production cycle. In general, all wastes are sent back into the earth's biosphere and, to be sustainable, must not be put there beyond the capacity of the biosphere to absorb them. For some by-products that will be easy. Much agricultural waste, for example, can be recycled back into the earth as mulch. For other by-products, the pollutants of much of the petrochemical or nuclear industry, for example, that will be impossible. Such wastes will need to be eliminated. But, to emphasize, business wastes are not only an ecological harm; they are also an economic harm. As the word itself suggests, wastes are unused resources and any business that has a lot of waste is an inefficient and poorly run business. Great economic opportunities exist for discovering ways to transform this waste into useful resources.

Perhaps the best test of the plausibility of this next industrial revolution is a test of vision. Try to envision two futures. One is a future in which business acts upon the principle of sustainable development, redesigning itself to meet the economic and social needs of the present without jeopardizing the ability of future people to meet their own needs. The second is one in which the present paradigm of growth and consumerism expands to the earth's entire population, at present slightly more than seven billion people but in the near term even more. Envision a world in which the 1.3 billion people presently living in China used as many resources and created as many wastes as the 300 million people of the USA. One estimate has it that if China consumed oil at the rate of the USA, it would consume 80 million barrels of oil each day, more than the world's total production of 74 million barrels a day. If China consumed paper at the rate of the USA, it alone would use more paper each year than the entire world produces. If the Chinese economy ever reached the level of CO_2 emissions as the present US economy, China alone would produce double

the present worldwide CO_2 pollution.[6] Now imagine that same world in which the people of India, all one billion of them, join the economic party at the same rates. Add to that another billion people from Indonesia, Brazil, Russia, Pakistan, Bangladesh, and Nigeria. Which of these future worlds is likely to be economically and ecologically stable? Which of these future worlds is likely to be judged ethically better?

7.5 Sustainability and the Common Good

I would like to conclude with some brief reflections on how this model of sustainable business can appropriately be understood to serve the common good as understood within the tradition of Christian social doctrine. That tradition understands the common good, as defined in the Catechism of the Catholic Church as "the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfillment more fully and more easily."

Two aspects of this definition are relevant for the discussion of sustainable business. First, the emphasis of human fulfillment means that the good is not the good of market-provided consumer happiness. The common good is teleological not utilitarian; human fulfillment is not a matter of getting more of what one wants but of what one needs to lead a full and meaningful human life. On this model, economic growth is not a measure of how well economic institutions are serving the common good—serving human needs is.

Second, this definition recognizes that the common good is something that requires attention and work. The right "social conditions" are necessary for individuals and societies to further the common good. Human fulfillment does not emerge by an invisible hand working its magic. Human beings have the responsibility to create the social conditions under which fulfillment can occur. Business and economic institutions must be designed in ways that promote the satisfaction, not of consumer preferences but of real human needs. Such is the call of the common good of Christian social doctrine and such is the aim of sustainable business.

[6] These estimates are from Lester Brown, *Eco-Economy*: *Building an economy for the Earth* (W.W. Norton & Co., New York: 2001), Chapter 1.

Part III
Taking Aspiration into Practice

Chapter 8
Moral Intuition and Transformative Organizations

Gina Vega and S.M. Patrick Primeaux

Abstract This is a longitudinal case study about an entrepreneur in Massachusetts who exemplifies the practices and policies of a good company. Dave Ferrairo illustrates the transformative role played by organizational leaders who are committed to combining a focus on people, planet, and profit in such a way as to incorporate the principles of corporate social responsibility and Christian social teaching in their daily operations. Ferrairo's actions are compared with the songs of Bruce Springsteen, who develops in a similar three-stage process (rational, emotional, and spiritual) to move beyond the traditional "American Dream" to a focus on something other than oneself, other people, and nature. The focus becomes one of universality and appreciation of the common good.

8.1 Introduction

Richard Ryan and Tim Kasser studied the American Dream and discovered two distinct sets of aspirations directing people's lives towards personal well-being. The first of these refers to the "extrinsic aspirations" of self-acceptance/autonomy and financial success/money [1, p. 411]. Their study does not include an explicit examination of the behavioral attitudes, motives, and values required to attain them; however, their assumptions and conclusions suggest an attitude of competitive self-interest motivated towards success that enlists the values of selfishness and

G. Vega (✉)
Bertolon School of Business, Salem State College, Salem, MA, USA
e-mail: gvega@salemstate.edu

S.M.P. Primeaux
Department of Theology and Religious Studies, St. John's University, Queens, NY, USA
e-mail: primeaup@stjohns.edu

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ambition as behavioral determinants of these extrinsic aspirations. Together, these aspirations and behaviors imply a broader, overriding worldview identifying well-being with respect to individual independence.[1]

Kasser and Ryan also attribute "intrinsic aspirations" to the American Dream and identify these as affiliation/relatedness and community feeling/helpfulness [1, p. 411]. These aspirations imply a quite different combination of behavioral determinants: an attitude of cooperative concern for others, motivated towards happiness, and enlisting the values of compassion and altruism. This combination of aspirations and behaviors recommend another worldview identifying well-being with respect to relational dependence.[2]

They conclude that "less adjustment was consistently evidenced for individuals who held financial success as a more central aspiration" than affiliation, or community feeling, and, consequently, resulted in "less self-actualization, less vitality, more depression, more anxiety" [1, p. 420]. Later, Kasser recommended that scholars and practitioners become more attentive to the intrinsic aspirations and "help increase intrinsic and decrease extrinsic aspirations" by recognizing the personal and social implications of contributing to the status quo, especially with respect to work and business:

> Consider a man who aspires to make a great deal of money. By placing a great deal of emphasis on this particular aim in life, this man is likely to create a lifestyle for himself in which he works long hours, to chose a profession based more on its pay and status than on its inner rewards, and to make decisions that maximize his own personal material gain when confronted with certain quandaries. Such experiences and decisions, in turn, have ramifications for his personal quality of life and for the well-being of those around the man. For example, if this man works 80 hour weeks with rare vacations, little time is left to pursue enjoyable activities, to nurture relationships with his spouse and children, or to use his skills and talents to contribute to his community. As a result of this choice of values and goals, the well-being of the man, his family, and his community may all suffer [5, p. 33].

Kasser is describing American capitalism's tendency to wreak havoc on personal and social well-being by promoting longer working hours, presumably at the cost of relatedness and helpfulness. He is urging less emphasis on the motives, attitudes, and values of the rationally driven, individualistic extrinsic aspirations and more on those of the emotionally driven, relational intrinsic aspirations for, in his words, "the well-being of the man, his family, and his community." Kasser and Ryan recommend an approach to business and social ethics which enlists two basic perspectives, each of which connects human identity to human behavior, and recommend pursuit of the intrinsic rather than the extrinsic aspirations for personal well-being.

[1] For further information on intrinsic and extrinsic motivations, please see Maslow, A theory of human motivation [2], and Herzberg, One more time: How do you motivate employees? [3].

[2] For additional information on affiliative relationships, see Alderfer, *Existence, Relatedness, and Growth: Human Needs in Organizational Settings* [4].

Moving from psychology to philosophy, specifically to business ethics, fundamental disagreement with this dual perspective rises to the fore. As Trevor Cole describes the contribution of scholars at the University of Toronto to business ethics, he focuses on two difficulties arising from appeal to either the extrinsic or intrinsic aspirations. Cole cites Thomas Hurka as he addresses difficulties arising from adherence to the intrinsic aspirations and describes how easily the demands of relatedness and helpfulness can lead into unethical behavior. "Once the self-interested people start to cheat," he argues, "that affects the people who believe in fairness, because they're prepared to do what's right only so long as other people are doing it. And so they start to cheat" [6]. While focusing on Kasser and Ryan's intrinsic aspirations may contribute to personal well-being by promoting relational affiliation, it may also encourage and support unethical behavior. It betrays a tendency to go along with the crowd, to be accepted [7].

Cole also cites Dennis O'Hara's critique of extrinsic aspirations and his concern with how the principles of rational economics contribute to unethical conduct. "We've fallen in recent times into this notion that there has to be a single right answer," he claims, adding that "It's as if we want a catechism and everything's going to fit into this catechism." Moreover, that catechism "has to do with the bottom line—what's right for the shareholders is, de facto, right" [6]. For O'Hara, a worldview grounded in the extrinsic aspirations of self-acceptance/autonomy and financial success/money provides a platform for unethical behavior even as it encourages economic well-being.

O'Hara's and Hurka's insights call into question not only Kasser and Ryan's conclusions but also the American Dream itself and its relegation of aspirations and behavioral determinants to either of two distinct perspectives. To alleviate this impasse, O'Hara recommends another perspective. "When people convince themselves there is no higher accountability," he claims, "it's easier to believe the universe is essentially meaningless. Once you reach that conclusion, the concept of the common good falls away, and it's a short leap to deciding that the only purpose to life is one's own personal gain and pleasure" [6].[3] That loss of sensibility for "the common good" is caused, argues O'Hara, by an incremental loss of a religious sensibility or consciousness. "In the old days," he explains, "we had what we called 'the God of the gaps.' Whenever there was a gap in our knowledge—that was God. As science progresses you eventually fill the gaps and then, 'Oh, there's no God'" [6].

O'Hara is suggesting that reducing personal well-being to rational and emotional determinants of aspiration and behavior ignores not only a religious sensibility but also an appreciation of the common good. Personal well-being and good ethics are relegated to the limitations of their respective assumptions and conclusions. He intimates that a third perspective is needed to alleviate this limitation and recommends a third worldview, a third way of viewing the world through the lenses of another set of aspirations with its own behavioral determinants.

[3] See also Alford and Naughton, *Beyond the shareholder model of the firm* [8].

Appealing to a spiritual perspective, it is feasible to recommend a set of "transforming aspirations" to broaden appeals to individual independence and relational dependence to include consideration of universal interdependence. Further, why not address the underlying attitude, motive, and values of these "transforming aspirations" as reflective of spiritual transcendence accompanying commitment for delight, realized through wonder and detachment?[4] These aspirations and behaviors describe a third worldview identifying individual well-being with respect to universal interdependence.

These three perspectives—the rational, the emotional, and the spiritual—represent three different sets of aspirations and behavioral determinants of personal well-being which comport well with moral intuition, the innate sense of justice and right that we bring to bear on our decision-making processes and our behaviors and which guide our actions in relation to others.

The first focuses on the person as primarily autonomous and independent, as located at the very heart and center of the universe and as asking the question "what can you do for me?" In *A Heartbreaking Work of Staggering Genius*, the novelist Dave Eggers describes this perspective:

> Only here are you almost sure that you are careening on top of a big shiny globe, blurrily spinning. . .and we have been *chosen*, you see, chosen, and have been given this, it being owed to us, earned by us, all of this—the sky is blue for us, the sun makes passing cars twinkle like toys for us, the ocean undulates and churns for us, murmurs and coos to us. We are owed, see this is ours, see. [10, p. 5]

The second identifies the person as primarily concerned with, and directed towards others, placing the other at the center of the universe, asking "what can I do for you?" Carson McCullers, in *The Member of the Wedding*, describes this emotional worldview:

> Yesterday, and all the twelve years of her life, she had only been Frankie. She was a person who had to walk around and do things by herself. . .Now all this was suddenly over and changed. There was her brother and the bride, and it was as though when first she saw them something she had known inside of her: *They are the we of me* [11, pp. 39–40]

The third perspective, the spiritual, is focused on "something other" than oneself, other people, and nature and assesses human experience with respect to that transcendent other, asking "what can we do for that 'something other'"? This quote from Mark Salzman's *Lying Awake* describes this perspective in a manner at once reflective of a commitment for delight and of the accompanying values of detachment and wonder:

[4] Tim Kasser and Richard M. Ryan, "A Dark Side of the American Dream: Correlates of Financial Success as a Central Life Aspiration," *Journal of Personality and Social Psychology*, 65:2, 1993, 411. The authors describe "community feeling" in terms of "altruism" and "commitment." They also cite Maslow's use of the term "as a characteristic of self-actualizing people" and describe it themselves as "making the world a better place through one's actions." However, they also categorize it as an emotionally charged "intrinsic aspiration" without any transcendent referent.

Purify my heart and mind.
Empty me of my own will,
That I may be filled with Yours.
An invisible sun
A shock wave of pure Being
Swept my pain away, swept everything away
Until all that was left was God.
We hang suspended in His love
Perfect affirmation,
Perfect understanding,
Perfect silence:
Your love, dear God, in full voice [12, p. 7].

These three perspectives are not confined to psychological and philosophical scholarship or contemporary fiction. They are also evident in popular modern music, specifically in Bruce Springsteen's music and lyrics. They also surface in American business where they are readily discernable in interviews with David Ferrairo who owns and manages a small New England metal plating company.

Moving from scholarship, through literature, then to music, and finally into business, we are also moving from a more conceptual to a more experiential recognition of the interplay of these three perspectives. That recognition occurs precisely where personal experience influences personal consciousness, informs personal conscience, and translates into practical behavior.

We are also moving into an acknowledgement that ethical discourse need not always be pursued through grand theories or comprehensive models. It can also be pursued from the direct testimony and witness of people who have struggled with these concerns throughout their lives and who, gradually and incrementally, refine their ethical thought and practice with appeal to rational, emotional, and spiritual aspirations and behavioral determinants. We can see ethics deriving from action and theory emerging from praxis.

Bruce Springsteen's [9] *Greatest Hits* collection is an autobiographical reflection on changing moral and ethical sensibilities.[5] With disquieting and disturbing images, accompanied by deliberate, hard-hitting instrumentals and vocals, he reveals his own moral development, moving through three periods or stages as he searches for personal and ethical well-being: first, the aspirations and behavioral determinants of individual self-interest; second, those driven towards affiliation with people of his own place and time; and third, an appeal to universal transcendence readily translated into an appreciation of the common good. He seems to be asking, "What has the American Dream done to me?" and "What can I do about it for myself?"

David Ferrairo, entrepreneur and founder of DynaChrome, a small metal plating company in northeast Massachusetts, illustrates the transformative role played by organizational leaders who are committed to combining a focus on people, planet,

[5] Bruce Springsteen, *Greatest Hits* (New York: Columbia Records, 1995) [9]. The songs of this album are presented in chronological order of release, beginning in 1974 with "Born to Run" and ending in 1995 with "This Hard Land." And accompanying booklet provides lyrics for each of the songs which are also readily accessed through any number of one-line sites.

and profit (the phrase profit, people, and planet first appeared on a report on social entrepreneurship by the Dutch Social-Economic Planning Council in 2000) in their daily lives. Of the same generation as Springsteen and from a similar, working-class background, Dave has experienced a similar development. Since 1990, Dave has grown his own opus, suffered defeats, and risen again. His development, and that of his organization, parallels the three levels expressed above. Beginning with the self-interest necessary for an entrepreneur to succeed, Dave moved DynaChrome through successive shifts from affiliation with individuals and groups to a caring concern for the environment and for others as yet unknown to him. He seems determined not to succumb to the temptations of the traditional American Dream.

8.2 Bruce Springsteen: *Greatest Hits* and Individual Independence

In the first song of his *Greatest Hits* album, "Born to Run," Springsteen alludes to the American Dream, but with a graphic sense of urgency, "In the day we sweat it out in the streets of a runaway American Dream." Driving his "chrome-wheeled, fuel-injected" motorcycle along New Jersey's Highway 9, heading from Freehold to Asbury Park, he passes "mansions of glory" along the streets of a town he describes as "a death trap. . .a suicide rap" which "rips the bones from your back." In another song of this same period, "Badlands," he sings of "trouble in the heartland," seeing himself as "caught in a crossfire" between "the same old played out scenes" of an unidentified "dream," to which, he claims, we can only succumb, resigned to "live it every day." In "Born to Run," he tells us that he's a "scared and lonely rider." In another song of the same period, "Thunder Road," he sees the same fear and loneliness in others, telling Mary that "I know you're lonely" and "scared."

Why is it a "runaway American Dream?" Is it running away from him? Is its allure and appeal so illusive, so alien, that he can never hope to attain it? Or, is he running from it? Springsteen wants not only to confront his own alienation and isolation but also to escape it.

He chooses, instead, to run towards relationship and affection (with Wendy in "Born to Run," Mary in "Thunder Road," and an unnamed woman in "Badlands"). At the heart and center of his own universe, he envisions everyone and everything focusing towards fulfilling his own self-interest, even his intimate relationships. The women, like his motorcycle and guitar, are not only objects but possessions. They are his; they belong to him. They fulfill his vision of the American Dream: "Poor man wanna be rich/Rich man wanna be king/And a king ain't satisfied/Till he rules everything." Critical of the trappings of success, and of the individual alienation and isolation they represent, he seems, nevertheless, to want them for himself. What he really wants is the power that accompanies success, the power of individual independence which not only sets him apart from others but also provides the self-acceptance/autonomy and financial success/money which, as we

saw earlier, Kasser and Ryan identify as primary aspirations of the American Dream [1, p. 411].

The strong suggestion ensuing from this first period of Springsteen's music, as well as from his moral development, is the realization that this combination of aspirations and behaviors reflects the formative influences of his experience and has become inescapably determinative of his identity. Another strong implication is that individual self-interest is not only an indispensable dimension of personal identity but, accordingly, an attribute of personal well-being worthy of pursuit.

8.3 David Ferrairo: Entrepreneurship and Financial Independence

Financial independence presents the economic rationalization for a firm's existence. The role of business is to transform, and it does so in two ways. The first way is operationally. Operations take resources of some kind (raw materials, components, skill, information) and turn them into a desired result (products, services, knowledge) through the application of some process. This process, sometimes referred to as the black box because of the occasionally mysterious nature of the interaction, provides both the potential for change (the manufacturing process, the delivery system, the software application) and, presumably, a financial payback or return on investment (ROI). Why would anyone go to the effort of starting a business and not care about financial returns? This interest in returns is not really a first step in development; it is a necessary component of organizational success. However, the interest in returns must preclude other concerns in order for a business to be viable, and in such viability lies the lure of the American Dream for the entrepreneur. As Bruce Springsteen so eloquently put it: "Poor man wanna be rich/ Rich man wanna be king/And a king ain't satisfied/Till he rules everything."

Kasser and Ryan are not suggesting that there is anything inherently wrong with pursuit of the American Dream's extrinsic aspirations, nor are we suggesting that there is anything wrong with pursuit of the attitude, motive, and values required of their realization. The danger arises from the limited experience, insight, and perspective of the tunnel-visioned entrepreneur that precludes him from conceiving of alternatives to ROI and extrinsic rewards. When focused internally and on individual concerns, the entrepreneur cannot envision how pursuit of these extrinsic aspirations may contribute to humanity and to personal well-being. For Kasser and Ryan, it is not a matter of dismissing the extrinsic aspirations or of overcoming competition for success, rational self-interest, or even selfishness and ambition. It is a matter of softening their impact and of recognizing balancing alternatives for the unease and distress resulting from pursuit of them alone—the loneliness and fear from which Springsteen so desperately wants to run and which Ferrairo has demonstrated how to overcome through his relationships with his partner, his employees, and his family.

8.4 Bruce Springsteen: *Greatest Hits* and Relational Dependence

Recognizing that he is entrapped by his own self-interest, Springsteen begins to pursue a different focus encompassing a different worldview. He turns to pursuing concern for others, rather than for himself, as a guiding determinant of personal well-being. Other songs on the *Greatest Hits* collection reflect this transition from a focus on self-interest to a focus on concern for others. The extrinsic aspirations of the American Dream fade into the background—along with the accompanying attitude, motive, and values—and the intrinsic aspirations become dominant and central. He becomes much more attuned to affiliation/relatedness and community feeling/helpfulness, as well as to their accompanying attitude of cooperative concern for others, motivated towards happiness, and enlisting the values of compassion and altruism.

In "My Hometown," his focus shifts to people suffering the social anxieties of racial tension and economic depression as represented by "whitewashed windows and vacant stores." He has fond memories of sitting on his father's lap "in that big Buick and steer as we drove through town" during a time when neither of these difficulties were as apparent. In "Born in the U.S.A.," Springsteen assumes the role of the Vietnam veteran, frustrated and disillusioned, with no prospects for help, even from the Veteran's Administration, to find a job. Rather than focusing on himself and his own ambition and selfishness, he is beginning to identify with the anxiety and distress of others who had sought even the basic and rudimentary fulfillment of the American Dream's hope and promise.

Compassion and altruism are much more evident as Springsteen becomes attuned to the values needed to realize the "intrinsic aspirations" of the American Dream. This focus on others, on affiliation and relatedness, and on fellow feeling and helpfulness draws him into a new appreciation of humanity. The etymology of the word "compassion" reflects that changing perspective: the combination of the Latin prefix *com*, meaning "with," and the verbal participle, *patio*, referring to "suffering." The child driving around town with his father and the Vietnam veteran are not objects of compassion; they are subjects of compassion, people with whom he suffers.

8.5 David Ferrairo and Relational Dependence: Generosity of the Soul

Dave recognized the importance of relational dependence early on. In 1990, he and his partner bought the failing metal plating shop at which they were employed from the owner who wanted to retire. According to Dave, "Fred [the owner] took a liking to me and he took every dime on paper. We paid it off in seven years." From the start, Dave and his partner treated the employees well, so well that the men

followed DynaChrome when it moved from Rockport, MA, to its new headquarters in Lawrence, MA (a commute of 1 h each way). Dave's goal was to make it possible for everyone who worked for him be able to own their own home and send their children to a good school, just as he did: "We're all blue collar parents," explains Dave.

DynaChrome continued to grow quickly and soon moved to larger quarters in rural Seabrook, NH. Business was booming, and Dave and his partner bought new equipment and hired more electroplaters to fulfill the burgeoning requests from customers. Their new warehouse was 15,000 square feet on 3 acres of land, and the original workers from Rockport continued to commute to the new location. The factory now housed the largest chrome tank in New England—30 feet of bubbling, ominous-looking chemicals—along with multiple rectifiers and other plating tanks and a dozen workers (including Dave, Jr.) dressed in protective gear, busily working. DynaChrome had so many requests for work that they had to turn some away in order to maintain their level of ISO 9000 quality.

The inherent intrinsic satisfactions of growing a successful business operation were significant, but personal dissatisfaction with extrinsic rewards crept into the idyllic operation. After a decade of collaboration, Dave and his partner fell out over money. To Dave's dismay, he found his partner was "bleeding the company dry." His partner had become "greedy"; the more successful the company became, the "greedier" the partner became. Dave found all of his beliefs challenged by this betrayal. By the time he became aware of his partner's destructive self-interest, DynaChrome was deeply in debt and in serious trouble. Dave continued to bail out his partner until ultimately, after 2 years of struggle, DynaChrome was reorganized. As a result of the partner's runaway selfishness and ambition, the company had to be resolved. They split the company 50/50 in terms of sales and customers. Dave sold his interest in the land and physical plant in order to retire the huge debt incurred by his partner. Dave retained the name and little else. He and his son owned a business but no plant, no equipment, and no employees, and they felt sorely the loss of trust they had experienced.

Nearly concurrent with this process was an echoing experience. With a pained look, Dave recounts the story of Raul, another story of trust and misplaced confidence that paralleled the story of Dave and his partner.

While DynaChrome was still in Lawrence, located near a tenement, a young boy of nine or ten appeared at the plant door 1 day, looking for a part-time job. There's always more tasks than time and labor to do them in a small business, so Dave gave Raul some work and "a few bucks." The two developed a close relationship, with Dave mentoring Raul and helping out his family at holidays. With no privacy at home, Raul went straight to DynaChrome each day after school and did his homework there. Dave promised him a car and college tuition if he finished high school, stayed away from gangs, and didn't get any girl pregnant.

Wistfully, Dave told the bittersweet story of watching the new courthouse being built with Raul 1 day. He believed Raul would have made a great lawyer and he told the boy, "Look—they're building your office." But, when DynaChrome moved to Seabrook, the two grew apart in more ways than geographically. Dave's influence

diminished and, in late 2003, as DynaChrome was being divided up by Dave and his partner, Raul called and said he was in a bit of trouble with the police. When they met for dinner, Raul had pierced lips and gang tattoos. Regretfully, Dave told him "There's nothing more I can do for you—your best bet at this point would be to enlist." Raul never showed up for the appointments he made with the military. Raul's failure became Dave's failure. Years later, the story still makes Dave wince. "There's almost no way to make it [out of the barrio]. Raul had no role models—his father left him and his step-father left him. I feel a terrible sense of guilt."

The focus on others, the altruism, and the compassion shown by Dave reflect the second stage of personal well-being and good ethics—concern for people, appreciation of relatedness, and desire for affiliation.

8.6 Bruce Springsteen: *The Rising* and Spiritual Interdependence

In "Better Days," Springsteen tells us "my soul checked out missing as I sat listening/to the hours and minutes tickin' away." He realizes that without "soul," he has been "just sittin' around waitin' for my life to begin/While it was just slippin' away." This absence of soul has left him "tired of waitin' for tomorrow to come/or that train to come roarin' 'round the bend."

For Springsteen, "soul" appears attached neither to transcendent divinity nor to faith in God, or a god, or the gods, at least in any explicit reference to a revealed religious tradition. At the same time, though, we find that the "soul" does not represent an extension of relational fellow feeling or affiliation into an ever-broadening context. Neither theological nor psychological, the "soul" for which Springsteen is searching seems to refer to humanity and to its inherent capacity to transcend both self-interest and immediate others' interest.

It also refers to an inherent human capacity for transformation, for progressing from self-interest, through others' interest, to an all-embracing, universal, even "transcendent," appreciation of humanity. In the *Greatest Hits* collection, especially in "Blood Brothers," Springsteen's words and images reflect that transformational development. Speaking on the phone, reminiscing with a childhood friend, he remembers playing "king of the mountain" and standing "side by side each one fightin' for the other." Then he tells us, "there's so much that time, time and memory fade away." He's moved on from the self-interest of individual independence as well as from the concern for others of relational dependence. But, to what has he moved? He tells us, he is moving from "the hardness of the world. . .grindin' your dreams away. . .making a fool's joke of the promises we make" and into "the stars. . .burnin' bright like some mystery uncovered."

That "mystery uncovered" reveals an own motivating drive towards delight. For Springsteen, "delight" is attunement to a universal, individually and relationally transcending appreciation for the well-being of all humanity. It also corresponds to

an attitude of commitment focused on interdependence. Here, the word "commitment" is used in its etymological sense (from the Latin prefix *com*, meaning "with," and the verb *mittere*, meaning "to send out") and reflects Springsteen wanting to move out with others, all others, towards human interdependence.

But, how will this "transforming aspiration" be recognized and realized? How will we know it when we see it? For Springsteen, as reflected in words and music, it will become apparent through realization of the same principles described by Susan Stabile in her examination of the *Compendium of Catholic Social Thought*, especially in her discussion of the relationships among human dignity, solidarity, subsidiarity, and the common good.

What is "the common good?" According to Stabile and Christian Social Doctrine, it is "the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfillment more fully and more easily" [13, p. 8, *Gaudium et spes*, p. 26]. Focusing on "the dignity of the human person," Stabile reflects appreciation for universal human interconnection and community. "That individuals have dignity does not lead to the promotion of individualism," she writes, "but to the notion of living and existing in community" [13, p. 8]. That relational quality is also addressed with respect to "the common good," where, assuming transcendent universality, it becomes a matter not only of "the good of each person" but also of "the well being of the human person" determined by and "connected to the good of others" [13, p. 8]. It also dismisses any discrimination based on "race, sex, age, national origin, religion, sexual orientation, employment or economic status, health, intelligence, achievement" [13, p. 7].

This appreciation of the common good, especially when tied to an appreciation of human dignity, is not simply a matter of emotional connection but of spiritual interconnection. As such it is completely and totally removed from utility and control and from using others to enhance one's own self-interest or being used by others to meet their expectations. It is detached from utility and control.

This detachment becomes especially apparent in the songs of *The Rising*. Released in 2002, Springsteen's [14] song "Into the Fire" describes a fire fighter striving and dying to save people in the World Trade Center, sacrificing and surpassing immediate human intimacy because "love and duty called you someplace higher." Actually, he's suggesting that only faith, love, and hope inform the strength needed to restore the "soul that checked out missing." Springsteen prays to the firefighter: "May your strength give us strength/May your faith give us faith/May your hope give us hope/May your love bring us love." This prayer, however, is not addressed to the God of Jesus, or that of Moses, or that of Mohammed. It is, rather, addressed to humanity itself, represented by the firefighter. Why appeal to God, he seems to be asking, when we have within and among ourselves the capacity and resources—the strength—to realize faith, love, and hope in our own world?

This is an appeal to the principle of subsidiarity that Stabile describes. She quotes Pius XI's claim "that one should not withdraw from individuals and commit to the community what they can accomplish by their own enterprise and industry." She continues the quote: "So, too, it is an injustice and at the same time a grave evil

and disturbance of right order to transfer to the larger and higher collectivity functions which can be performed and provided by lesser and subordinate bodies. . .” [13, p. 9, *Quadragesimo anno*, p. 79].

Stabile describes subsidiarity with respect to government intervention, presumably civil governments because “they can easily ignore people participating in the formulation and achievement of aspirations” [13, p. 10]. Springsteen seems to agree, suggesting that people, on their own—perhaps because of his persuasive influence and urging—can achieve this appreciation of universal interdependence and work towards realization of its ideals of social justice and economic sustainability.

8.7 Dave Ferrairo: DynaChrome and Universal Interdependence

“I am a spiritual man,” says Dave, “not a religious one. Religion does some bad things—it leaves me with the ‘why’ of things that seem unfair. Some people want things from God that you should go out and get yourself.” As for Springsteen, Dave’s sense of spirituality is linked to humanity, to personal responsibility, and to transformation of self and of others.

Metal plating is one of the top five most highly regulated industries in the USA. It is dangerous, can result in poisonous by-products, and has the potential to create large-scale pollution. It is an industry where environmental regulations are sometimes ignored, yet Dave has never incurred an EPA violation. He is more than 100 % in compliance with all the regulations regarding clean air, clean water, and worker safety. Why? Dave explains, “When I started, there was no EPA and no way to process waste. There was no technology dedicated to this. It was common practice to dump cyanide directly into the sewer and then to the river. But things have changed. We practice evaporation as opposed to running water—when you treat waste water, you’re still creating hazardous waste. But our water is completely recycled back into the plating process. It reduces my chromic acid purchases (I learned afterwards) because a good percentage goes right back into the bath.” This serendipitous discovery amplified the reduced impact on the environment created by careful environmental practices.

This realization did not come immediately to Dave Ferrairo. At first, he viewed the demands of the regulatory agencies as an unwarranted imposition on doing business, particularly because of the time, energy, and money needed for implementation. However, Dave approached this challenge seriously, reading and understanding not only the legal mandates, but intuitively grasped their implications for his own personal well-being, that of all of his employees, and especially for the common good. He committed the resources of his company to transformational interdependence.

The fate of the planet is a shared responsibility; according to John Elkington [15], all businesses should be thinking and acting in terms of a triple bottom line: economics, environment, and social justice. Environmental sustainability addresses both protection of natural wealth (trees, water, air, etc.) and the renewability of sensitive ecosystems. In particular, businesses need to be concerned with "the life-cycle impacts of products; energy, materials, and water usage at production sites; potentially polluting emissions; environmental hazards and risks; waste generation; consumption of critical natural capital. . ." (577). DynaChrome takes its stewardship responsibilities seriously in its appreciation of the common good.

One of the reasons that Dave gave up on his partner was because of the vast differences between the two of them in terms of ethics and smart business practices. Dave adhered to the principle of self-discipline; that is, live on your paycheck, and at the end of the fiscal year, decide what to do with the excess. His partner maintained a different set of values, values that were more self-interested than concerned for others. Dave's concern for the common good demanded something different.

As Robert G. Kennedy states, "A business firm, then, realizes it potential not simply when it conforms to the criteria of efficiency and effectiveness (though it certainly must do this), but when it also becomes a real human community and contributes to the genuine development of the persons who participate in its activities" [16, p. 59]. Everyone who works for DynaChrome came in as an unskilled laborer, and they have worked their way up from $8.00/h to $35.00/h. At present, they are all skilled technicians and could leave at any time for another position; however, they are satisfied with their pay and with their working conditions. Dave trained them all, and he feels a sense of responsibility to them. He is not only concerned that his workers are paid what they're worth but, by extension, that all workers are paid what they're worth.

This responsibility goes beyond the principles of solidarity and social collaboration. It speaks directly to the inherent dignity of the individual and of work, committing to the growth of others and to their personal success. The same approach plays out with his customers, who Dave describes as "loyal and confident." It is DynaChrome's policy not to ship any mistakes to anyone, and this requires close collaboration with the people who are doing the work. He trains his operators to do the testing prior to shipping—they know (because he has trained them to know) what each part is for and what could happen if it fails. Something as small as a bearing can have a significant impact on an airplane's safety, for example, and an impact on the dignity of human life. Dave's concern moves beyond the interest of his company and his own employees to a concern for the safety of all people. In an unspoken focus on subsidiarity, Dave pushes the decision-making down as far as he can, right to the operator, and as a result reduces human error to a great degree. He also builds loyalty in a way that connects social responsibility to subsidiarity.

The loyalty that Dave and his employees share has led to an exit strategy that rewards long-term employees, protects Dave, Jr., and still promises a comfortable life for Dave in the future. It also recommends that same comfort to his employees

as reflection of the inherent dignity of the worker and work. With Ron and several others who have been with him from "day one," as he established his latest iteration of DynaChrome, this time in Newburyport, MA, Dave decided that he needed to reward the "valued employees who have contributed to the success of the company over the course of years." He explained, "They show trust, devotion, reliability—they act like they own it. Why shouldn't they own it?" And, as simply as that, the decision was made to sell part of the company to employees.

Proudly, he announced that he now has his first employee–owner partner and is looking forward to having others. When questioned about the response of his son, Dave said, "Dave, Jr. wants it as much as I do. He's not greedy and he needs them and their expertise." Dave's spiritual, transformational perspective is becoming contagious and informing the worldviews not only of his son but of everyone involved in the business. When questioned about growth, the response is "I want to grow to a point where all parties involved have financial independence; my lifestyle is not going to change much." Joint ownership will lead to economic sustainability and is likely to extend the life of the organization at the same time as it protects the livelihood of the employees and owners. Dave's concern for joint ownership reflects an appreciation of the need to sacrifice one's own self-interest for the interest of others in one's immediate experience as well as for the interest of the common good.

But the challenges continue. We last met with Dave Ferrairo in his Newburyport plant. The conference room was raw space with sheetrock walls. Folding chairs and table comprised the furniture, and they were in the process of upgrading the electricity to 480 V to reduce kilowatt hours for the massive tank which would be installed shortly. The search for and preparation of a new factory was a significant commitment, but after the plans were under way, Enron went belly-up, and they lost 80 % of their power generation capability and, as a result, their customers. Bit by bit, DynaChrome recovered. In 2006, the market has returned to "normal." In order to open this new plant, Dave had to sell his home and move in with his son's family. The family considers this a benefit, as Dave can spend more time with one of his granddaughters. He has no regrets after 30 years in the metal plating business: "After 30+ years, I'm still challenged. Every day is different. And every month is a record month."

He knows how to make the world a better place:

- Guide and encourage my grandchildren's values.
- Satisfy my customers with quality and make a contribution to their success.
- Know and respect the consequences of product failure—insist on doing it right.

Moving from the immediate concern for his own family, through a broader concern for traditional stakeholders and into an ever-expanding concern for universal wellbeing, Dave is striving (perhaps intuitively) to enact in his own business the principles of solidarity, subsidiary, and the common good described by Stabile.

Coupling these principles with the practices that underlie corporate social responsibility creates an opportunity to move principles to action. CSR suggests multiple practices, clearly outlined in the Caux Principles, a stakeholder approach

to business, and a triple bottom line. Kyosei and human dignity—the operationalized intention to respect all people and to act in concert with their best interests—correspond to solidarity. The stakeholder approach to business requires that we consider all those affected by our actions when we make business decisions and corresponds to social collaboration. In brief, we respect the needs and interests of humanity and nature when determining our own best interest, and the triple bottom-line focus on people, profit, and planet, guides our business actions to a broader, more inclusive and responsible conclusion.

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Chapter 9
The Posture of Services

John Larrivee and D. Kirk Davidson

Abstract Much of the inquiry into the responsibilities of an organization—whether from a religious perspective, for example, Christian Social Doctrine (CSR is commonly understood to include not only all forms of business organizations, e.g., partnerships, sole proprietorships, as well as corporations, but also not-for-profit organizations. In this chapter we will be using the terms corporation, firm, or business with the understanding that they may have a broader connotation), or from a secular perspective, the corporate social responsibility field—has been focused on the employees of the organization, to a lesser extent that inquiry focuses on the organization's responsibilities for environmental issues, usually emphasizing sustainability. Yet an argument can be advanced that the central purpose of any business is to *exchange* something—goods, services, or ideas—with a group of "customers." If so, then any comprehensive inquiry into the responsibilities of businesses must include a systematic look at those goods, services, and ideas and also on the processes and policies through which the company markets them. This, then, is the rationale for the title and substance of this chapter.

9.1 Introduction

Much of the inquiry into the responsibilities of an organization—whether from a religious perspective, for example, Christian Social Doctrine,[1] or from a secular perspective, the corporate social responsibility field—has been focused on the employees of the organization, to a lesser extent that inquiry focuses on the organization's

[1] CSR is commonly understood to include not only all forms of business organizations, e.g., partnerships, sole proprietorships, as well as corporations, but also not-for-profit organizations. In this paper we will be using the terms corporation, firm, or business with the understanding that they may have a broader connotation.

J. Larrivee (✉) • D.K. Davidson
Richard J. Bolte, Sr. School of Business, Mount St. Mary's University, Emmitsburg, MD, USA
e-mail: larrivee@msmary.edu; davidson@msmary.edu

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responsibilities for environmental issues, usually emphasizing sustainability. Yet an argument can be advanced that the central purpose of any business is to *exchange* something—goods, services, or ideas—with a group of "customers." If so, then any comprehensive inquiry into the responsibilities of businesses must include a systematic look at those goods, services, and ideas and also on the processes and policies through which the company markets them.

Let us keep in mind a fundamental question as we pursue this exploration: is marketing at its very core a cooperative or an adversarial function? Pick up any marketing textbook, and one will learn that successful marketers adopt a "marketing concept," by which the textbook author means a dedication to providing what the customer wants and needs, as opposed to the now-outdated concentration of providing what the firm happens to be able to produce. One will learn also that marketers "add value" to their products through the programs, strategies, and tactics of the marketing process. Chapters in recent texts are devoted to customer relationship management, now with its own acronym CRM, and to "lifetime customer value." All this would seem to point toward marketing as a cooperative function. Basic microeconomic theory seems to support this view. Buyer and seller come together in the marketplace, and unless both sides are satisfied, no sale will be made.

And yet who would deny that there is a darker side to marketing? Since for-profit firms, by definition, seek a profit from their marketplace exchanges, there is the natural tendency to push selling prices and margins to whatever the market will bear: to reduce the buyer's surplus. When buyer and seller come together in the marketplace, each is bargaining, negotiating, or strategizing to extract the "best deal" from the other. Consider the process of a real estate transaction or a trip to an automobile showroom as examples. From this perspective, the exchange process takes on an adversarial coloration.

Although this dichotomous perspective can be applied to all marketing activities and to all product categories, in this chapter we focus on only three marketing situations: where the products themselves, although legal, are nonetheless "socially unacceptable" [1], where producers promote "excessive" consumption of their products, and where the advertising of products uses and promotes inappropriate values. We will show how each of these situations might be analyzed through a corporate social responsibility (CSR) lens and also a Christian Social Doctrine (CSD) lens. Highlighting the differences and similarities between these two systems and showing how the two complement one another, we believe, adds to the dialogue which is the purpose of this volume.

9.2 Corporate Social Responsibility: An Overview

9.2.1 Basic Tenets

Corporate social responsibility (CSR) is now a widely used phrase, an increasingly important concept in the practice of business, and a dynamic, evolving field of

academic inquiry. Thus far, however, it has defied a precise definition. To provide that definition we will leave to others, but it is important to establish two essential tenets.

First, at its very core CSR recognizes the fact that every business[1] operates within a complex environment and that the economic, political, and civil society spheres of this environment impact and interact with one another. This leads to the conclusion that a business has social relationships and responsibilities *in addition to* its long-acknowledged economic responsibilities. At the very outset it is important to recognize that these social responsibilities, however limited or extensive they may be, in no way replace or supplant the firm's economic responsibilities. Critics, notably Milton Friedman, often argue that a firm's economic responsibilities will be neglected or subordinated if it acknowledges or if it is forced to assume social responsibilities. This is a misunderstanding of the CSR concept.[2]

Second, and flowing from this expansion of a firm's responsibilities, is the understanding as part of CSR that a firm has multiple stakeholders *in addition to* its owners/investors/shareholders. A great deal has been written (e.g., [5, 6]) about how limited or expansive this term "stakeholder" should be, what it means to have a "stake" in a business, and what relationships and responsibilities flow from being a stakeholder. Here it is sufficient to recognize (1) that CSR assumes the existence and importance of a multiplicity of stakeholders, (2) that the competing and often conflicting claims of these stakeholders must be managed by the firm, and (3) that invariably a firm's customers are counted as primary, i.e., important, stakeholders. As noted in our introductory section, in spite of the important position in the stakeholder constellation accorded to customers by virtually every author on the subject, the relationships and responsibilities between a firm and its customers have received relatively little attention, especially in comparison to employee and environmental issues. (The books and articles of George Brenkert, Gene Laczniak, Patrick Murphy, John Quelch, and Craig Smith are notable exceptions.)

9.2.2 Carroll's Pyramid of Corporate Social Responsibility

Archie Carroll's pyramid of corporate social responsibility provides a useful model for understanding the CSR framework. The pyramid breaks down a firm's responsibility into four components: economic, legal, ethical, and philanthropic. Firms must meet the first levels of responsibility to survive. But society expects them to meet the

[2] Such arguments assume explicit actions are not necessary as long as markets run perfectly. If so, free interaction may insure that people will have addressed the societal outcomes they want privately, and their tastes (both for consumption and for work) will be reflected in their market behavior. If society believes a product is bad, it will become reflected in lower sales and thus lower profits. Thus the moral or ethical societal outcome people desire occurs, but not via the explicit actions of the firms. Those who wish to accelerate the process should work to change the personal tastes that underlie the consumption decisions, not make the firm do something beyond its scope. However, the presence of market failures (e.g., consumption externalities, addictive behaviors) implies the market will not give an efficient outcome and firms may well be the best places for society to have corrective actions taken.

demands of the upper levels as well. A firm is expected to go further in carrying out its social responsibilities; it is expected to do the "right thing" in its relationships and interactions with all of its multiplicity of stakeholders. Exactly what this means—just how far a firm is expected to go in balancing its own wants and needs (i.e., its profits) with the wants and needs of its employees, of its customers, and of the communities in which it operates, to name only a few of the firm's stakeholders—is not at all clear.

Finally, Carroll recognizes a fourth level or dimension of corporate responsibility which he labels philanthropic or discretionary. Here too the definition is vague, but the implication is that a corporation has an obligation, to the extent that it is able to do so, to be a good corporate citizen, to give back, and to benefit the communities and other stakeholders it affects. This is at the very top of his pyramid which implies that it must rest on a solid base, first and foremost, of economic performance. While the bottom two levels of responsibilities are required and the third level, the ethical responsibilities, is expected, this final layer of responsibility might be described as desirable.

Carroll's pyramid is a useful conceptual tool because it makes clear that corporate social responsibility has multiple dimensions. While we have emphasized that the two lower tiers, the economic and legal responsibilities, are essential for a firm's long-term viability and that the two upper levels, the firm's ethical and discretionary responsibilities, cannot be realized in the absence of a solid base, that does not mean, however, that the upper levels are less important. Indeed, the question of importance will depend largely on the stakeholders involved in any given issue. While it may be safe to generalize in saying that satisfying economic responsibilities is most important for a firm's owners, the customers of that firm are often far more interested in ethical matters and the communities in which the firm operates more focused on discretionary matters. And because of this different focus on the part of various stakeholders, it is also the case that a firm cannot "substitute" one set of responsibilities for another. For example, even though Philip Morris, now Altria, has been very generous in its philanthropic contributions in support of the arts, that has done nothing to blunt the attacks of critics who stress that making and selling cigarettes, which contribute to the deaths of 1½ million people around the world each year, is fundamentally and inescapably an unethical business practice.

9.2.3 Frameworks for Ethical Analysis

The specific issues we focus on in this essay, involving a firm and its customers, relate to the firm's ethical responsibilities, the third level of Carroll's pyramid. Ethicists have developed a number of frameworks or systems for organizing deliberation over ethical matters. *We consider several of these which have been used within CSR here: utilitarianism, rights, justice, Kantian ethics, and virtue ethics.*

One of these is utilitarianism, in which the goal is to achieve the greatest net benefit to all individuals, companies, or other parties and interests who are affected by the contemplated action. This requires an assessment of the consequences of any decision. In theory, this is not much different than a cost–benefit analysis, a standard

business tool, but in practice it is a far more complex process. It requires, first, that every benefit or hardship, now or in the future, to every person, organization, or even such things as the environment that might be affected by a contemplated action be recognized. Next, these benefits and hardships must be measured. For some items such as the costs to a firm of adding a safety feature to a chainsaw, this is a straightforward exercise. But the measurement of the corresponding benefits—the value of preventing accidents or even deaths, for example, or the value of the added confidence among consumers generally in being able to rely on a reasonable level of safety in the products that they buy—is a far more subjective procedure. Finally, costs and benefits must somehow be weighed against each other. Does the value of the accidents prevented, a benefit to customers, outweigh the costs to the shareholders of the firm either in terms of lowered profits or foregone sales? Surely there is a point at which the costs of adding a safety feature outweigh the projected benefits. In customer issues it is not uncommon to be forced to weigh consumer safety against the firm's profitability.

Another framework involves the analysis of rights and the corresponding responsibilities that flow from those rights. Just as there is general agreement that firms have a right to make a profit, so too is there some understanding that individual consumers have a right to safe products. Indeed this was one of President John Kennedy's Consumer Bill of Rights. And an argument can be raised that our society has a right to some reasonable level of confidence in the safety of products generally. Where these rights compete and conflict with one another, managers must make the often difficult decisions as to whose rights will prevail. Must the safety feature be added to the chainsaw even though that action will result in lowered profits?

Principles of justice, equity, and fairness represent another approach to analyzing ethical questions. One might challenge the chainsaw manufacturer's decision by asking if, in not including the safety feature, the manufacturer was treating the ultimate customers and users of the chainsaws fairly, especially those customers who had only limited knowledge as to how to use the equipment. John Rawls, the American philosopher whose work has developed our understanding of justice as an ethical framework, insists that to act fairly and justly the least advantaged among us must be given preferential treatment. In issues involving a firm and its customers, this means not only that the firm must not deceive its customers but that it must go further and take the positive step to provide the customer with all necessary knowledge to avoid any harm.

A related ethical formulation capturing all three principles is the "golden rule," which, in a variety of formulations, can be found in virtually all philosophical and theological systems. Within Christianity, this was expressed as "Do unto others as you would have others do unto you." Immanuel Kant incorporated this principle into his Categorical Imperative, *using a two-part test of* reversibility and universalizability. If the chainsaw manufacturer opts to not include the safety device on its products, would it be willing to accept the same treatment by its equipment suppliers?

Or would the chainsaw manufacturer want to do business in a global system with no minimal consumer safety requirements whatsoever?

Finally, another commonly used approach in CSR analysis is virtue ethics. It recognizes that there are certain characteristics that people of all cultures and of all times have considered virtuous: loyalty, integrity, and honesty, for example. The test here is: if the chainsaw manufacturer is to be honest and act with integrity, must it include the safety device on its product?

The very notion that there are questions raised of proper behavior in the relationship between a corporation and its customers suggests a rejection of the ancient *caveat emptor* standard of doing business, under which, once the buyer and seller had agreed to an exchange, the responsibility for any fault in the product or for any harm done by the product lay entirely with the buyer. And this raises again the question whether marketing is fundamentally a cooperative or an adversarial process. Indeed, we have come a long way from the standard of *caveat emptor*. We now have a complex system of laws and legal precedents to adjudicate matters of product liability, and we have both governmental and nongovernmental regulatory bodies to monitor firms' advertising claims. But to return to Carroll's pyramid explanation of corporate social responsibility, it is not enough merely to make a profit and to obey the laws while doing so. The society in which the firm operates has its own standards of ethical behavior to which it expects the firm to adhere. To make business decision making even more difficult, these standards are often vague, uncertain, and poorly understood. And they shift over time and vary from one culture to another.

Another introductory point needs to be made. In most customer-related issues, indeed in almost all business ethics issue involving any set of stakeholders, the contemplated action sets the firm in opposition to the specific stakeholder in some way. For example, the chainsaw manufacturer's decision not to include a safety device on its product benefits the firm by increasing its profits but imposes health and safety risks on the customer. Using deceptive advertising presumably works to the advantage of a firm and to the disadvantage of the firm's customers.

Such is not the case with our three issues. In the production and marketing of cigarettes, alcoholic beverages, and gambling, both the seller and buyer are satisfied with the exchange. It is not the customers of Altria, Anheuser-Busch, or Trump Casinos who raise objections or feel disadvantaged in some way. In like manner, it is not the purchaser of a new mobile phone, with a perfectly good model already in his pocket, who objects to the transaction because it is unnecessary, it uses resources better used elsewhere, and it adds marginally to the problems of waste disposal. That buyer is just as happy with the exchange as the seller. And when the marketers of apparel, automobiles, wine, or dining room suites imply in their advertising that buyers will somehow achieve an enhanced social status by purchasing their products, it is not the buyers who raise ethical concerns about the advertising of the products. Ironically, in all of these transactions, both buyer and seller are perfectly satisfied.

From where, then, do the objections arise? Who raises the criticisms and creates the issues? Advocacy groups, self-appointed critics, civic and church leaders, and sometimes entire communities rise up to call the sellers to task for what the advocates perceive to be inappropriate and unethical marketing tactics. The assumption is that the buyers themselves, the actual customers, are either unable to protect themselves

or unable to understand the ethical issues of the exchange process. An additional and important assumption is that while the exchange may satisfy both the individual buyer and seller, the public good is somehow compromised and damaged.

In our commercial world today, it stands to reason that a firm must bear the responsibility not only for the products it produces but also for the ways in which it markets and promotes those products. In this chapter we will go on to explore both of these dimensions. By definition, socially unacceptable products raise ethical questions about the products themselves. Advertisers' use of inappropriate values involves marketing, advertising, and promotion. And our look at the problems surrounding overconsumption involves both the products and how they are marketed.

9.3 The Production and Sale of Socially Unacceptable Products

There are a number of products and services in our society, the production and sale of which are perfectly legal but which are questioned and criticized by significant societal groups. For example, the promotion of malt liquor, beer with high alcoholic content, to young, African-American males in urban centers has been widely criticized. Breweries claim that this is the target market for the product, and therefore, designing a promotional strategy to appeal to this group of customers makes good business sense. Critics respond that such tactics are unethical because this target market is especially vulnerable due to their age and susceptibility to alcohol-related health problems. *Other current examples include* tobacco products, prostitution and pornographic material, firearms, gambling, video games with highly explicit sex and violence, and even certain fast-food items.[3] It is these categories of goods and services that we refer to as socially unacceptable products.[4] *Some are criticized for their inherent nature (e.g., prostitution) and others for the fact that some consumers are compromised in their ability to make decisions in the first place (e.g., gambling or alcohol).*

[3] The legality of these products and services changes over time and place. Alcoholic beverages were illegal during the prohibition years, at one time tobacco products were banned, and the public sale of certain types of firearms is prohibited. Prostitution in this country is legal only in certain counties in Nevada. Some states or communities allow casino gambling and have state-run lotteries; others do not. In virtually all instances the production and sale of such products and services are subject to extensive government regulation.

[4] Goods which are socially unacceptable (e.g., prostitution and pornography) depend upon a widely shared sense of the morality of the given activity. However, cases of addiction, and especially consumption by children, raise problems for a laissez-faire utilitarianism. Shareholder and stakeholder models rest on the assumption that agents are making rational calculations based upon their self-interest in consumption. This rationality is less likely to hold in these cases. Thus in these cases profit maximization would not likely be consistent with utility maximization implied by the shareholder model. The same problem would occur with the stakeholder model, except in this case the firm must respond to the needs of customers as perceived by the firm, not as might be revealed.

9.3.1 Corporate Social Responsibility Critique

Utilitarianism. *How might we analyze such issues through a utilitarian lens? Consider the example of high alcohol content products marketed to African-American males mentioned above*. On one side of our ledger would be the benefits, the profits that accrue to the breweries. On the cost side would be the social problems resulting from such promotion: increased alcohol addiction, increased crime, property damage, higher law enforcement and insurance costs, and the like. But how well can we measure those costs, and to what extent are those increased costs actually attributable to the promotion of malt liquor? As is often the case, a comprehensive utilitarian analysis is hard to perform because measurement of benefits may be difficult and utilitarianism itself provides no other principles outside of utility to use to resolve uncertainties.

Rights and Responsibilities. Whenever criticism is leveled at one or another of these products, the question of rights comes immediately to the surface. Do not individuals have the right to smoke cigarettes, frequent casinos, or drink alcoholic beverages, assuming that they are of an age permitted to do so by law? If so, corporations should have the right to offer such legal products and services for sale. On the other hand, such rights cannot be absolute. What of the rights of others: nonsmokers to a smoke-free workplace, or communities to protect themselves from the pain, suffering, and other costs created by drunk drivers? If the costs of public health care are exacerbated by growing problems of obesity or smoking, societal concern for the public good implies the right, to regulate the sale of sugar-laden soft drinks, fat-filled hamburgers, and tobacco products. In the end, this particular framework of ethical analysis leaves us with conflicting rights and responsibilities which must be negotiated and balanced.

Justice and Fairness. For this reason, CSR instead often approaches these questions using criteria of justice and fairness, especially when the customers, the buyers of the products, are part of what are known as "vulnerable groups."[5] The marketing of Uptown cigarettes by Reynolds Tobacco Company was criticized because African-Americans, for whom the brand was designed and to whom the cigarettes were marketed, suffer higher than normal health problems from smoking. The marketing of cheap whiskey in small, affordable bottles, aimed specifically at down-and-out, Skid Row inhabitants, is criticized because it is seen as unfair to take advantage of people who are unable to make sound decisions for themselves. Advocacy groups criticize the promotion of state lottery tickets because they say it takes unfair advantage of addicted gamblers.

While it is true that using the analytical concepts from the business ethics tool bag often does not yield precise answers to concerns raised about the marketing of socially unacceptable products, using these ethical frameworks leads to the conclusion that

[5] The case of marketing to children is considered below.

firms must consider more than their bottom line. There is a wider public good at stake. Producers must do more than simply make a profit and stick to the letter of the law, that is, they must do more than satisfy Carroll's two lower levels of responsibility. If such firms are to maintain for themselves a legitimate and long-term role in the business community and in the wider society of which they are a part, they must satisfy a level of ethical responsibility as well. They must exercise some restraint in finding a way to satisfy multiple stakeholders (shareholders, customers, and communities), and they must balance both economic and social responsibilities.

9.3.2 Christian Social Doctrine Critique

On the other hand, in some of these cases, CSD offers a more explicit position than CSR. First, in the case of goods or services which the Christian Church considers immoral (e.g., abortion or prostitution CCC 2345, 6; euthanasia, sales of organs, slavery), human law cannot contradict natural law. Thus Christian business owners and workers are discouraged from participating in such activities and encouraged to work toward making them illegal in society.

For goods which are neither explicitly condemned in Christian teaching nor outlawed by society, solidarity encourages consideration for the impact a business has on individuals and society. Neither gambling nor alcohol is morally problematic in itself. In fact, the *Catechism* specifically states that gambling is not morally prohibited, but observes that people (consumers and suppliers) must be wary of addiction to it (CCC 2413). The problem is one of effect: the loss of an addict's freedom to make decisions and the impact of the choices he or she makes on himself or herself and others due to that addiction. This reflects a specific case of *Centesimus Annus*' (42) more general description of any occasion in which people come to live for consumption, rather than seeing consumption as supporting life.[6]

In these circumstances, firms run the risk of using people as means to an end, rather than ends in themselves, and invert means and ends of the created order (CA 41). Rather than serving their customers, firms benefit at the expense of certain groups of them. For CSD, the intent is clear: firms must not seek to gain from the weakness of their customers. This would likely discourage, for example, deliberately expanding sales to alcoholics, raising nicotine levels in cigarettes, or the use of credit cards in casinos and encourage businesses to consider other ways in which harmful effects of their products can be reduced.

[6] As *Centesimus Annus* 42 states, "A person who is concerned solely or primarily with possessing and enjoying, who is no longer able to control his instincts and passions, or to subordinate them by obedience to the truth, cannot be free: obedience to the truth about God and man is the first condition of freedom, making it possible for a person to order his needs and desires and to choose the means of satisfying them according to a correct scale of values, so that the ownership of things may become an occasion of growth for him."

It is true that in many of these cases, subsidiarity implies that—for their own development—consumers must take responsibility for making wise choices regarding existing products. This might be the case with large servings which benefit those with little income, but problematic for those inclined to consume too much. In some cases, however, subsidiarity may imply greater responsibility on the part of firms as they are in an important position regarding the products they choose to develop and the means by which they market them. In such cases, an appropriate sense of solidarity is important to assist people in companies in considering the needs of those who are affected by their actions.[7]

9.4 Fostering Overconsumption

Overconsumption is a tough problem to address socially but even tougher from the perspective of a firm's responsibilities. Assuming that most products made by most firms are intended to be good and useful, the problem here is too much of a good thing. Given that for most of human history masses had too little, it is not surprising that there is far less reflection on the difficulty of urging people to consume less, and the firm's role in doing so in any tradition.

The problem of overconsumption can be viewed from both a macro and a micro perspective. In the macro sense it means using up scarce resources and, at the other end of the consumption pipeline, creating more waste than the planet can absorb. In the micro sense it means buying another pair of $120 sneakers to add to an already full closet, buying a new mobile phone with added gadgetry and throwing away a perfectly serviceable unit, and buying and consuming too much food, especially the unhealthy kinds. These two perspectives come together when we consider packaging, which requires the consumption of diminishing timber resources but which may be used, in the case of supermarket bags, for only a few minutes; when we think of buying gasoline-guzzling SUVs which consume too much of our limited petroleum stock and add to pollution problems as well; and when we locate new luxurious retirement communities in desert settings and put excessive strain on dwindling supplies of water to maintain the golf courses. In developed countries, and particularly in the United States, environmentalists join in a chorus with health experts in urging us to stop consuming so much.

These complaints are all the more powerful in light of the strong evidence that, above income levels generally exceeded in the developed countries, such consumption provides little additional gain in utility. Whatever the reason—e.g., the pressure of advertising, comparison with others in a reference frame [7–10], or psychological adaptation—numerous studies across the developed countries reveal the same pattern: measured life satisfaction has increased little despite huge gains in income and

[7] Considering the needs of those who are *not* or should not be customers has a parallel case with externalities, in which the firm is responsible for effects it has on others.

consumption [11, 12].[8] Unlike utility gained from relationships, marriage, and health changes (which are large and permanent), that from consumption is small and fleeting.

These issues create a serious problem for managers, especially marketers, whose most basic goal is to get us to consume more. What car salesman questions whether we really need a third automobile for our family? Where is the real estate developer who builds 3,000 square feet homes to conserve land and lumber when there is a demand for luxury 8,000 square feet homes? What brand manager, teamed with an aspiring ad agency executive, does not dream of setting new sales records by increasing the demand for his or her product? This is a steep mountain for corporate social responsibility (or CSD) advocates to climb. How can a business satisfy both its economic and its social obligations when those obligations compete and conflict with one another so directly?

9.4.1 Corporate Social Responsibility Critique

Utilitarianism. From the macro perspective described above, we might well conclude that to promote the greatest good for the greatest number, we must limit our consumption of scarce resources, whether it be potable water, petroleum, timber, or land. True enough, there are profits (benefits) to be made from the production, sale, and consumption of such products, but environmentalists make a compelling argument for restraint. The costs associated with dwindling resources and the diminished ability of the population as a whole, and especially of future generations, to enjoy the economic and aesthetic benefits of natural resources are indeed high. The case for the public good being more important than the additional profits for individual companies is a strong one.

From the micro perspective the case for restraining consumption is a more difficult one to make. How does one value the use of a supermarket plastic bag, even if it is used only for 20 min before being discarded? How does one put a value on our freedom to choose even those items like fat-filled cheeseburgers or a sugary soft drink that are not good for our health? This freedom to express our individual preferences through our consumption is, after all, the engine which drives our capitalist economies. Who can quantify the value of that freedom? It is only in the case of the most egregious examples of health-related risks such as those associated with cigarettes and alcoholic beverages that society dares to put legal and regulatory limits on consumption.

Rights and Responsibilities. This is a difficult framework by which to justify restraining consumption. The rights of companies and individuals to spend their assets as they choose, for example, to promote and consume delicious, fatty

[8] While some have criticized this conclusion, the evidence seems more likely to indicate that above a certain income level, marginal utility drops off very rapidly. Thus the overall conclusion that additional consumption (for the developed countries today) provides little additional utility describes the current circumstances quite well.

cheeseburgers, are powerful, treasured, and well-protected rights. The public good and the rights of society to protect itself against mounting healthcare costs are not so clearly defined.

Justice and Fairness. Nor has a convincing case been made that it is unfair for fast-food chains or sneaker manufacturers to promote excessive consumption. While some argue that the power of advertisers to create unnecessary demand is too great, that customers simply cannot resist the advertising blandishments, others dismiss this and claim that advertisers cannot create demand at all, only recognize the wants that consumers already have and attempt to satisfy those wants [4, 13].

In sum, CSR advocates have not taken up overconsumption as an important issue. The environmental lobby works at the margin to preserve resources, and public health advocates have had success in restraining consumption of a limited number of specific goods such as cigarettes and more recently fatty foods and soft drinks. But regarding the broad view of overconsumption, in both its macro and micro connotations, the *general belief appears to be that* the freedom of individuals to make decisions about their spending and consumption habits currently far outweighs concern for any detriment to the public good.

9.5 The Use and Promotion of Inappropriate Values in Advertising

The last of our three subjects, the use and promotion of inappropriate or problematic values, is not a product or a service per se, but the method or the tactics used in marketing and promoting products or services. The most commonly observed of these inappropriate values are sex and status.

What's wrong with sex and status? We will not attempt here a full-blown argument in answer to this question. Suffice it to say that many in our society find distasteful the use of sex and status as tools to sell products and services. The promise of fulfilling a sexual fantasy is an implicit message in the advertising of an astonishing variety of products from automobiles to alcoholic beverages to vacation cruises to apparel, not to mention more obvious categories such as shampoo and shaving cream. A convenience store chain uses a picture of a very curvy, flirtatious young woman to promote its cheeseburgers. Using sexual fantasies to sell products is objectionable in our society on two counts: our Puritan heritage and the view that the use of (primarily) women as sex symbols is demeaning.

The promise of status as a hidden message in advertising is equally pervasive but objectionable for a different reason. To imply that a person's success and acceptance as an individual depends on buying a certain brand of automobile, choosing a home in a new gated community development, or drinking a particular brand of Scotch whiskey is a value that many reject as unworthy and unwholesome. It emphasizes our role as simply consumers rather than as doers and creators. It glorifies wealth and materialism along with the possession or consumption of things. It furthers the belief

that only by having money—exemplified by the extravagant lifestyle we lead—will we be accepted by the society in which we live.

In addition, a special problem involves marketing and advertising to children, the quintessential vulnerable marketing segment because of their immaturity, their lack of sophistication, and their inability to make sound and informed decisions about the worth of products and the appropriateness of advertising messages. Even if we expect adults to be able to reject false values in the advertising messages they see, one might well ask if it is fair to subject children to such messages. The promotion and sale of fast food to children—the use of Disney characters or Ronald McDonald to promote Big Macs, for example—is criticized because children lack the maturity and wisdom to decide whether such products are good for them. Is it fair to train the powerful psychological weapons of advertising on children in the hope of convincing them at an early age that only by having the latest sports hero pair of sneakers or the newest video game console will they be truly accepted amongst their peers?[9] Schor [14] reviews how much of this advertising appeals to children's desire to fit in and to feel superior to their parents (45–60), as well as how this undermines parent–child relationships (60–70).

9.5.1 Corporate Social Responsibility Critique

Because symbols of sex and status are used so often in the promotion of goods and services, we can assume that it is a successful technique and, therefore, satisfies Carroll's first (economic) level of corporate social responsibility. With only an occasional exception in the use of sex, it is also legal. But is it ethical?

Justice and Fairness. The answer to this question depends in part on one's view as to the power of advertising. Professionals in the advertising field usually try to deflect criticism of their methods by claiming that advertising cannot create wants, desires, or values; it only reflects those psychological traits that we already have. Critics respond that even if this is true, the heavy emphasis of what they consider to be base values—the lust for sex and an affluent lifestyle—is wrong in that it contributes to already existing social problems. If the critics are right and advertising does indeed have the power to promote false values, is it fair or just to use that power simply to sell more merchandise? Is it fair to take advantage of customers' weaknesses and longings in this way?

Virtue Ethics. To glorify wealth and status or to call attention to a company's brand through the use of blatantly sexual symbols hardly qualifies as virtuous behavior. While social customs and expectations are hard to define precisely in this area, it is fair to assume that something better is expected of the virtuous manager than to use customers' prurient interest in sex and the glorification of

[9] While this naturally raises the question of the responsibility of parents to monitor what their children buy and eat, we do not pursue further the details of this debate here. Schor [14] considers this in detail.

wealth to sell products. Even though the use of sex and status symbols is so widespread as to be hardly noticed, nevertheless when the question is raised, such tactics are perceived to be unseemly rather than virtuous.

Even for those business critics who believe that the use of such advertising messages is inappropriate and unethical, there are many unanswered questions. What values are acceptable or unacceptable? What groups or individuals are qualified or designated to make that determination? It is easy enough to say that a socially responsible business should refrain from demeaning women by using them as mere sex symbols in advertising and should avoid promoting base values such as envy and greed. But businesses respond that such advertising is light hearted and harmless, that it reflects rather than creates people's yearnings, and that in ethics terminology it does no harm. CSR advocates have much work to do in offering helpful, practical guidelines to marketers in their day-to-day decision making on such issues.

9.5.2 Christian Social Doctrine Critique

On the other hand, the Pontifical Council for Social Communication considered this issue a decade ago in its statement *Ethics in Advertising*. While recognizing the important role of advertising for communicating information, it addresses a number of economic, cultural, and religious harms advertising may have. These include fostering unnecessary consumption, seeking to influence or manipulate people's consumption by appealing to weaknesses of consumers (sex, belonging, fear, status, envy, etc.), as well as promoting lifestyles of excessive consumption. As it states,

> . . .unremitting pressure to buy articles of luxury can arouse false wants that hurt both individuals and families by making them ignore what they really need. And those forms of advertising which, without shame, exploit the sexual instincts simply to make money or which seek to penetrate into the subconscious recesses of the mind in a way that threatens the freedom of the individual . . . must be shunned (EIA 9).[10]

To this, it adds, "it is morally wrong to use manipulative, exploitative, corrupt and corrupting methods of persuasion and motivation" (14). Similarly, *EIA* also warns about advertising to children which exploits their credulity and encourages them to pressure their parents to purchase goods and services: "Advertising like this offends against the dignity and rights of both children and parents; it intrudes upon the parent–child relationship and seeks to manipulate it to its own base ends" (EIA 16).

EIA urges advertisers to follow three principles: truthfulness, the dignity of the human person, and social responsibility.[11] At a basic level, respecting the dignity of the human person begins with recognizing that the goal of human existence is

[10] Citing *Communio et Progressio*. See also CA 36.

[11] This does not require literal truthfulness. EIA acknowledges that commonly understood aspects of describing products—exaggeration, haggling, and humorous claims—constitute a social dimension to advertising which do not violate truthfulness.

growth in love and relationship to God and others.[12] Other people are brothers and sisters to whom one is called to communion and for whom one wishes good, not objects for personal gain. This includes recognizing, as part of the development of all, the duty of people to use their freedom to make responsible choices. Advertising may hinder the fulfillment of this duty when it compromises the ability to reflect and make decisions or exploits or encourages "lower inclinations," i.e., appeals to "lust, vanity, envy and greed, and of techniques that manipulate and exploit human weakness" (EIA 16). Whether it is via the content (what is advertised and how) or the intended impact on the audience, such ads run the risk of becoming "vehicles of a deformed outlook on life, on the family, on religion and on morality—an outlook that does not respect the true dignity and destiny of the human person" (EIA 16). This may be harmful at a social level when it "reduces human progress to acquiring material goods and cultivating a lavish life style expresses a false, destructive vision of the human person harmful to individuals and society alike" (EIA 16).

EIA specifies that all those involved—advertisers, firms, and broadcasters—bear some responsibility to the extent they are involved in the process. Following the principle of subsidiarity, it encourages these groups to work on their own to address these concerns, but acknowledges that government oversight may be necessary. Overall, EIA does not condemn advertising altogether, but rather encourages those involved in it to honestly assess the role advertising has in fostering excessive consumption and undermining a more authentic view of human existence, as well as to reflect upon what can be done.

It admits that this is not likely to be sufficient without a broader social change (customers, firms, broadcasters, entertainment, etc.) in understanding of the nature of the human person.[13] While advertising undoubtedly has a role, it is but one factor in a society in which other cultural forces (e.g., the entertainment industry, the sexual revolution) encourage consumption, power, status, and sex. Thus the extent of its impact is uncertain, particularly for any individual firm. Nonetheless, EIA encourages firms to refrain from participating in these trends, despite the extent of their individual influence.

9.6 Common Difficulties for CSR and CSD

Both CSR and CSD share several problems which limit their attractiveness to many. One is Friedman's classic argument that firms exist solely to make a profit. This reflects an attitude in business and economics that firms are not called to be socially responsible and weakens the appeal of both CSR or CSD since they

[12] Alford and Naughton [15] thus argue an important element in marketing should be solidarity.

[13] In fact, the council addressed the role of the media more generally the prior year (1996) in its statement *Ethics in Communications*.

encourage firms to look beyond a simple bottom line to urge firms to do something other than maximize profits. Several responses may help encourage businesses to give such frameworks a deeper look. First, markets are not perfect: consumption externalities and addictive behavior imply that the outcome will not be efficient. Similarly, survey evidence indicates that most people hold greater concern for the least well off (a very soft Rawlsian or preferential option for the poor). But a competitive market is unlikely to effectively generate such an outcome. In such cases, firms may be the best places for society to enact provisions to enhance welfare, rather than leaving this up to the market.

Second, both CSR and CSD share a problem of compliance. As Frank [16] argues, corporate social responsibility of any form faces a prisoner's dilemma type situation: firms (and society) would be better off if both coordinated their actions and behaved ethically. But like a nuclear arms race, firms in a highly competitive environment are forced into escalating activities and promotions which produce little actual gain. Moreover, the firm which behaves ethically may well be put at a disadvantage. Thus, competitive pressures may lead to efficiency in some dimensions but also discourage firms from adopting higher ethical (more costly) standards.

If so, society needs institutions which can help get all firms to act collectively without fear of defection or free riding. Frank argues this likely must be external, via either government or social norms. However, the history of restraining firms by regulations of any form indicates that government is often co-opted by the firms the state is trying to regulate. Increased communication is a means by which social norms can be brought to bear on firms, helping the market to provide a better outcome more efficiently without government action per se. Both accept the market's provision for gains but also emphasize the need to go beyond mere self-interest toward some level of social responsibility.

Finally, all frameworks of business ethics must face the difficulty of providing universal concepts. Brenkert [17] notes that the field of business ethics has traditionally sought to find universal principles which could be broadly accepted and appealed to, though more recently this has broadened to consider virtues to develop in individuals. Have sought to get around this by finding principles and virtues—hypernorms—which are commonly accepted across every culture. However, Brenkert [17] argues this is particularly problematic for CSD given its connection with a particular faith and its conception of a human person. Verstraaten [18] asserts that one means by which this difficulty of the particularity of the Catholic teachings can be overcome, and their principles more widely discussed, is to structure the analysis as a form of narrative ethic, emphasizing the Gospels as the stories of Christ's life.

On the other hand, the Christian view of the human person is the heart of CST and cannot simply be set aside in the search for universally acceptable principles. From Vatican II onward, CST criticized an inadequate view of the human person as the root of the abuses in communism and Nazism. It made the same argument for views of progress today which emphasize growth in consumption with little concern for growth as persons in love and virtue. Thus while CST seeks common elements with other ethical frameworks, the anthropological view of the human person at its foundation cannot be ignored.

9.7 Concluding Thoughts

Both CSR and CSD remind businesses that they operate not in their own isolated sector but in a far larger and more complex social environment where they must interact with, and be responsible to, other societal sectors. The concept of corporate social responsibility demands that to be fully responsible corporate citizens, businesses must not only do the obvious and essential things: make a profit and obey the law. They must also fulfill society's expectations for ethical behavior and be generous, where possible, by giving back to or improving the communities which they impact. CSR requires that businesses recognize and fulfill their responsibilities to multiple stakeholders. Maximizing shareholder value by itself is not enough as a corporate mission or goal. Managers must make the necessary compromises and tradeoffs that will fulfill their responsibilities to customers, employees, communities, social activists, and all other relevant stakeholders in addition to providing satisfactory returns for their shareholders.

CST, on the other hand, is both more demanding and more specific. Its stronger view of the human person and the goals of human existence provide more guidance in the cases of overconsumption and advertising values. Similarly, the principles of solidarity and subsidiarity assist in reflecting on socially unacceptable products. The challenges posed by CSD are not so much different as they are more intense and personal.

These are daunting challenges, but businesses must accept them, even though the guidelines for making the necessary compromises are unclear. Only by satisfying their economic *and* social responsibilities can corporations attain a position of long-term legitimacy. Only then will the greater society fully recognize and honor the essential contribution of the business community in both secular and spiritual terms.

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Chapter 10
When Being a Good Company Isn't Good Enough: The Malden Mills Case

Al Gini and Alexei M. Marcoux

Abstract The story of Aaron Feuerstein is now old news but it was so spectacular in the late 1990s that it quickly made it into dozens of business ethics textbooks and anthologies. Until under his leadership as the President and CEO of Malden Mills Industries, Inc., a textile company (best known for Polartec) in Lawrence, Massachusetts, Malden Mills was taken by many CSR proponents to be the archetype of the socially responsible firm. However, the very virtues for which Malden Mills is lauded among CSR proponents are recognized also to be significant causes of Malden Mills' recent bankruptcy and Feuerstein's fall from leadership. Consequently, there is a strong argument to be made that *passing* the CSR test meant, for Malden Mills, *failing* the market test. Our discussion explores the implications of the principle *ought implies can* for CSR. If the Feuerstein-led Malden Mills is the archetype of a socially responsible firm, Malden Mills' subsequent bankruptcy suggests some cherished notions of CSR must be reexamined in light of their failure to satisfy *ought implies can*. A CSR worth paying attention to ought to be mindful not just of the intentions that inform socially responsible action but also the effects of that action.

10.1 I

In American business literature, the concept of "corporate social responsibility" (CSR) was enunciated, if not completely defined, during the height of our Industrial Revolution by no less major a player than United States Steel founder Andrew Carnegie. Believing that "to whom much had been given, much is expected," Carnegie was convinced that successful businesses were duty bound to be charitable to those in need and to be diligent stewards and guardians of the wealth and property entrusted to them. Since this initial parochial and paternalistic description,

A. Gini (✉) • A.M. Marcoux
Loyola University Chicago, Chicago, IL, USA
e-mail: agini@luc.edu; amarcou@luc.edu

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the exact nature of CSR continues to be debated and redefined as the issues in business become increasingly complex and sophisticated.[1]

There is, of course, a core of theorists and practitioners who claim that while business ought to try to behave ethically, the primary business of business is to maximize owner value. As one pundit put it:

> The modern firm solves one (but only one) of the major problems of humankind—the creation of wealth. That wealth then allows individuals in their various roles the opportunity to protect values they care about.[2]

However, as Rotman School of Management Dean Roger Martin has suggested, a "tipping point" in our social conscience has occurred regarding the role and responsibilities of business: Corporations aren't just in the business of making money; they don't operate in a universe composed solely of shareholders. They exist within smaller and larger political and social entities and are subject to pressures from members of those networks. Moreover, in the wake of recent corporate scandals, corporate leaders are now painfully aware that they need to think more rigorously about responsible corporate conduct—whether they want to or not. Failure to do so, warns Martin, may mean that the option to act will be taken out of their hands.[3]

According to Richard De George, since the 1950s, the growing size, impact, import, and power of corporations have not gone unnoticed.[4] In 2000, the Institute for Policy Studies reported that of the largest 100 economies in the world, 51 are companies/corporations, not countries.[5] Today the approximately 4.8 million US corporations generate collectively annual revenues of 17.3 trillion dollars. On the other side of the ledger, there are approximately 23.5 million small and family businesses nationwide that provide 63 % of all employment in the United States. Because of these numbers, an increasing segment of the general public both expects and demands that corporations and businesses in general recognize and accept the fact that the "power and size begets *self monitored* obligations." In a 2005 poll conducted by Mark Clements Research, Inc., 89 % of the respondents believed that businesses and corporations have a social responsibility to behave fairly and honestly with their employees and the community at large.[6]

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[1] R. Edward Freeman and Patricia H. Werhane, "Corporate Responsibility," in *A Companion to Applied Ethics*, ed. by R.G. Frey, C.H. Wellman (New York: Blackwell Publishing, 2003) 552, 553.

[2] "Corporate Social Responsibility: Good Citizenship or Investor Rip-off?," *The Wall Street Journal*, January 9, 2006, R6.

[3] Roger Martin, "The Virtue Matrix," *Rotman Management*, Spring/Summer 2003, 7, 8.

[4] R.T. DeGeorge, "The Status of Business Ethics," Research Workshop, Stanford University, August 1985, 14–17.

[5] Sandra Waddock, "Corporate Citizenship" in *The Blackwell Encyclopedia of Management: Business Ethics*, Second Edition, ed. by P.H. Werhane, R.E. Freeman (New York: Blackwell Publishing, 2005), 114.

[6] Matt Bai, "New World Economy", *New York Times Magazine*, December 18, 2005, 15, 16.

Although the original formulation of CSR was based on the notion of noblesse oblige, the main focus of the contemporary version of CSR revolves around the allied principles of "stakeholder responsibility" and "corporate citizenship." All accounts of contemporary CSR are predicated on the fundamental proposition that all businesses/corporations are players in the context of a larger social drama. Businesses/corporations are part of the webwork and geography of life and, as such, share obligations and rights with other players in the scenario. At a minimum, according to the *Wall Street Journal*, responsible corporate citizenship includes:

1. Strong, sustainable economic performance
2. Rigorous compliance with financial and legal rules
3. Ethical actions beyond formal requirements which reflect a corporation's sense of integrity and appropriate concern for issues beyond self and the needs of self[7]

10.2 II

Aaron Feuerstein was born in 1925 as the son of a businessman. His father and grandfather had owned and operated a company named Malden Mills since 1906. In the 1960s Aaron Feuerstein would eventually take control of the company, which had become famous for its wool "workman's" sweaters and uniforms as well as its fair business practices and employee treatment. Aaron Feuerstein modeled great ethics and community awareness throughout his career, especially noticeable when he handled the aftermath of a tragic fire that left his community on the verge of despair. Malden Mills was one of the largest employers in the town of Lawrence, Massachusetts, and would continue to grow, eventually employing over 3,000 workers.

On December 11, 1995, three of eight Malden Mills factory buildings in Lawrence, Massachusetts, burned to the ground, displacing thousands of workers and seriously endangering the future of the family business founded in 1906. Feuerstein, the then-majority shareholder, president, and CEO of closely held Malden Mills, had a number of options available to him. He could have pocketed the insurance money, closed the business, and walked away. He could have used the insurance proceeds to move operations to some other state or country with lower labor costs. Or he could use the money to hang on to his workforce, rebuild the factories, and keep Malden Mills where it was.

For Feuerstein, the decision was a clear one. An observant Jew motivated by his religious convictions, a strong sense of personal and family responsibility, and confidence in his own ability to handle adversity, Feuerstein couldn't and wouldn't walk away from this problem. Feuerstein claimed that he couldn't have taken another course of action due to his study of the Talmud and the lessons he learned there:

[7] David Wallechinsky, "Is the American Dream Still Possible?," *Parade Magazine*, April 23, 2006, 5.

> I have a responsibility to the worker, both blue-collar and white-collar. I have an equal responsibility to the community. It would have been unconscionable to put 3,000 people on the streets and deliver a deathblow to the cities of Lawrence and Methuen. Maybe on paper our company is worthless to Wall Street, but I can tell you it's worth more.
> —(Parade Magazine, 1996)

Corporate responsibility, he said, *does mean* you have to take care of your stockholders. But, he went on, it *also means* you have responsibility to your workers and to your community. Closing down—giving up—was unthinkable. It meant putting 3,000 people out of work and delivering a deathblow to the city of Lawrence.[8] In choosing to do "the right thing for the right reason," Aaron Feuerstein passed the CSR test with flying colors.

> Feuerstein was pronounced a corporate hero when he promised his workers that he would continue to pay their salaries out of his own pocket while he rebuilt the factories, even though his workers wouldn't be producing. As a result, Feuerstein was invited to speak at colleges and universities all across the U.S. He was given honorary degrees, and was the subject of a flattering profile on the television program *60 Minutes*.[9]

But, unfortunately, as things turned out, Feuerstein's actions failed the test of the marketplace. The very virtues for which Malden Mills is lauded among CSR proponents are recognized also to be significant causes of Malden Mills' recent bankruptcy (which found former creditor GE Capital its largest shareholder) and of Feuerstein's fall from leadership (in favor of new President and CEO Michael Spillane).

> Feuerstein's pledge to continue paying his workers eventually cost them their jobs, and cost Feuerstein his company. Feuerstein ran out of money, and Malden Mills was forced to declare bankruptcy. . . . After its bankruptcy, Malden Mills was dangerously close to going out of business completely. Only the last minute heroics of a group of corporate lenders saved the company from going under.[10]

In short, *passing* the CSR test meant, for Malden Mills, *failing* the test of the marketplace.

10.3 III

Ought to implies can means that if one is to perform an action *A*, then it must be the case that one *can* perform *A*. Its negative corollary is that if one *cannot* perform *A*, then it is *not* the case that one ought to perform *A*.[11]

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[8] "Corporate Social Responsibility: Good Citizenship or Investor Rip-off?," *The Wall Street Journal*, January 9, 2006, R6.

[9] "Competing Vision at Malden Mills" in John R. Boatright, *Ethics and the Conduct of Business*, 5th Edition (Upper Saddle River, New Jersey: Prentice Hall, 2007), 364–366.

[10] Radley Balko, "Altruism? Bah, Humbug," *Apple Daily*, December 24, 2004 [Accessed via World Wide Web at http://www.cato.org/dailys/12-24-04.html on September 15, 2006].

[11] Balko, "Altruism? Bah, Humbug," *op.cit.*

Capitalism won the debate among Marxism, Socialism, and Capitalism *theoretically* because it won *practically*. Only Capitalism satisfies the *can* in *ought implies can* because only Capitalism is capable of supporting a sustainable, flourishing economic community. Capitalism provides for sustainable, flourishing economic community because (1) only those firms whose operations cover their costs survive market competition and (2) the bankruptcy system facilitates the efficient redeployment to other uses of assets held by firms whose operations don't cover their costs. If only Capitalism satisfies the *can* in *ought implies can* and if it does this through the discipline imposed by market competition and the bankruptcy system, then it follows that compatibility with *passing the market test* must be implicit in any candidate principle of CSR capable of being action guiding for capitalist firms.

Ought implies can is relevant to the evaluation of Feuerstein-led Malden Mills' insolvency because, to the extent that Feuerstein's actions on behalf of Malden Mills in the wake of the 1995 fire are responsible for the firm's subsequent insolvency, it suggests that one *cannot* sustainably manage Malden Mills (or other firms similarly situated to Malden Mills) in the manner that Feuerstein and, by extension, Feuerstein-impressed CSR advocates claim one ought. If ought implies can and one cannot, then it is not the case that one ought. Those claiming that one ought to do so anyway advance a claim in contravention of *ought implies can*.

Consequently, Feuerstein-led Malden Mills' insolvency calls for a reexamination of CSR in light of capitalist reality. Trivially, CSR is either relevant to capitalist firms doing business in a competitive market economy or it is not. If it is, then CSR advocates seem forced to acknowledge that their enthusiasm for Feuerstein's leadership of Malden Mills in the wake of the 1995 fire is misplaced. However, admirable Feuerstein's *intentions* and his *actions* were ultimately destructive of Malden Mills as an engine of sustainable and flourishing economic community. Those who today work at Malden Mills owe their good fortune not to the leadership of Aaron Feuerstein, but to the financial might of GE Capital. GE Capital's existence and financial might issue from the leadership of Jack Welch. Welch is rarely (if ever) identified among the CSR-impressed as an exemplary corporate leader. To the contrary, his leadership style and his notorious, fire-the-bottom-ten-percent method of personnel evaluation are more often identified among the CSR-impressed as products of the *absence* of a social conscience. His book *Winning*[12] is characterized as a how-to manual for the most distasteful form of corporate psychopathy. A CSR relevant to capitalist firms seems forced to place greater value on Welch's leadership than on Feuerstein's.

There remains, of course, the opposite tack. Perhaps CSR is *not* relevant to capitalist firms doing business in a competitive market economy. For some, Feuerstein's actions just feel so right—and if those actions are incompatible with

[12] This negative corollary is just an application of modus tollens. Let Oa = ought to perform *a* and let Ca = can perform *a*. Adopt as conventional logical operators "→" for "implies" and "~" for "not." "Ought to perform *a* implies can perform *a*" is expressed as: Oa→Ca. "Cannot perform *a*" is expressed as: ~Ca. From Oa→Ca and ~Ca, it follows by modus tollens that ~Oa.

Feuerstein-led Malden Mills' survival in a competitive market economy, then so much the worse for the competitive market economy. The clear implication is that we ought to *change our economic institutions* to make them more hospitable to firms like the Feuerstein-led Malden Mills (and perhaps less hospitable to firms like the flourishing Welch-led GE entities).

This opposite tack is, of course, available—and many pursue it: antiglobalization protesters being the most prominent, recent example. But if that is what CSR is to become, it thereby abandons its historic mission. It becomes instead—as Kenneth Goodpaster once said of stakeholder theory—a more radical critique of capitalism and of the corporate form than its proponents intend.[13] In other words, it abandons the *C* in CSR, embracing instead the economic nonsense (and often, nihilism) that informs the more vocal critics of capitalism.[14]

10.4 IV

Economic activity is as much the proper subject of moral reflection as any other form of human action—and perhaps more so, given its intimate connection to sustaining human life. Capitalist economic institutions and capitalist firms are not without moral fault. We do well, morally and prudently, as children of God, to seek their improvement.

Those who would do the difficult work of offering moral guidance for economic activity are duty-bound first to *understand* economic activity and to understand particularly its most successful and fecund form—capitalist economic activity. Admiration for Aaron Feuerstein's leadership of Malden Mills, regardless of its actual effects, is symptomatic of a partial blindness that afflicts so many of the CSR-impressed. It is a blindness to economic theory, to economic practice, and to the relationship between the two.

If the measure of an economic system's moral worth is in the economic opportunity it provides and in the jobs it creates,[15] then there really is no moral contest: supposedly ruthless Anglo-American capitalist economic institutions and their equally ruthless firms win, going away. A CSR worth paying attention to ought to acknowledge as much—looking a bit more kindly on the likes of Jack Welch and a bit more critically at the likes of Aaron Feuerstein.

[13] Jack Welch with Suzy Welch, *Winning* (New York: HarperCollins, 2005).

[14] Kenneth E. Goodpaster, "Business Ethics and Stakeholder Analysis," *Business Ethics Quarterly* 1(1) (1991): 53–73.

[15] See, e.g., Franklin Foer, "Meet the New New Left: Bold, Fun and Stupid," *The New Republic*, May 1, 2000 (arguing that "anarchy is socialism without the state" is the closest thing to an idea informing antiglobalization protesters' activities—and it's not very close) [Accessed via World Wide Web at http://web.nps.navy.mil/~relooney/3040_1432.htm on September 15, 2006].

Chapter 11
What of Financialisation?

GianDemetrio Marangoni and Stefano Solari

Abstract The attempt to introduce *corporate social responsibility* (CSR) takes place in a new and different economic context increasingly dominated by finance and, above all, by an increasingly diffused 'financial way of thinking' on economic issues. Deregulation and globalisation have had a significant impact on the way we generally conceive economic problems. Besides the effects on structural change, we may understand this change as a shift in both rules and morality, which legitimised the adoption of a strict monetary calculation over the many immaterial and social issues implied in economic choices. Such question is particularly evident in and relevant for corporate governance.

This situation is at odds with Christian Social Doctrine (CSD) church. As a consequence, we will analyse financialisation in the light of CSD to single out the specific difficulties. We will look in particular at the issues centred in corporate governance and at the impact that the priority of *shareholder value* poses for achieving ethical outcomes in economic interactions. We will argue that problems induced by financialisation cannot be solved by relying on individual initiative alone. Some form of collective action by ethically oriented persons is required to find a new coherence between rules and ethics. As a consequence, the institutional configuration of the economy is important in determining successful initiatives in CSR.

The attempt to introduce *corporate social responsibility* (CSR) takes place in a new and different economic context increasingly dominated by finance and, above all, by an increasingly diffused 'financial way of thinking' on economic issues.

G. Marangoni (✉)
University of Verona, Verona, Italy
e-mail: gd.marangoni@unipd.it

S. Solari
University of Padua, Padua, Italy
e-mail: stefano.solari@unipd.it

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11.1 Financialisation and Firm Behaviour

Financialisation, by which we mean the ever greater importance of strictly financial considerations in economic affairs, is of special concern to persons who turn to Christian Social Doctrine church for guidance in everyday activities such as working, spending, and investing. This term has been introduced to highlight a process in which financial values '*become leading institutional and organisational design criteria*' [1, p. 104].

It is also reflected in a rise in both financial assets and liabilities of (nonfinancial) companies and households as well as an increased share in value added by sectors connected to financial intermediation and rent. Toporowski [2] lamented a transformation of entrepreneurial capitalism into 'rentier' capitalism. Boyer [3] envisaged a new 'finance-led accumulation regime'.

At the microeconomic level financialisation engenders three main negative effects:

1. A progressive separation of economic activities from social norms—economic behaviour is more and more conceived in terms of monetary variables and when social ties are not seen as means; they simply are interpreted as inefficient constraints.
2. A loosening of moral values in economic decisions deriving from a systematic subordination of ethical principles to profit maximisation—ethical ends are seen as costs when they do not coincide with short-term profit strategies.
3. A dominance of financial gains over other economic considerations, such as meeting basic human material needs, providing jobs that pay a living wage and protecting the environment.

The firm is one of the main carriers of this transformation. In the 1990s, the diffusion of the ideology of *shareholder value* emphasised the primacy of value

creation over other issues in organisational governance, shifting power to shareholders and changing management priorities.[1] An increasing attention to financial gain over standard operating income is the main effect of this change.

The firm is also a victim, in the sense that it undergoes a process of deconstruction relative to relocation and is downsizing its labour force and fragmenting production processes. The firm as a unitary coordinating structure is replaced by a fragmented network connecting modular dispersed units where only the financial and marketing function defines the unity of the enterprise.

Building an organisation that creates products conforming to consumer preferences has been replaced by pursuing short-term opportunities for financial gain. Management is less and less concerned with the problem of production. The short-term perspective induces economic actors to take production capabilities as given. The result, therefore, is a reduced effort in building long-term knowledge assets and in modifying organisational routines to achieve higher productivity. Many companies tend to make profits out of large investments in knowledge made in the past[2] without renewing such capital because that is what financial markets demand [9].

There are many factors contributing to the financialisation of the economy. We enumerate three.

1. Globalisation and institutional reforms oriented to deregulation have assured that financial capital has an unprecedented freedom of movement, which at the same time for a number of reasons is not assured for labour and other sorts of capital. Capital has been released from several ties and has become more and more liquid and mobile.
2. Institutional investors have become the managers of huge financial resources and are quite influential in corporate governance.
3. A strict financial logic has spread from the proper sphere of financial markets to all economic activities due to an erosion of the humanities and liberal arts in general educational curriculum and a materialist cultural change [10] that, in turn, leads to a breakdown in ethics in economic affairs. Formal education is not effective in replacing ethical values: business schools teach trading off ethical values for financial gain.

The financialisation of the economy has induced a dominance of finance over production and a weakening of labour and community interests relative to capital. Moreover, the negative effects also are visible in small companies and in industrial districts, which, up to now, have been the centre of a ‘humane economy’.[3]

As a consequence, some form of collective action is urgently needed to strengthen economic institutions in order to promote ethical behaviour. Internal company initiatives in social responsibility need to be complemented by external

[1] See [4–8].

[2] We may even say that they are winding up such investments.

[3] See [11–13].

institutional effort. To contribute to a deeper understanding of the issues surrounding financialisation, we refer to the original works on political economy by neo-Thomists.

11.2 CSD and the Importance of Rules and Rights

We begin with the following questions. What is the impact of financialisation on society and on the human person? Is this new situation respectful of the basic principles expressed over the years by CSD? How much is a society that is working more and more around purely financial variables able to assure the basic dignity of human beings? In particular, is financial rent becoming a 'measure' in contemporary society compatible with CSD?

A general answer to these questions is that CSD considers wealth as a means to achieve ethical ends and not as an end in itself. Consequently, efficiency should not conflict with ethics. That, however, introduces complex issues concerning the social dimension of economic action and the role of *solidarity*. It therefore requires the study of the interaction between the moral and formal constraints to economic processes, between freedom and coercion. To address these questions, we refer to the concept of *solidarity* at two levels.

First, at the actual *action level*, solidarity consists of economic choices—taken within a given set of rules—in accordance with ethical ends: to act (or to refrain from acting) in a way that achieves the common good which, if we trade off social norms and institutions for short-term financial gain, inevitably will be endangered.

Second, at the *rule level*, solidarity consists of cooperation oriented to fostering *rights* and *rules* and aims at assuring a sound institutional environment for economic activities. Rule-level solidarity is a precondition for any truly efficient economic choice in the sense that it rules out economic choices that are destructive of the very institutions we depend on for our well-being.

Here, we would like to focus on the rule-level solidarity. Following Heinrich Pesch [14, vol. 1, p. 225], we assume that the economy displays solidaristic characteristics because institutions relate the individual to the whole community. Our interest therefore is in the ethical outcomes driven by the *economic order*, in the sense that rules help achieve sound ethical results [15, p. 257].[4]

However, ethical principles cannot easily or directly be detected in the economic structure: they require interpretation. Taparelli, Liberatore, Pesch, Brants and the many contributors to CSD affirm that economics is a *practical science*, oriented to practical wisdom, that is, to discovering the best ways of acting. It adopts a substantive view of the economy relating it to man's needs

[4] Taparelli also proposes a *duty of sociability and cooperation* according to the *natural order*, in which society remains a means (against idealist thought), not an end. The law is '*the moral force, according to reason, binding one to the will of others*'.

and society's order. The classical natural law states the inseparability of morals and institutions, and those institutions therefore should be judged for what they help produce.

Many free-market theorists presently are reclaiming ethics, acknowledging the defect in the unfettered market economy in achieving good social and economic results. However, ethics cannot be only considered in relation to the individual person's choices; it also concerns the order of institutions. On the one hand, there is a recognition of the limits of the positivistic separation between fact and value or of the 'value free technical nature' of economics. On the other hand, ethics cannot be used instrumentally to compensate for market failures without any concern for the epistemological implications of an ethical perspective in economic theorising. Inserting ethics in economics inevitably leads to consider the role of institutions and, therefore, to an increase in the complexity of economic analysis.

11.3 Does Financialisation Lead to an Ethical Order?

Financialisation already has been explicitly studied and denounced as a danger by many Catholic (Toniolo), institutionalist (Veblen, Galbraith) and Marxist economists (Hilferding, Tawney) in the first part of twentieth century. Such scholars faced the first flush of financialisation: the birth of giant corporations, the separation between ownership and control of enterprises and the accumulation and management of large financial wealth more and more allocated by the stock exchange. Galbraith [16], following the Keynesian tradition, especially addressed the instability of the monetary economy.

Catholic economist Giuseppe Toniolo [13, 17] feared the loss of bourgeois values, of commitment and responsibility and of the substantive dimension of the economy.[5] He particularly saw a danger in financialisation for the weak incentive it provides for labour management collaboration. The problem was to balance financial gains against other economic factors. Toniolo [17] warned against the transformation of capital from an auxiliary and instrumental factor into a dominating and pervasive force able to conform any institution to its logic. In particular, he warned against disembedded capital which would have made any economic relationship precarious by not participating in the risk of production. That would lead to a separation between economic practice and moral principles [17, p. 250]. The solution to this problem was conceived in the participation to the dialogue between capital and labour, favoured by the appropriate institutions: corporations, associations and collective negotiations.

Today we are facing a second and more pervasive financialisation, thanks to the lowering of barriers to the movement of capital, to the diffusion of socialised saving, to the increased role of institutional investors and to the diffusion of the

[5] Actually, also Tawney [18] keeps a special concern on the crisis of social values.

rhetoric of mass stock holding [8]. Financialisation theoretically is justified by the neoclassical global conception of the automatic stabilising role of competition and mobility of resources. Any other source of economic order is not significant and it is seen as an obstacle to a good market order.[6] Corporate governance is the fundamental aspect of capitalist organisation and the institutions which frame it are crucial in determining the quality of economic processes.

Neoclassical theory argues that, on the one hand, corporate governance is exposed to strong forces to adapt to the logic of financial markets and short-term profit. On the other hand, as the main objective of the corporation, shareholder value contributes to the efficiency of the general order and to the increase of the shareholder class.

However, reality is quite different. Shareholder value, taken as a measure for strategic management, tends to weaken the role of stakeholders, labour in particular, and to extract excess profits unrelated to basic performance of the firm. Shareholder value requires no impediments on corporate governance; it considers any form of stakeholder participation in decisions as inefficient. The only problem from that perspective is the fidelity of managers to shareholders (intended as an abstract homogeneous and nonconflicting class), which causes the astonishing increase in executive pay of the last 30 years.[7] In this way any rule, right or ethical element at stake in corporations is traded off for short-term profit. The latter becomes a sort of *rent*[8] because much of entrepreneurial risk is shifted to stakeholders.

The situation worsens when institutional investors own companies for the following reasons:

1. Institutional investors tend to manage organisations as if they were financial assets to be maximised, not communities of persons.
2. These investors put profit ahead of all other issues because of their social role of managing diffused saving.
3. They legitimise the managerial function to reduce costs without any social or personal constraint and reward managers financially for assuring compliance in cutting other costs.[9]

As a consequence, the new financialised order presents *rent* at a critical and pivotal point. CST justifies rent as property income from productive assets as well as interest taking. Concerning the latter, most of the reasons for rent given by

[6] For example, codetermination in Germany, which owes much to von Nell-Browning [40] and which delivered good results, is presently endangered by financialisation and by the demand of institutional investors to cancel it.

[7] Johnston [19] focuses on the fiduciary duty deriving from natural law. The fact is, however, that manager compensation increases as an incentive for short-term profit.

[8] We intend *rent* in the classical notion of income deriving from property and not from productive activities.

[9] See [20].

economist have been accepted by the Church. Pesch argued that '*We accept. . .interest in this modern era as the recompense for a service whose value is measurable, i.e., in terms of the opportunity to make a profit being provided with a sum of money*' [14, vol. 5/2, p. 199].

However, Ratzinger [21] was more cautious and differentiated lending for production purposes from lending for consumption purposes. In the latter case interest is less morally acceptable because it is oriented toward exploiting human weakness and misery. This indicates that rent should not be accepted as an abstract category but for its practical consequences. Thus, justice-based arguments have to inquire into the merit of specific institutional arrangements. The legitimacy of rent is not questioned. The issue is its position in the distribution of value that is whether it should assume a primary or secondary role.

11.4 The Place of Finance in the Economy

Finance has an important role in the economy: it reallocates capital from savers to productive activities and helps in reallocating risk. Transparency is a fundamental characteristic to assure the effective functioning of markets and the respect of all participants to this game [22, 23]. Moreover, the fundamental point is that neoclassical economists attribute to finance also a regulating role for the whole economy. In fact, in a capitalist system capital bears (or enjoys) the role of deciding on the allocation of rewards.

However, we should not forget that:

1. A good regulation of economic processes requires a steady and long-term perspective (the opposite evidence emerges from financial capital investment behaviour).
2. The high speed of financial capital mobility contrasts with the low speed of change in investment and labour market.
3. The differential in velocity increases the opportunity of short-term capital gains by speculative behaviour—that favours group self-referentiality (heard behaviour) which fuels instability.
4. The differential in velocity impairs the position of factors of production when they agree on the acceptable conditions of their participation to production.

As a *first* consequence, the financial instability motive—today endorsed by post-Keynesians only—still remains valid. In fact, generalised rent supremacy over returns to other factors of production, especially labour, tends to be a technically questionable situation. The self-referentiality of financial markets and the quest for capital gain tend to produce bubbles and to transmit a crisis to the rest of the economy [2].

Then macroeconomic instability inevitably reduces collective well-being.

Second, high speed of capital and the different velocity of adjustment of complementary assets is not in accordance with human needs and expectations.

From the perspective of the enterprise, real economic investment, organisational capabilities, knowledge and commitment are the most important factors to produce wealth. Incentives are needed to make the whole work. From this point of view, financial capital mobility represents a strong incentive based on exit opportunity. However, this constitutes a threat, an unconditional menace which from the CSD view badly fits with human nature. People need stability to make plans for their own future. The incentive for labour management to cooperate in order to increase productivity is not strengthened by threatening these workplace partners. Active collaboration requires trust, confidence, respect, mutual acknowledgement of rights and duties and a medium- to long-term action horizon.

Third, the company—seen as an organisation—is also a political entity.[10] The management function calls for more than just allocating resources. It is a complex activity of conceiving and enforcing routines, which require legitimisation from the bottom of the hierarchy.

Consequently, managers define duties, rights and entitlements; decide incentives; and, at the same time, control participants' expectations to stimulate and organise cooperative work. Though work is organised around superiors and subordinates, the workplace cannot function effectively when one partner imposes its will on the other. Some dialogue is needed to sort through workplace conflicts to find what works best for all parties involved.

Dialogue is almost fruitless when taking place between parties with noncommensurable bargaining powers and the mobility differential of capital relative to other factors impairs bargaining power in such a process. That leads to a distorted distribution of value added and to a worsening of entitlements for less protected interests.

In the nineteenth and beginning of the twentieth century, the Church insisted that much of the role that mixed free associations of labour and employers could play in negotiating the solution of proletarisation.[11] The *corporation of arts and crafts* was extended in this way to play a new role in industrial capitalism to facilitate the dialogue between capital and labour [11]. The aim was to find the *just measure* for what today we call a *governance compromise*. CSR today should receive and reinvent this tradition of dialogue and construct the institutions which may help an enlarged dialogue for the mutual acknowledgement of interests. A profitable dialogue, however, requires a balanced power wherein financial capital with its greater mobility is realigned with the other factors of production.

In particular, the unbalanced power in favour of capital favours the production of *social costs* (those never accounted formally) borne by stakeholders in favour of monetary gains for the shareholders.[12] That means that most of the costs of enterprise's adaptation therefore are most likely to be inflicted to stakeholders.

[10] Since it involves *voice* in the definition of common rules of behaviour.

[11] *Rerum Novarum* reaffirmed this principle which, however, has a long history.

[12] Galbraith concentrated on this issue. See [24] for an understanding of unemployment on these lines.

That leads to formal efficiency but to substantive social inefficiency. The public function of the corporation is acknowledged by according a limited responsibility to incorporated capital. This benefit should however be balanced by a social responsibility which is at least defined as avoiding imposing social costs by its strategic decisions.

Finally, CST of the nineteenth century (e.g. [25]), which embraced a classical and substantive perspective, affirmed that only nature and labour are responsible of productivity; capital is just a means. Shareholder value means attributing all decision power to the resource which is not productive. Zamagni [26] substantially supports an increase of stakeholders' participation to corporate decisions. He argues that although managers are appointed by shareholders, they are responsible to the whole corporation intended as a unitary organisation. It would otherwise be difficult to understand the reason of limited responsibility for shareholders.

That would not mean shifting the control of companies from capital to labour. It means favouring a development of institutions favouring a balanced bargaining process in the definition of strategies, helping social dialogue and participation. We may agree with Pesch [27, p. 74] that '*there is no such thing as an unconditional, free, absolute right of private property that does not involve also obligations*'. The aim is to achieve what O'Boyle [28] calls '*cooperative work toward the common good in economic efficiency*'—with *efficiency* defined in broad terms including a plurality of variables including social ends.

The successful experience of Germany's codetermination—labour representatives in the company's surveillance committee—represents a concrete case of collaboration and incentive for responsibility. Regrettably, the financialisation of the economy does not only concern large corporations.

It also has an impact on small firms becoming more and more disembedded from the sociocultural environment. The separation between capital and the other factors of production in the small and medium enterprises similarly is due to the practice of trading off everything against profits, of over-evaluating the role of competition over collaboration, organisation, participation and personal commitment. Rules are needed for retransforming capital in a way that is complementary to the labour factor. Corporate social responsibility experiments are not enough; they need to be backed by solid general institutions.

11.5 Education and Collective Action to Foster Participation

In this essay we do not propose replacing good practices and spontaneous initiatives of firms with government action. On the contrary, bottom-up initiative is seen as the main reform needed. However, sound practices and the evolutionary progress which can be produced by them risk being strongly constrained by an unfavourable institutional environment. Economic institutions align individual incentives to

society's ends. Creating stakeholders rights of participation with an increasingly disembedded capital would be really difficult. As a consequence, collective action at different levels is necessary to restore some rule which balances the relative mobility of the different factors of production.

We argue that in an economic environment in which good social outcomes are increasingly traded off with short-term profits, individuals cannot bear all the responsibility for 'prosocial' outcomes. Ethical behaviour emerges only within the framework of the right institutions. In particular, some institutions to help the dialogue between the different interests engaged in a corporation are welcome as CST has been proposing for a long time. Individual ethics should be complemented by socioeconomic institutions helping individuals work for the common good.

The first step in an improvement of institutions would be a new emphasis on education which considers ethics and economics a unitary issue. In particular, the social dimension of the enterprise and the ethics of responsibility should be reinforced in our culture to define more precisely what a 'good company' is. The second step is to develop rules to help fostering the correct duties and rights of actors involved in the company. Then, some standards of ethical conduct may be developed which help the diffusion of information on these issues which help people choose.

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Chapter 12
Accounting for Just Wages: A Proposal

Timothy A. Mahoney

Abstract Few firms provide corporate social responsibility (CSR) reports and even fewer reports on issues relating to the duty to pay a "just wage" as this duty is understood by the tradition of Christian Social Thought (see the *Compendium of the Social Doctrine of the Church*, Chap. 6 "Human Work," V. "The Rights of Workers," §302 "The Right to Fair Remuneration and Income Distribution"). In this chapter I address the question of how a firm might implement a system to fulfill a commitment to pay just wages, and make a concrete proposal for reporting standards concerning just wages.

12.1 Preliminary Issues

1. Terminology: The English translation of the *Compendium* (§302) uses the term "just wage" and characterizes this in terms found in Vatican II's *Gaudium et spes*: "Remuneration for labor is to be such that man may be furnished the means to cultivate worthily his own material, social, cultural, and spiritual life and that of his dependents...." Such language is not readily translatable into operational terms, but the description suggests what is often referred to as a "fair wage" or a "living wage," as well as a "just wage." While there is no generally accepted definition or methodology of calculating a just wage,[1] one methodology that

[1] See *Business for Social Responsibility* "Issue Brief: Living Wage" (http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=50678). *SA8000* includes a standard for remuneration (8.1) that states: "The company shall ensure that wages paid for a standard working week shall always meet at least legal or minimum industry standards and shall be sufficient to meet basic needs of personnel and to provide some discretionary income." (http://www.sa-intl.org/index.cfm?fuseaction=document.showDocumentByID&nodeID=1&DocumentID=136). The *Ethical Trading Initiative*: *"The 'Living Wage' Clause in the ETI Code-How to Implement It?"*

T.A. Mahoney (✉)
Providence College, Providence, RI, USA
e-mail: tmahoney@providence.edu

B. Okonkwo (ed.), *Christian Ethics and Corporate Culture*, CSR, Sustainability, Ethics & Governance, DOI 10.1007/978-3-319-00939-1_12,

exemplifies the notion is the formula that grew out of the 1998 International NGO Living Wage Summit: a living wage is equal to "Average family size/ average number of adult wage earners × Cost of nutrition + clothing + health care + education + water + child care + transportation + (Housing + Energy/ Average number of adult wage earners) + Savings (10 % of income)."[2] The calculation of "just wages" should incorporate the value of non-wage benefits such as healthcare coverage and housing allowances.

2. Is a discrete disclosure on just wages really needed? Yes, it is. Paying a just wage is one of the essential components of CSR, so that any adequate reporting of CSR should include specific disclosures concerning this issue. The language of the *Compendium* makes this clear: "*Remuneration is the most important means for achieving justice in work relationships*" (italics in original) such that "they commit grave injustice who refuse to pay a just wage" (§302).
3. CSR reporting system accounting for just wages should take place in the framework of an entity's integrated CSR reporting system.[3] Only such an integrated approach can fulfill the two important reporting criteria of completeness (which ensures all relevant information is presented) and materiality. The CSR report should be included as an integral part of the firm's annual report, which traditionally focuses on financial reporting. While a number of firms present CSR reports separately from their financial reports, to do so reinforces the misperception that CSR is of minor importance in comparison to the firm's financial performance. But this is not correct. If a firm does not integrate CSR information into its annual report, then it provides only an incomplete picture of the firm, a picture that excludes materially important information in evaluating the firm's overall performance.

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describes a similar standard as follows: "Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income." This, as well as a good discussion of the whole issue of living wage, is at http://www.ethicaltrade.org/Z/lib/2000/06/livwage/index.shtml#liv-fair.

[2] See *Business for Social Responsibility* "Issue Brief: Living Wage" at http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=50678. *The Council on Economic Priorities Accreditation Agency* 38 (now *SAI*), *Guidance Document for Social Accountability 8000*, 23 April 1999, p. 38 formula is [(Half average household size × cost of food per person × total**:**food expenditure ratio) + savings] quoted in *Ethical Trading Initiative*: *"The 'Living Wage' Clause in the ETI Code-How to Implement It?"* (see above).

[3] For approaches to overall corporate social responsibility reporting systems see: *Global Reporting Initiative Sustainability Reporting Guidelines 2002* (http://www.globalreporting.org/guidelines/2002.asp; a new version is to be published in 2006); *AccountAbility 1000 (AA1000) Framework* (http://www.accountability.org.uk/uploadstore/cms/docs/AA1000%20Framework%201999.pdf); *Social Accountability International***:** *Social Accountability 8000 (SA8000)* (http://www.sa-intl.org/index.cfm?fuseaction=document.showDocumentByID&nodeID=1&DocumentID=136).

12.2 Steps in the Implementation of Just Wages

1. The firm makes a formal commitment to ensuring just wages for workers. (This might be included in an overall statement of the firm's CSR commitments.)
   (a) An essential issue is the specification of the set of workers to which the firm's commitment currently extends. Does the firm extend its commitment to all its employees or just some subset, e.g., full-time employees? Does the firm's commitment extend beyond its own employees to include those of wholly- or partially-owned subsidiaries? Or perhaps even beyond these to contractors and suppliers? In theory, the greater the extent of coverage, the better. But this area raises a host of knotty issues, e.g., can the firm exercise any control over non-employee wages? Hopefully, the range of this commitment could be extended through time.
   (b) Another essential issue is whether the commitment currently extends to all the labor markets in which the firm operates. It may be that the firm begins acting on its commitment in selected labor markets as prototypes and then extends its operational commitment over time to other labor markets.
   (c) To ensure the effectiveness of the firm's commitment, this commitment should be reflected in the evaluation and compensation of the relevant managers.
2. Definition: Since there is no generally agreed upon definition of a just wage, the firm must determine its own working definition of "just wage." It should document the source of the definition and its justification. As part of its CSR program, the firm should monitor theoretical developments in this area, and change its definition should this be appropriate.
3. Methodology: Since there is no generally agreed upon methodology of determining a just wage, the firm must specify its methodology (including how frequently a fair wage is recalculated). There appear to be two broad approaches, one purely quantitative and one qualitative.[4] Perhaps the most important aspect of a qualitative approach is that it usually involves consultation with workers and other stakeholders. This is desirable in itself as it provides the workers more participation in the firm (see *Compendium* §281, "Work, the right to participate"). As part of its CSR program, the firm should monitor theoretical developments in this area, and change the methodology should this be appropriate.
4. Incorporation into a firm's payroll system, and thence budgeting, performance evaluation, and planning "just wage" reporting must be incorporated into a firm's payroll system. In addition to the normal information in the system (including, of course, the actual wage paid), two additional pieces of information should be added in order to track information related to just wages: (a) the

[4] See the above citation for the *Ethical Trading Initiative*: *"The 'Living Wage' Clause in the ETI Code-How to Implement It?."*

current market wage for each job classification (and thus each individual) and (b) the current just wage prevailing in the labor market. This information will allow the firm to calculate (a) the additional labor cost attributable to paying actual wages over the market wage due to the firm's commitment to pay just wages and (b) for workers whose wages fall short of a just wage, how much in additional wages would need to be paid to these workers in order to bring them to the level of a just wage. These amounts are required for both budgetary purposes and for tracking the performance of the firm relative to fulfilling its commitment to pay just wages.

5. Audit Procedures: Adequate audit procedures must be in place to ensure that the system is functioning properly, that proper documentation and internal controls are maintained, and that information is accurately recorded and processed. Besides the normal internal audits, the firm should hire an independent third party of recognized competence and integrity in the field of CSR auditing to provide an opinion on the firm's CSR operations, systems, and reports.[5]

12.3 Reporting Proposal

In the CSR portion of the firm's annual report would be a section labeled "**Just Wages**." This section would include the following information:

1. The firm's definition of just wages
2. Methodology
   (a) A general description of the methodology used to determine the just wage and the market wage within labor markets
   (b) If different methodologies are used in different markets, an explanation for this
   (c) A statement of how frequently the just wage is recalculated
   (d) A specification of the set of workers to which the firm's commitment and reporting relating to just wages extends
3. Performance: This information is intended to provide a 2-year summary of the performance of the firm relating to just wages. I have included in this summary (1) information on the number of labor markets and workers for which the just wage is higher than the market wage and (2) the value of additional resources (not including administrative costs) related to fulfilling the firm's commitment to pay just wages. The information in this section probably would best be presented in tabular form, so I present an example on below. Furthermore, a longer-term trend analysis could be very useful, especially when it is taken together with the management commentary (see 4 below)

[5] Some of the organizations listed in footnote 3 above provide such services.

(a) Relevant markets and employees disclose:

(i) The ratio of (the number of labor markets in which just wages monitoring takes place) to (the total number of the firm's total labor markets)
(ii) The number of labor markets in which the firm does business in which the just wage for the firm's labor was higher than the market wage
(iii) The number of workers for whom the just wage was higher than the market wage

(b) Full just wages: Markets, workers, amounts disclose:

(i) Of those markets falling under 3.a.ii, the number of markets in which all workers were paid full just wages
(ii) Of the workers falling under 3.a.iii, the number of these who were paid a full just wage
(iii) For the workers included in 3.b.ii ("full just wage workers"):

(3.b.iii.1) The total "just wage differential," i.e., the total amount of the wages paid over and above the prevailing market wages for these workers
(3.b.iii.2) The ratio of the "just wage differential" to total prevailing market wages for these workers

(c) Below just wages: Markets, workers, amounts disclose:

(i) Of those markets falling under 3.a.ii, the number of markets in which workers were not paid full just wages
(ii) Of the workers falling under 3.a.iii, the number not paid a full just wage
(iii) For the workers included in 3.c.ii ("below just wage workers"):

(3.c.iii.1) The total "partial just wage differential," i.e., the total amount of wages paid over and above the prevailing market wages
(3.c.iii.2) The ratio of "partial just wage differential" to total prevailing market wages for these workers
(3.c.iii.3) The total "just wage deficit," i.e., the total additional amount of wages the firm would have had to pay these workers to bring their wages to the just wage level
(3.c.iii.4) The ratio of the "just wage differential deficit" to total prevailing market wages for these workers

Some might object that such a detailed presentation is not necessary, but every piece of information contributes to a full picture of the firm's performance in the area of satisfying its commitment to pay just wages. Without the information on the monitored labor markets relative to total labor markets, one cannot gauge accurately how fully the firm's commitment to just wages has become operational. Without the information on the labor markets and workers, the extent of

the firm's challenge in this area is not known. The distinction between (a) markets in which just wages are fully paid and (b) markets in which just wages are not fully paid is one vital measure of how completely the firm has satisfied its commitment and what is left to be done. Similarly, providing the actual monetary values of what I call the "wage differentials" and the "wage deficits" and the corresponding percentages relative to market wages are vital measures of the resources the firm has employed already to satisfy its commitment, and the amount of additional resources the firm needs to satisfy its commitment fully. Such information is useful. For instance, in the example I provide below, the firm is paying 10.6 % above market wages on average to pay full just wages in certain labor markets, but it is failing to pay full just wages in other markets even though it is paying a premium of 20 % over market wages in those markets. This suggests that the gaps between just wages and market wages can vary dramatically from labor market to labor market, and sometimes the resources of the firm can be strained to fill this gap. Indeed, the very viability of operations in such markets can be a challenge to firms: the difference between paying the market wage and paying a just wage may, in such markets, be the difference between a profit and loss, between long-term value added to the company and a long-term drain on company assets. That is important information for the firm as a whole and for assessing the performance of the firm in the area of just wages in particular. Such information provides the background to meaningful stakeholder analysis, especially when the information is seen in the context of both the firm's financial statements and the firm's performance with respect to other elements of corporate social responsibility.

4. Management Discussion: This might be included elsewhere in the CSR report, e.g., in an overall statement of the firm's performance relative to its CSR commitments, but it should merit its own paragraph or section. This discussion would address the firm's commitment, performance, and plans in this area, including:

   (a) An affirmation of the firm's commitment to pay just wages and when this was adopted
   (b) A brief discussion of any recent changes in the firm's definition of "just wages" or in its methodology for calculating them
   (c) A brief discussion of what workers and what labor markets are covered by this commitment, recent changes in either of these, and any plans to change these in the near future
   (d) A brief analysis of the reported data, including year-to-year changes
   (e) The obstacles to paying full fair wages to all workers and what steps, if any, the firm is taking to overcome those obstacles
   (f) A general specification of what reasonable audit procedures are performed to ensure the integrity of the above information
   (g) Any analysis of longer-term trends in this area, beyond the 2-year period presented (Table 12.1)

Table 12.1 III.3. Environment and performance

I. Just wages: markets, workers	2011	2012
Monitored labor markets/total labor markets[a]	75 %	65 %
Labor markets: just wage > market wage[b]	50	45
% of total labor markets	36 %	30 %
Workers: just wage > market wage[c]	56,000	51,500
% of total workers	25 %	24 %
II. Full just wages	**2012**	**2011**
Labor markets[d]	42	38
Workers[e]	51,300	47,200
Just wage differential[f] (€ thousands)	10,260	7,316
Just wage differential[f]/market wages[g]	10.5 %	8.6 %
III. Below just wages	**2012**	**2011**
Labor markets[h]	8	7
Number of workers[i]	4,700	4,300
Partial just wage differential[j] (€ thousands)	1,410	1,182
Partial just wage differential[j]/market wages[g]	20.0 %	18.6 %
(Just wage deficit)[k] (€ thousands)	(470)	(408)
(Just wage deficit)[k]/market wages[g]	(6.7 %)	(6.4 %)

[a]The ratio of (the number of labor markets in which just wage monitoring takes place) to (the total number of the firm's labor markets)
[b]Number of relevant labor markets in which the just wage was higher than the market wage
[c]Number of relevant workers for whom the just wage was higher than the market wage
[d]Of the labor markets in this table, the number in which all workers were paid just wages
[e]Of the workers in this table, the number paid just wages or higher
[f]Just Wage Differential The total wages to workers over the market wage for these same workers
[g]Estimated market wages for the relevant workers
[h]Of the labor markets in this table, the number in which some workers were paid below just wages
[i]Of the workers in this table, the number paid below just wages
[j]Partial Just Wage Differential: The total wages to workers over the market wage for these same workers (Note: these are corrected from the five-page summary)
[k]Just Wage Deficit: The additional amount of wages that would need to be paid to workers receiving below just wages to bring them to full just wages

Addendum

A Hypothetical Example of a Socially Committed Firm Paying Below Just Wages

A reader of this proposal commented that he doubted that any firm would report failing to pay just wages once it had committed to do so. He may be correct, but I think there are some interesting cases in which firms might. Here is a hypothetical example.

Consider a struggling firm that is committed both to the principles of Christian Social Thought, including paying a just wage, and to a vigorous program of corporate social reporting. The firm's products are sold in a highly competitive

Table 12.2 Calculations for presentation table

	2011	2012	2013
Full just wages (just wage > market wage)			
Workers	51,300	47,200	47,200
Market wage per worker	€ 1,900	€ 1,800	€ 1,800
Actual wages (=just wage) per worker	€ 2,100	€ 1,955	€ 1,955
Actual wages (=just wages)	€ 107,730,000	€ 92,276,000	€ 92,276,000
Market wages	€ 97,470,000	€ 84,960,000	€ 84,960,000
Just wage differential	€ 10,260,000	€ 7,316,000	€ 7,316,000
Just wage differential/market wages	10.5 %	8.6 %	8.6 %
Partial just wages (just wage > market wage)			
Workers	4,700	4,300	4,300
Market wage per worker	€ 1,500	€ 1,480	€ 1,480
Actual wages per worker	€ 1,800	€ 1,755	€ 1,755
Just wage per worker	€ 1,900	€ 1 ,850	€ 1,850
Actual wages	€ 8,460,000	€ 7,546,500	€ 7,546,500
Market wages	€ 7,050,000	€ 6,364,000	€ 6,364,000
Partial just wage differential	€ 1,410,000	€ 1,182,500	€ 1,182,500
Partial just wage differential/market wages	20.0 %	18.6 %	18.6 %
Just wages	€ 8,930,000	€ 7,955,000	€ 7,955,000
Actual wages	€ 8,460,000	€ 7,546,000	€ 7,546,500
Just wage deficit	€ 470,000	€ 408,500	€ 408,500
Just wage deficit/market wages	6.7 %	6.4 %	6.4 %

Note: This is a purely hypothetical example for purposes of illustration

market, so they have little upward price flexibility, it cannot improve its product mix, and there are no viable new products on the horizon. The company's financial performance is break-even, and its cash flow is just barely adequate even though it runs a lean operation with no superfluous assets or expenses. It cannot significantly change the efficiency of its operations by changing its asset mix. These factors suggest the company has little capacity to take on new debt.

The firm's policy is to locate its manufacturing operations in economically depressed areas in an attempt to provide employment and stimulate the local economy. Although it is committed to paying just wages, to do so in some of these locales would push these operations into the red and result in a significant drain on the cash reserves of the company. That is not a viable option. An alternative would be to close these operations, but the company refuses to do so because it would hurt its current workers by thrusting them into the ranks of the unemployed in a severely depressed labor market. Instead, it chooses a third option: it pays the highest wage it can while maintaining a break-even situation with respect to both income and cash flow. The firm was able to pay a premium over the market wage of 18.6 % in 2005 and 20.0 % in 2013 (as in the example in Table 12.2), but such wages still fall short of a just wage. It appears that this sort of situation is envisioned by *Quadragesimo anno* §72: "In determining the amount of the wage, the condition of a business and of the one carrying it on must also be taken into account; for it

would be unjust to demand excessive wages which a business cannot stand without its ruin and consequent calamity to the workers."

I believe such a company might well wish to report their just wage information in the format I suggest above. When this information is taken in conjunction with the firm's financial statements, other social responsibility disclosures and management discussions stakeholders are presented with a picture of the firm that includes all the materially important information in evaluating the firm's overall performance. And presumably that is the picture such a firm wishes to provide.

Let me add one last remark. While I suspect that there will be for-profit firms that fit the above description to a large degree, I suspect there will be even more nonprofit service providers who do so mutatis mutandis. When such organizations consider the wages they are able to pay, they must take into account not only the welfare of their current workers (as in the above example) but also the welfare of those who receive their services. Will the organization shut down operations in an area when it cannot pay just wages, even though workers and service recipients will both be hurt? In these cases, the just wage disclosures proposed above can be an integral part of explaining the organization and its operations to its stakeholders.

Chapter 13
The Framework for CSR Assessment, Measurement, and Reporting

Dan W. Hess

Abstract As an increasing number of companies take up the challenge of both engaging in and monitoring socially responsible activities, there is a growing demand for assessment and measurement systems that allow stakeholders to gauge performance in this area. Companies are being asked to report on issues of sustainability, human rights, worker empowerment, and the environment. Performance measurement in these areas is difficult, with questions of what to report and how to report being common. To date, several organizations have provided principles and guidelines for CSR reporting, but none of these reporting frameworks have been universally accepted or risen to the level of GAAP style reporting with concurrent auditing standards. The purpose of this paper is to review the evolution of CSR reporting guidelines, explore the benefits and costs of CSR reporting, and suggest a new framework for CSR assessment, measurement, and reporting.

As an increasing number of companies take up the challenge of both engaging in and monitoring socially responsible activities, there is a growing demand for assessment and measurement systems that allow stakeholders to gauge performance in this area. Companies are being asked to report on issues of sustainability, human rights, worker empowerment, and the environment. Performance measurement in these areas is difficult, with questions of what to report and how to report being common. To date, several organizations have provided principles and guidelines for CSR reporting, but none of these reporting frameworks have been universally accepted or risen to the level of GAAP style reporting with concurrent auditing standards. The purpose of this essay is to review the evolution of CSR reporting guidelines, explore the benefits and costs of CSR reporting, and suggest a new framework for CSR assessment, measurement, and reporting.

D.W. Hess (✉)
Seattle Pacific University, Seattle, WA, USA
e-mail: hessd@spu.edu

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13.1 Introduction and Theory

A first step toward understanding CSR assessment and measurement issues is defining what it is we are assessing. What are corporations responsible for and to whom and who is calling for firms to be socially responsible? CSR advocates suggest businesses are responsible for a wide range of issues such as employee relations, human rights, corporate ethics, community relations, and the environment. The generally ambiguous nature of the business logic for adopting socially responsible behavior partially explains the range of approaches and theories as to whether or not business should engage in CSR and the forms that responsibility should take. On one extreme is the neoclassical view of the firm that essentially states that maximizing shareholder value is preeminent and CSR is irrelevant. Milton Friedman [1] espoused this view, "Few trends would so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can." The other extreme associates the firm with some form of moral or ethical imperative to help solve social problems because they have the resources and skills to do it and because it is the right thing to do. This approach sees profitability as important for sustaining and growing the business, but other societal and moral goals are equally important.

Leduc [2] provides a summary of other CSR theories that fall between these two extremes.

Range of Approaches to CSR

Theory	Corporation A Social Actor? What is CSR? Motivation for CSR?
Fundamentalism	No Doesn't exist None. The business of business is profits
Self-Interest	No Legal/contractual responsibility, but additional activities O.K. if they generate profit. It may contribute to profitability
Social Contract Theory	Yes The corporate response to societal values and rules of behavior. Corporation needs to accommodate stakeholders' demands
Stakeholder Management	Yes Management of relations with stakeholders. Corporation needs to accommodate stakeholders' demands
Stewardship	Yes Corporation's contribution to building a better world. It's the right thing to do, period

Numerous academic studies have reported mixed results as to whether CSR activity is positively correlated with corporate financial performance. And, those that do show a positive relationship generally have a convoluted argument in explaining whether causation exists. With this in mind, Perrini [3] suggests that the business case for social responsibility is perhaps better supported as an unavoidable consequence of the critical interdependencies that exist in a firm and among its employees, customers, investors, communities, and other stakeholders. Companies

build long-term shareholder value by taking into strategic account the necessity of pursuing engagement and transparency about what the company stands for, how it creates value for its stakeholders, and how it contributes to society.

13.2 Literature Review

Various aspects of CSR have been a topic of academic study for decades. Cannon [4] looks at the development of CSR in the postwar period when firms began to reexamine the nature of the relationship between business, society, and government. He claims that the primary role of business is to produce goods and services that society wants and needs; however, business has some role in providing a stable economic environment and meeting societal needs. Similarly, Wood [5] concludes that the basic aspect of CSR is that business and society are interwoven rather than distinct entities. Cyert and March [6] take the view that because business has resources and skills, they have a moral or ethical obligation to be involved in solving social problems.

Holmes [7], in a study of executive attitudes toward CSR, finds that executives strongly believe that in addition to making a profit, business should help to solve social problems whether or not business created those problems. Frederick [8] suggests that up to 1970 CSR was viewed as an examination of corporations' obligation to work for social betterment. However, around 1970 he notes a shift toward viewing CSR as the capacity of corporations to respond to social pressures. This shift reflects a move from a philosophical approach to one that focuses on managerial action; that is, how will the firm respond. Frederick [9] states that the study of business and society needs an ethical anchor to permit a systematic critique of business's impact upon the human community. This need for a moral basis provides a normative foundation for managers to make decisions and suggests that CSR activities are as important as making a profit.

Brummer [10] states that CSR implies that executives are accountable for their actions. He discusses three theories to explain to whom corporations might be accountable. These are stakeholder theory, social demandingness theory, and activist theory. Stakeholder theory is the one most commonly used in support of CSR activities in the firm. As noted above, Leduc [2] suggests several other theories to explain the existence of CSR activities. Finally, Moir [11] reviews social contract theory and legitimacy theory as further rationale for the actions of managers in the CSR arena.

13.3 Current Practice in CSR Measurement and Reporting

Before looking at suggestions for a new framework for CSR assessment, measurement, and reporting, a review of current practice in this area is important to establish context. Although there is growing interest in CSR reporting, descriptive

studies examining how firms measure CSR activities and how they construct CSR reports are lacking. Chatterji and Levine [12], Perrini [3], and Marquez and Fombrun [13] survey current corporate practice in CSR measurement and reporting and provide some suggestions for improvement. The following is a summary of their findings.

Companies engaged in CSR reporting commonly use environmental, sustainability, and social reports. Reporting such information is voluntary with companies in control of what, how, and when to report and disclose. Most large global companies, however, disclose some nonfinancial information. Some produce stand-alone reports, while others integrate this information into quarterly or annual financial reports or publish it electronically on company websites.

During the 1980s CSR reporting was primarily an American phenomenon associated with pressures exerted by investors, consumers, and activists on US-based firms. American firms pioneered many of CSR's principles and practices including corporate philanthropy, social audits, and corporate codes of conduct. However, in recent years, European companies have taken the lead in CSR measurement and reporting with the United Kingdom being the most active country. European firms are actively contributing to the CSR debate by promoting initiatives and formal definitions, proposing approaches and management tools, and supporting rules of conduct.

13.3.1 Common Features of CSR Reporting

While companies differ in the way they define, prepare, and disseminate CSR reports, they tend to have several common features that distinguish them from other external corporate reports. One, CSR reports are published to complement and complete the corporate financial picture by adding a social and environmental perspective. Two, CSR reports tend to give equal weight to the qualitative and quantitative information contained within them. The quantitative data allows comparative assessment, and the qualitative information enhances the communicative potential of the numbers. CSR reports often have two sections. The first one describes qualitatively the firm's programs in the CSR area, and the second section summarizes programs, activities, and investments from a quantitative point of view. This section often refers to a list of key CSR performance indicators or to a reporting standard, such as the Global Reporting Initiative (GRI).

Three, CSR reports are primarily outside oriented aimed at sharing information. These reports are usually produced as a direct result of an accountability process that attempts to balance the interests of various stakeholders. Most organize data by social, environmental, and economic areas rather than by specific categories of stakeholders. However, most CSR reports claim in their introduction to be part of a stakeholder engagement process. This allows each reader to recognize her or his role within the firm's strategies and operations and compare corporate activities and commitments to their own values.

Four, CSR reports have a strong process dimension. Rather than just reporting end results as do most financial reports, CSR reports tend to focus on ongoing interactions with stakeholders and stress the exchange of ideas. They are meant to demonstrate corporate CSR commitment and elicit stakeholders' needs and requests. Five, CSR reports tend to be clear as to their main objective. Companies stress that excellence in health, safety and environmental performance, and addressing societal issues is capable of having a positive impact on the bottom line. This could occur either directly through reduction of operating costs or litigation or indirectly by affecting access to capital, licenses to operate, or retention of quality employees.

13.3.2 CSR Reporting Standards and Guidelines

Current practice in CSR reporting has also been significantly influenced by the evolution and development of CSR reporting guidelines. Developing reporting standards is a daunting task given both the ambiguous nature of CSR activities and the broad range of stakeholders. Despite this, in the past 10 years, a number of reporting guidelines have been developed in an attempt to provide some uniformity to the CSR reporting process. In 1997 the Global Reporting Initiative (GRI) was established with the aim of developing globally applicable guidelines for reporting on economic, environmental, and social performance. It seeks to make sustainability reporting comparable to financial reporting in terms of rigor and verifiability. Its goal is to design, disseminate, and promote standardized reporting practices, core measurements, and customized sector-specific measurements. To date, GRI is the most widely used CSR reporting standard utilized by over 700 companies in 50 countries.

AA1000 was launched in 1999 by the UK-based institute, The Institute of Social and Ethical Accountability. This CSR standard is designed to complement the Global Reporting Initiative's (GRI) Reporting Guidelines and to improve accountability and performance by learning through stakeholder engagement. The AA1000 Assurance Standard is based on assessment of reports against three assurance principles: materiality, completeness, and responsiveness. Currently, 300 members in 20 countries worldwide report on the basis of AA1000 guidelines. The International Organization for Standards (ISO) has developed management systems (ISO 9000, ISO 14000) that require firms to adhere to certain standards on child labor, respect for the environment, and internal accountability. Finally, Social Accountability 8000 covers standards and monitoring programs for working conditions such as child labor, disciplinary practices, working hours, and safety. Companies that have demonstrated adherence to the various requirements are awarded the respective certification. There are currently over 800 SA 8000 certified facilities in over 40 countries and over 50 different industries. All of the guidelines, standards, and systems mentioned above are meant to be complementary to each other, each emphasizing a distinctive CSR area.

A summary of current practice in CSR reporting follows: There is no commonly accepted definition or reporting guidelines for CSR. Nonetheless, engaging in and reporting on CSR has become an integral part of business operations for many large corporations. Firms view CSR as a way to organize and explain their role as a corporate citizen and enhance stakeholder relations. The overall goal is to address important and shared social issues ranging from promoting safety of products and working conditions, environmental protection, skill development, and responsible citizenship.

13.4 Benefits and Costs of CSR Measurement and Reporting

The interest and growth in CSR measurement and reporting on the part of corporations has been influenced by several perceived and actual benefits attached to this activity. These benefits include such things as reduced operating costs, increased customer and employee loyalty and satisfaction, reduced regulatory risk, improved business practice, and enhanced public image. While a logical case can be made for a linkage between CSR activities and these benefits, it is often difficult to specifically quantify the extent of the benefits and whether the benefits outweigh the costs of implementing, managing, and funding various CSR activities. After exploring several perceived benefits of CSR reporting, attention will be focused on several costs and difficulties found in the current practice of CSR reporting. These cost and problems will then set the stage for an exploration of a new framework for CSR measurement and reporting.

13.4.1 Benefits of CSR Reporting

Reduced Operating Costs CSR activities create a corporate culture that tends to enhance worker motivation resulting in increased productivity and lower operating costs. The number of law suits by employees and others would be reduced resulting in increased funds for business growth. CSR reporting can help top managers and other stakeholders understand if operational managers are building valuable long-term relationships and assets. Exclusive reliance on short-term financial numbers provides incentives to devalue less tangible assets such as employee skills and customer loyalty.

Increased Customer Loyalty and Sales Customers will support firms that have acted ethically and demonstrated support for social causes. Consumers have a more positive image of companies who support a cause that they care about and are more likely to switch to a brand or a retailer associated with a cause when price and quality are equal. The potential for reduced operating costs and increased sales

provides the support for many studies that show a positive correlation between socially responsible behavior and corporate financial performance. A summary of much of this research can be found in [14–16].

Attract and Retain Employees Since a number of CSR activities deal with the development and welfare of employees, it is logical to expect that such activities would be attractive to potential new hires as well as increase retention of existing employees. CSR activities should help firms attract the best and brightest, thus increasing product development and quality, reducing the cost of hiring and training new employees, and ultimately increasing profitability.

Improve Good Business Practice As firms prepare CSR reports to formalize their positions on various CSR activities, it forces them to gather information from business units with different priorities. This begins a process of evaluation and measurement of CSR activities and provides an opportunity for the company to identify strengths and weaknesses across the whole corporate responsibility spectrum. CSR reporting creates momentum toward collaboration and identifying synergies among divisions within the firm. It brings the corporation together on the common CSR theme thus building a sense of corporate history and enhancing teamwork. On a broader level, preparing CSR reports creates an opportunity to review strategic positioning, redefine mission and values, evaluate corporate initiatives, and manage relationship with stakeholders.

Increased Public Image CSR reporting helps customers, communities, regulators, and potential employees judge the social performance of the firm. If some of these stakeholders favor socially responsible businesses and have the power to reward it, reporting such metrics can increase the firm's profitability. Companies that perform within the CSR guidelines have less need to spend money on traditional marketing as a positive public image does the job of enhancing sales. In addition, corporations often use CSR reports as communication instruments directed toward managing corporate image and interacting with various stakeholders. Skeptics would say image and profit motives are the primary motivations for CSR activities.

Expanded Understanding of Nonfinancial Aspects of the Firm Traditional financial reports are primarily retrospective in their orientation, while CSR reports can provide readers with indicators about the future potential of the firm. Reports on such topics as employee safety, engagement in societal activities, and environmental performance can assist stakeholders in better understanding a firm's overall performance, business strategy, and growth opportunities. Stakeholders can compare corporate CSR activities and commitments to their own values thus perhaps generating greater loyalty, commitment, and goodwill.

13.4.2 Costs and Problems with CSR Reporting

CSR Definition Confusion Executives have different opinions on the definition of CSR creating confusion in determining whether an activity falls under the CSR umbrella. It generally refers to business practices based on ethical values, respect for people, communities, and the environment. However, some see CSR as a strategic activity, some see CSR as a marketing tool, and still others see CSR as just another name for corporate philanthropy. As a result of this and because of the wide range of potential stakeholder interests, standards are extremely difficult to develop and apply. This has resulted in multiple reporting standards and guidelines and the expected nonuniform reporting. In addition, definition confusion results in CSR activities that take the form of a collection of discrete practices, occasional gestures, or initiatives motivated by public relations or marketing. As a result, stakeholder's acceptance of CSR activities is often lukewarm, and the intended results do not occur.

No Generally Accepted Global CSR Standards Financial reporting is governed by generally accepted accounting principles (GAAP). The Sarbanes-Oxley Act has made certain standards of corporate governance required for firms seeking listing on US exchanges. However, CSR has no single commonly accepted set of standards largely because of definition confusion described above. The absence of a uniformly accepted global standard for CSR reporting has resulted in a proliferation of nonfinancial performance metrics and associated surveys creating confusion and difficulty in determining which standards to follow. Even if a firm chooses a CSR standard such as GRI, the metrics may not be reliable, valid, or comparable leading to outcomes that could harm corporate social performance. When firms face too many surveys and measurement systems, the natural response is to ignore them. Consequently, many metrics suffer from non-response bias that makes it difficult to generalize findings, ensure accuracy, and reduces the impact of the metric. Each additional metric raises the cost of compliance and reduces the impact of existing standards so that more measurement is not always advisable.

Poor performers can actually benefit from a proliferation of metrics. They have incentives to invent and adopt unreliable and non-comparable standards, give themselves passing marks, and deceive stakeholders who will find it difficult to differentiate which standards are valid. For example, few consumers can distinguish whether certification from one of the many certification providers' best matches their desire to avoid products made in sweatshops. Each additional certification and corresponding acronym can actually decrease overall welfare, even while increasing the amount of measurement and reporting costs. Even worse, when metrics do not measure what is socially important, increased measurement can decrease societal welfare. For example, while all the major codes of conduct in apparel manufacturing prohibit child labor, it is implicitly assumed that children not working in factories will attend school. Unfortunately, the alternatives can be working in a more dangerous industry such as prostitution. Thus, the unintended consequences of metrics can decrease overall welfare.

Non-enforceability of Standards CSR measurement guidelines such as GRI are just standards, not enforceable by any governmental regulatory agency. Reporting is voluntary in most countries, and there are no widely accepted and uniform standards. As a result, firms can arbitrarily choose what, how, and when to report and can report on just those standards and activities that put them in a positive light. Compliance may rely on best practice tools and techniques, and oversight mechanisms are lacking. This is compared to financial reporting standards that are well established, are an organizational obligation, require the application of uniform accounting principles (GAAP), are legally enforceable, and have an oversight and conformance mechanism via required audits.

Few CSR Organization Models While there are theories and models for why corporations should be engaged in CSR activities and numerous guidelines and standards, there are few examples of corporate practice to assist the manager who is ultimately responsible for measuring and reporting CSR activity. Models are lacking that illustrate how to build the infrastructure to handle the process from deciding on measurements, engaging in surveys through dissemination of results.

CSR Diverts Attention from More Important Issues As Friedman implied, the social responsibility of business begins and ends with increasing profits. CSR diverts attention from key business aspects such as growth, product improvement, financial viability, competition, and such. Thus, when push comes to shove, most organizations give more weight to the economic aspect of the business.

CSR Concerns Differ Among Corporations CSR issues differ according to industry, nationality, and societal priorities which are themselves influenced by historical and cultural factors. CSR priorities in one firm (pollution standards) may be irrelevant for another firm. That is not to say that firms without environmental concerns do not find CSR standards useful. However, it is difficult to devise a common standard for measuring and reporting on CSR activities.

CSR Is Expensive Small organizations that are just surviving may find it difficult to compete with big organizations in this area. Sustainability reports produced by large corporations require considerable infrastructure and are expensive to produce. And, the proliferation of overlapping metrics on a single CSR topic burdens managers and is costly in time and resources. It could be that CSR measurement and reporting is counterproductive to the goals of benefiting the community as funds for staffing; data crunchers and complicated survey tools draw resources away from the very CSR projects that actually benefit the community.

Complicated Corporate Structures Weaken CSR Activities Large corporations today are involved in more modular and strategic alliances creating structures such that firms may have little or no control over partners and suppliers. Therefore, even if a company has engaged in initiatives that are socially responsible, its products may still be tarnished by the practices of suppliers over whom it has little control. Several large corporations have received backlash from customers for the business practices of their suppliers.

13.5 Framework for CSR Assessment, Measurement, and Reporting

The prior section outlining the various costs and problems with CSR measurement and reporting indicates that the central issue revolves around CSR definition confusion which, in turn, leads to a proliferation of arbitrary, overlapping, and unenforceable standards. Existing standards and guidelines are not uniformly applied and in some cases lead to unintended consequences that undermine the very societal benefits being fostered. The current situation burdens managers and is costly to shareholders and consumers. Therefore, any framework for improving CSR reporting must start with a process to standardize measurement and reporting metrics.

CSR reporting must move toward uniformly accepted standards and oversight mechanisms as are currently in place for financial reporting and corporate governance. Conformance in financial reporting is provided through generally accepted accounting principles (GAAP) with oversight by the Financial Accounting Standards Board (FASB) and the Securities Exchange Commission (SEC) in the United States. GAAP has increasingly become a global standard providing stakeholders a transparent, reliable, and comparable standard. More recently, uniform corporate governance standards have been created with the passage of the Sarbanes-Oxley Act in the United States. This act has empowered audit committees, created internal audit mechanisms, tightened controls on financial processes, and developed audit matrices all of which increase the ethical operations and transparency of the firm and restore investor confidence.

My argument here is that CSR reporting should be viewed as an equal partner in the continuum of corporate reporting that includes financial and corporate governance reports. Thus, CSR reports should be required in the same fashion as financial and corporate governance reporting, and these three reporting sectors should be integrated and comprehensively linked into a set of policies, practices, and programs. Yet, their reporting standards and accountability issues have developed independently. The following framework (Table 13.1) and related suggestions present a model to assist practitioners in standardizing the measuring and reporting (M & R) of CSR activities.

What to Measure? On a theoretical basis, the answer to this question partially depends on the firm's basic beliefs and approach to CSR. As discussed previously, this ranges from a pure profit motive approach where CSR is deemed irrelevant to one motivated by stewardship where CSR is central to the firm's purpose and mission. On a practical basis, the firm should consider the issues and topics that CSR advocates typically mention as important. For example, CSR Europe, a membership organization of large firms across Europe, in its reporting guidelines suggests the following areas: treating employees fairly and equitably, operating ethically and with integrity, respecting basic human rights, sustaining the environment for future generations, and caring for your community. In addition to

Table 13.1 CSR Measuring and Reporting (M & R) Model

Principles of M & R	Process of M & R	Products of M & R
What to measure	Develop appropriate metrics Set benchmarks Assessment or audit for compliance	Quantitative rating or certification Process for continuous improvement

determine the CRS areas that are appropriate to work on, organizations need to consider whether to measure and report on behavior, accomplishments, or both. Behavior reflects what is done or actions that are performed, while accomplishments reflect whether the firm has achieved the specific goals it has set for itself. A key consideration is stakeholder interest. Will they want to see company efforts in a particular area, or will they instead want to see specific, numerical measures of accomplishment? Likely, stakeholders will want to see both reflected in CSR reports. Companies may not always succeed at all their CSR efforts; however, it is important for interested parties to understand that actions have been taken. Not to mention that well-intentioned behaviors often lead to accomplishments.

On the other hand, Joyner and Raiborn [17] make the point that if stakeholders can be satisfied with behaviors rather than accomplishments, this could motivate firms to engage in superficial actions that purport to address CSR issues. It is essential that the measures for behaviors be worded and calculated differently than those for accomplishments. Otherwise, companies might waste time and resources creating a superficial persona of concern.

Develop Appropriate Metrics This is probably the most difficult and time-consuming aspect of the model. However, the development of standards that are valid, reliable, and comparable is critical to the ultimate value of the CSR reporting process. The long-term benefit will more than compensate for the time and effort expended in the metrics development process.

It is appropriate and at times necessary to develop standards that can be measured either directly or through proxy measures. Physical characteristics such as weight, quantity, and distance can be measured using a direct method, while intangible items would necessitate a proxy method. For example, dollars spent on pollution control equipment can be quantified, but the benefits of utilizing such equipment cannot always be directly measured. An indirect measure such as the general health of the community may have to be used. However, an indirect measure must result in a similar decision to those that would have been made had a direct measure been used. The use of proxy measures to verify CSR activities should be familiar to management as similar measures are commonly utilized in making decisions such as those related to capital budgeting and research and development.

Whether they are direct or indirect, good metrics should have certain basic characteristics. Using a financial reporting perspective, Joyner and Raiborn [17] suggest the following attributes. They have been clearly defined, have been evaluated for acceptability to and conformity with the performance area to be

measured, reflect organizational mission and strategy, flow from the top downward for consistency, are not too aggregated to impede action, are collectable from data sources, have a positive cost–benefit relationship, and are manageable in number.

Taking further cues from financial reporting, CSR standards should also be reliable, comparable, and valid. A metric is reliable if it provides the same answer when applied more than one time. For CSR standards reliability can be a problem. For example, if a questionnaire is filled out at different times, by different people, and in different divisions of the same firm, the answers can vary widely. This likely results from the subjectivity of the areas being measured such as human rights, equal opportunity, or environmental issues and suggests that relying on a single respondent or rater is probably unwise. Therefore, the development of concise questions and metrics is essential as are efforts to coordinate information from many different sources.

A metric is comparable if it can be used across different organizations and over time. Many environmental performance metrics suffer from lack of comparability such as emissions of toxic materials that are difficult to compare across different industries. This slows improvements as top performers are difficult to discern. Validity is whether the measure identifies performance that is important to society. This is more difficult to assess than reliability or comparability as it is a function of the values and beliefs of multiple stakeholders. A measure may be reliable and comparable but not measure an outcome that matters to stakeholders. For example, a reliable metric could be the number of women on the board of directors since it is easily determined. This metric is also comparable across firms. However, does this metric tell us anything about whether women at a particular firm face equal opportunities? It would be possible for a firm to have women board members and still not treat women employees fairly.

In developing appropriate metrics, the validity problem is seen in other ways. For example, the metrics that are easiest to report are not always the most informative. A firm could report good environmental performance based on available measures, while it causes damage in areas that are difficult to measure and monitor. Another example where validity comes into question is when firms report good CSR performance while the social performance of their supplies is poor, such as excellent working conditions at corporate headquarters while supplies mistreat their workers. Validity also depends on the context. For example, water conservation by firms is an important social goal in many parts of the world, and metrics that measure water use are important and valid in these areas. However, encouraging firms to measure and conserve water in other parts of the world is counterproductive. One-size-fits-all metrics are not sensible and illustrate why metric development is so difficult in the CSR area compared to financial reporting.

One other aspect to consider in metric development is the types of metrics that are typically used in measuring and reporting environments. They generally fall into one of four types of measures which are input, output, outcome, and process indicators. In summary, developing good metrics is difficult. However, two axioms generally apply in organization: (1) a firm gets what it measures and (2) if you can't measure it, you can't manage it. Therefore, management must be certain the firm is

measuring the factors that are essential to progress in the CSR area. They must invest the time and resources necessary to develop metrics that are valid, reliable, and comparable.

Set Benchmarks Benchmarking is the process of setting standards of performance and has been traditional used by firms to assess both product and process performance. It has typically been used in those business areas where numbers predominate and performance can be measured with relative ease. In the CSR arena benchmarking has been practiced for some time in the environmental and employee health and safety areas on issues such as energy consumption, recycling, toxic emissions, and sick days. Benchmarking tools developed and lessons learned in these two CSR areas need to be implemented in other areas of CSR and ethical behavior.

Setting benchmarks in CSR areas can be difficult due to nonnumeric standards, the wide array of nebulous CSR activities, varying legal restraints, and little historic record of standards. To begin the process firms should obtain benchmarks from both direct competitors as well as from firms outside their industry that are attempting to develop comprehensive CSR reports. Organizations should develop continuous improvement processes to move toward parity or even higher levels of performance than those who are currently excelling. The minimum benchmarking standards should reflect legal requirements. Many firms operate under multiple legal jurisdictions with different rules of behavior depending on location. In that case, firms should utilize the highest legal standard and apply it regardless of location. However, firms must consider whether even the highest legal standard is acceptable. For issues such as minimum wage, bribery, and pollutants, it may be necessary to raise the behavioral bar above the legal minimums if the organization is to meet its CSR commitments.

Rayborn and Payne [18] suggest that an organization may choose to act at one of four levels in a hierarchy of behavior. They are (1) basic, which complies solely with the law; (2) currently attainable, which reflects a step above current legal mandates but would not be deemed laudable by society; (3) practical, which shows extreme diligence and strive to do the "right" thing; and (4) theoretical, which reflects the greatest potential for good. For example, the choice to act at the basic level would mean that no CSR reports would be prepared unless they were required by law. Given the increasing interest in CSR activities and reporting, acting at the basic level would not likely be acceptable to most stakeholders.

An important issue in benchmarking is the use of relative versus absolute standards. While financial reporting tends to use absolute standards, such standards would be difficult to apply in the CSR reporting arena. Therefore, standards that are relative to particular industries make more sense. A mining firm should obviously not be expected to meet the same environmental standards as a software firm. In fact, an absolute bar of performance would discourage entire industries from improving their CSR performance. A relative bar allows firms in the same industry to compete against each other and provides better incentives for improving CSR performance. Moreover, relative standards provide greater flexibility for ratcheting

them up over time as the average level of CSR performance improves. Therefore, one-size-fits-all standards are rarely sensible.

Given that universal CSR standards do not exist globally, attempts at benchmarking must recognize those differences. Joyner and Raiborn [17] suggest that firms need to be forthcoming in disclosing how benchmarks were developed and why the particular benchmarks were selected. Stakeholders need to realize that changes to benchmarks are unavoidable as expertise is gained in this area. They need to understand that progress toward benchmarks is important as is comparisons with other firms. But, comparisons cannot be made in a vacuum, without sensitivity to organizational characteristics such as financial resources and location.

Assessment or Audit for Compliance Once appropriate metrics have been developed and benchmarks established, firms need to develop policies and procedures to assess whether they are meeting their standards of performance. If firms just engage in self-reporting of CSR activities rather than implementing and utilizing an external assessment mechanism, then they open themselves to criticism as to the validity of their CSR performance. Thus, more firms are utilizing widely accepted CSR reporting guidelines such as the Global Reporting Initiative (GRI) as well as third-party certification groups such as the Fair Labor Association. Once certified, firms can use the certification to signal their social performance to various stakeholders.

Ideally the CSR assessment and audit process would begin to resemble that which is currently found in financial reporting. Here an annual audit by a certified public accountant of the firm's financial records is required for all public corporations. And, a universally accepted audit report is produced certifying compliance or noncompliance with generally accepted accounting principles. A rudimentary form of this is beginning to develop in certain areas of CSR reporting. For example, most of the apparel manufacturing standards include outside auditing as does the ISO 14000 standard for environmental management systems. Some magazine rankings of most admired firms are determined by a survey of employees or other stakeholders such as the Fortune Magazine listing of most admired companies. Validity and trust in CSR reporting is critical, and ensuring data quality should be a top priority when developing audit policies and procedures. Auditing processes need to be explained clearly to stakeholders. However, the major impediment to developing a uniform CSR audit process is the proliferation of measures and standards. Unless there is consensus over what exactly should be measured and how it will be measured, comparability among metrics is futile, and a valid audit process will not exist.

Quantitative Rating or Certification The assessment and audit process would provide a greater benefit to stakeholders if it resulted in a concise and meaningful rating or certification. The audit process which typically includes various forms of statistical sampling, surveys, and interviews can be complex, detail oriented, and confusing to interpret. Therefore, a summary score or certificate that is universally accepted and easy to interpret is an important aspect of CSR reporting. This would be similar to the AAA–D scale used for bond ratings and the audit opinion used in

financial reporting. A major problem with the current state of CSR reporting is the proliferation of CSR reporting guidelines and certifications. This tends to call into question the validity of a certification as it is not clear what standards were applied to earn it.

Process for Continuous Improvement Firms should develop formal internal systems to encourage continuous improvement in researching, developing and validating appropriate metrics, setting benchmarks, and auditing for compliance. In addition, the major stakeholders in CSR activities should be funding more broad-based research in these same areas. For example, is worker safety actually improved in those firms that receive a safety certification? Are people healthier when they live downstream from factories that receive environmental certification than those that do not? Willingness on the part of firms to develop CSR metrics and set benchmarks has increased over time, but there is little systematic research to validate whether these metrics are valid measures of the social performance they claim to measure.

It is important to include external stakeholders in all parts of the CSR measuring and reporting process. This may be difficult as they may not have a clear idea of organizational goals, but, at the same time, determining their concerns and getting their buy-in on the process are critical. One way to organize this process is to form a group for each CSR area to include internal management, employees, and external representatives from various informed and affected constituencies. This provides a think tank for generating ideas on new CSR initiatives as well as ideas on continuously improving the CSR reporting process. Gunther [19] provides an example of how Wal-Mart uses groups such as these to benefit their CSR programs. External stakeholder input also increases the legitimacy and validity of CSR standards and reporting as metrics developed only by management may be viewed with suspicion as just self-serving.

13.6 Conclusion

This essay has reviewed the theory and evolution of and explored the benefits and costs of CSR reporting. With this as background, a model for CSR assessment, measurement, and reporting is presented. The premise of the model is that CSR reporting should bear some resemblance to the universally accepted procedures and principles currently utilized in financial reporting. In other words, there need to be principles, processes, and reporting outcomes that are valid, transparent, reliable, and comparable presenting information that complements financial reporting by adding a social and environmental perspective. Although, it is recognized that CSR issues are often difficult to define, measure, and assess making the application of this model a challenge; managers must continue their quest to improve the effectiveness of CSR reporting.

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List of Contributors

Giuseppe Argiolas, PhD, is Professor of economics at the University of Cagliari, Italy.

D. Kirk Davidson is *The Morrison Professor in International Studies*, Mount St. Mary's University.

Joseph R. DesJardins is the Associate Provost and Academic Dean at the College of St. Benedict and St. John's University in Minnesota where he is also a Professor in the Department of Philosophy. Additionally, Professor DesJardins has served for over a decade in various key leadership roles with the Society for Business Ethics. He has authored numerous books, including Environmental Ethics: An Introduction to Environmental Philosophy (Wadsworth), An Introduction to Business Ethics (McGraw Hill), and Business, Ethics, and Sustainability: Ethics for the Next Industrial Revolution (Prentice Hall).

Al Gini is Professor of Business Ethics at Loyola University Chicago, USA, where he is also Chair of the Department of Management in the Quinlan School of Business. A cofounder and long-time associate editor of *Business Ethics Quarterly*, the journal of the Society for Business Ethics, Professor Gini has for 25 years been the resident philosopher on the NPR affiliate in Chicago, WBEZ-FM, and is a regular speaker on the public lecture circuit. His books include *The Ethics of Business* (2012), which he coauthored with Alexei Marcoux; *Seeking The Truth of Things* (2010); *Why It's Hard to Be Good* (2006); and *The Importance of Being Lazy: In Praise of Play, Leisure and Vacations* (2003).

Dan W. Hess is Professor of Finance School of Business, Seattle Pacific University, USA.

John Larrivee is Associate Professor of Economics, Mount St. Mary's University, Richard J. Bolte, Sr. School of Business.

Tim Mahoney is Associate Professor of Philosophy and Humanities, Providence College, Providence, Rhode Island (USA).

GianDemetrio Marangoni is Full Professor of Political Economics at University of Verona, Italy.

Alexei Marcoux is an Associate Professor of Business Ethics in the School of Business Administration at Loyola University Chicago. He is also a Senior

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Research Fellow in the National Center for Business Ethics at Loyola University New Orleans.

Laura Michelini is Assistant Professor in Business Organization at the LUMSA University of Rome. She is also Visiting Professor and teaches the course "Corporate Social Responsibility" at ISCEM University of Lisbon. She has worked for several years in UNICEF Italy, where she was in charge of managing profit/not-for-profit partnership. Her current research and teaching interests involve issues in corporate social responsibility, ethical marketing, and innovation management.

Robert T. Miller is Professor of Law and F. Arnold Daum Fellow in Corporate Law, University of Iowa College of Law.

Mario Molteni is Full Professor of Business Administration and Corporate Strategy at the Catholic University of the Sacred Heart, Milan. He is Founder and Director of ALTIS (http://www.unicatt.it/altis), the Postgraduate School of Business & Society at the same university, an international research and education institute for the study of entrepreneurship and corporate sustainability.

Patrick Primeaux, S. M., was Associate Professor of Theology and Religious Studies at St. John's University in Queens, New York.

Heribert Schmitz is former Vice President of Hewlett-Packard Corporation and Chairman of the Management Board and later of the Supervisory Board Hewlett-Packard in Germany. He is also member of several national and international Advisory Boards (nonprofit organisations), among them in the "Hochschulrat Furtwangen University."

Stefano Solari is Associate Professor of Political Economy at the Faculty of Law and Department of Economics, University of Padua. His interests include practical science in economics, the history and methodology of economic analysis, the study of state-economy relationships, and applied regional economics.

Gina Vega is Professor and Director of the Center for Entrepreneurial Activity at Bertolon School of Business, Salem State University, USA. Her professional interests include organisational transitions and succession, entrepreneurship and small business development, social entrepreneurship, organisational structure and communication, and business ethics and spirituality.

Stefano Zamagni is Professor of economics, University of Bologna, and Adjunct Professor of International Political Economy, Johns Hopkins University, Bologna Center.